

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

As used in this management's discussion and analysis of financial condition and results of operations ("MD&A"), unless the context indicates or requires otherwise, all references to the "Company", "Magnet Forensics", "we", "us" or "our" refer to Magnet Forensics Inc., together with our subsidiaries, on a consolidated basis as constituted on March 31, 2022.

This MD&A for the three months ended March 31, 2022 and 2021 should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and the accompanying notes thereto as at and for the three months ended March 31, 2022 and 2021, as well as our annual consolidated financial statements and the notes related thereto as at and for the year ended December 31, 2021, and 2020. The financial information presented in this MD&A is derived from the Company's unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2022 and 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All amounts are in thousands of United States dollars except where otherwise indicated and per share amounts.

This MD&A is dated as of May 4, 2022.

Forward-Looking Information

This MD&A contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking information") within the meaning of applicable securities laws. Forward-looking information includes or may relate to our financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate is forward-looking information.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will", "occur" or "be achieved", and similar words or the negative of these terms and similar terminology. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's current expectations, estimates and projections regarding future events or circumstances.

This forward-looking information includes, but is not limited to, statements regarding industry trends; our goals; our growth rates and growth strategies; addressable markets for our products and solutions; the impacts of our products and solutions on our business and customers; expansion of our product offerings; expectations regarding the renewal of our products and solutions; expectations regarding the impact of acquisitions; the usefulness of our key performance and non-IFRS measures and the frequency of use of non-IFRS measures by third parties; expectations regarding the growth of our customer base, including from a geographical standpoint; market opportunities and our ability to differentiate ourselves; expectations regarding the sale of Term License Contracts and Perpetual Licenses and renewal rates; expected costs; expectations regarding our business as one reportable segment; expectations regarding our revenue and revenue generation potential; sales and marketing efforts; impacts on general and administrative expenses; investment plans and our reliance on customer relationships; the strength of our sales and marketing team; demand for our products; the significance of sales made by third party resellers; expectations with respect to the seasonality of our revenue; expectations regarding working capital and liquidity; our business plans and strategies; the effectiveness of our control systems; factors effecting our performance; the future success of our business; our competitive position in our industry; our intentions with respect to the settlement of RSUs and DSUs (each as defined herein); and expectations regarding claims arising in the normal course of operations. This forward-

looking information and other forward-looking information is based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of our ability to build our market share; retain existing customers and attract new customers; our ability to retain key personnel; our ability to maintain and expand geographic scope; our ability to execute on our growth strategies; our ability to maintain and protect our intellectual property rights and proprietary information; our ability to prevent unauthorized access to or disclosure, loss, destruction or modification of data, through cybersecurity breaches or computer viruses disrupting the functionality of our products; our ability to obtain additional financing and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; changes and trends in our industry or the global economy, including the impact of the ongoing COVID-19 pandemic; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, and is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the factors described in the "Summary of Factors Affecting our Performance" section of this MD&A, and in the "Risk Factors" section of our Annual Information Form dated March 9, 2022, which is available under the Company's profile on SEDAR at www.sedar.com.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above are described in greater detail in "Summary of Factors Affecting our Performance" and should be considered carefully by prospective investors.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. No forward-looking statement is a guarantee of future results. Accordingly, you should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of hereof (or as of the date they are otherwise stated to be made) and is subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.

Trade-Marks, Trade Names and Copyrights

This MD&A includes certain trade-marks, trade names and material subject to copyright, including the trade-mark/trade names "MAGNET", "MAGNET FORENSICS", "AXIOM", "AXIOM CYBER", "MAGNET REVIEW", "AUTOMATE", "AUTOMATE ENTERPRISE", "ATLAS", "OUTRIDER", and "DVR EXAMINER", which are protected under applicable intellectual property laws and are the property of the Company. Solely for convenience, the Company's trademarks, trade names and copyrighted material referred to in this MD&A may appear without the TM, ® or © symbol, but such references are not intended to indicate, in any way, that the Company will not assert, to the fullest extent under applicable law, its rights to these trade-marks, trade names and copyrights.

Additional information relating to Magnet Forensics, including the Company's most recent Annual Information Form, can be found under the Company's profile on SEDAR at www.sedar.com.

Overview

Founded in 2010, Magnet Forensics is a developer of data analytics software used for digital forensics investigations. Digital forensics is the science of finding evidence from digital devices. Such evidence is found in the form of traces of data, referred to as digital forensic artifacts, left behind on digital devices. Digital forensic investigators use artifacts to determine what happened, where it happened, who it happened to, when it happened, how it happened, and who did what. With every computer program, file system, operating system and other application generating different traces of data, digital investigators must consider how to access potentially thousands of types of digital forensic artifacts from a wide range of data sources including their various versions and formats.

Our artifact-oriented approach to digital forensics is exemplified by our flagship product, Magnet AXIOM, which is used around the world by digital forensics investigators to preserve, identify, extract, analyze and document digital forensic artifacts. We believe that our tools meaningfully empower investigative teams to uncover the facts and help them secure more evidence and ultimately render justice for victims.

We serve two distinct market segments – public sector and private enterprises. Given the roots of the Company, our product and solution offering was initially designed for use by government law enforcement and public safety organizations. Following the introduction of Magnet AXIOM in 2016, in response to demand from private enterprises, our focus and reach has expanded beyond the public sector, and we now serve a fast-growing base of private enterprise customers.

In 2020, we launched Magnet AXIOM CYBER, a version of Magnet AXIOM focused on addressing the needs of private enterprise customers and purpose-built for organizations that need to perform remote investigations as well as collect and analyze evidence gathered from multiple sources. In addition, we have a full suite of distinct solutions such as Magnet OUTRIDER, Magnet AUTOMATE, Magnet REVIEW and Magnet ATLAS designed to increase investigative capabilities, productivity, and collaboration. In 2021, we acquired DME Forensics Inc. (“DME”), a video and multimedia evidence solution company in which DME’s DVR Examiner enables investigators to recover video and metadata evidence from DVRs in a forensically sound manager. In 2022, we launched Magnet AUTOMATE ENTERPRISE, a version of Magnet AUTOMATE focused on addressing the needs of private enterprise customers and acquired software technology from Comae Technologies DMCC (“Comae”) focused on digital forensic memory analysis and incident response. We are regularly innovating our suite of solutions with the goal of empowering digital forensics experts.

We offer our customers two alternatives for licensing our software:

- Our “Term License Contract”, similar to a conventional software subscription model, provides customers with rights to use the software for a fixed term, typically of one to three years, and also includes forensic artifact updates, cloud collection access, software platform maintenance and technical support (which we refer to as “Software Maintenance and Support”) during the term of the Term License Contract. The fee payable by customers under a Term License Contract is generally paid at the time of contract inception, with a portion of such fee being attributable to the right to use the software for the fixed term, which we generally recognize as “License – term” revenue, and the remainder of such fee being attributable to Software Maintenance and Support, which we generally recognize as “Software Maintenance and Support” revenue.
- Our “Perpetual License”, primarily designed to meet the procurement and budgeting needs of our public sector customers, provides customers with rights to use the software in perpetuity, which we generally recognize as “License – perpetual” revenue. Under a Perpetual License, customers must also purchase a separate term subscription to receive Software Maintenance and Support, which we generally recognize as “Software Maintenance and Support” revenue. Separate term subscriptions for Software Maintenance and Support are offered in one, two, or three-year terms. Most of our customers who purchase Perpetual Licenses also purchase

one year term subscriptions for Software Maintenance and Support that are typically renewed annually for so long as they use the licensed product to keep the product current with the latest software and artifact updates.

Term License Contracts are available for all of our product and solution offerings, while Perpetual Licenses are currently only generally available for Magnet AXIOM, and Magnet AXIOM CYBER.

Under the terms of our Term License Contracts, Perpetual Licenses and subscriptions for Software Maintenance and Support, we invoice our customers for the full amount of their contractual payment obligations at the time that they contract with us, with payment generally due within a period of 30 days.

Our Term License Contracts and subscriptions for Software Maintenance and Support must be renewed upon their contract expiry. We facilitate customer renewals generally through automatic delivery of renewal notifications sent in advance of the renewal date, followed by a personal contact from a member of our Sales team who typically takes the opportunity to explore the customer's interest in an up-selling or cross-selling opportunity. Sales team members are eligible to receive commission in connection with customer contract renewals. Based on our past experience, a significant majority of customers renew their contracts upon expiry.

Both Term License Contracts and subscriptions for Software Maintenance and Support may be terminated by our customers for convenience, and while they are not subject to any penalty in the event of early termination, they are not entitled to a refund of amounts paid under the contract. In our experience, early terminations by customers have not been material.

We also provide professional services, which include training and implementation services. Training services are sold either as vouchers for specific classes or training annual passes which can be used to attend unlimited training classes for a period of one year. Our training service is designed to build competency and confidence with our products. Implementation services are sold for provisioning, installation, and configuration of software and are typically billed on a time and material basis.

We sell our products and solutions primarily through our direct sales force in North America, with sales professionals located in Canada and the United States. In Europe and Asia, we sell our products and solutions through both our direct salesforce and software resellers.

Key Performance Indicators

We monitor a number of performance indicators to help us evaluate our business, measure our performance, identify trends affecting our business, and formulate strategic plans. Each of these key performance indicators utilizes revenue from contract elements that are recurring in nature, which include Term License Contracts and subscriptions for Software Maintenance and Support, and excludes non-recurring perpetual license fees and training and implementation fees. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies and may be adjusted in certain cases related to acquired businesses.

Annual Recurring Revenue: We define Annual Recurring Revenue as the annualized value of contracted recurring revenue from all customers that have contracts for our products and services as at the date being measured. We calculate Annual Recurring Revenue by dividing the contracted recurring revenue of each customer contract in effect as at the measurement date by the term of the contract, expressed in years. Our calculation of Annual Recurring Revenue assumes that active customers will renew their contracts with us at the time of renewal. Based on our past experience, a significant majority of customers renew their contracts upon expiry. In addition, while subscription agreements may be subject to price increases on renewal, we do not assume price increases on subscription agreements when calculating Annual Recurring Revenue. As the Company has limited experience in identifying and realizing the benefit from business acquisitions and strategic transactions, management only includes the annualized value of contracted recurring revenue from contracts with a commencement date subsequent to the acquisition date. We believe that Annual Recurring Revenue is an indicator of business expansion and provides visibility into our ability to generate predictable future cash flows.

Annual Recurring Revenue as at March 31, 2022 and 2021 was as follows:

(millions)	As at March 31,	
	2022	2021
Annual Recurring Revenue	\$66.0	\$44.2

Net Dollar Retention Rate: We define our Net Dollar Retention Rate for a fiscal year by considering a cohort of customers at the beginning of a fiscal year, and dividing the Annual Recurring Revenue attributable to such cohort at the end of the fiscal year, by the Annual Recurring Revenue attributable to such cohort at the beginning of the fiscal year. This ratio, expressed as a percentage, excludes the effect of new customers added during the fiscal year, and includes incremental sales made to the cohort during the fiscal year being measured. We believe that measuring the ability to retain and expand revenue generated from the existing customer base is a key indicator of the long-term value that we provide to customers. For Fiscal 2020 and Fiscal 2021, our Net Dollar Retention Rates were both in excess of 120% at 134% and 136%, respectively.

Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

Non-IFRS Measures and Reconciliation of Non-IFRS Measures

The information presented in this MD&A includes certain financial measures such as “Adjusted EBITDA”, “Adjusted EBITDA Margin” and “Total Recurring Revenue”. These measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. These non-IFRS measures are used to provide investors with supplemental measures of our operating performance and liquidity and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors, and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts, and to determine components of management and executive compensation.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA and Adjusted EBITDA Margin represents net income (loss), and net income (loss) as a percentage of total revenue, respectively, adjusted to exclude depreciation and amortization, income tax expense (recovery), share-based compensation expense, foreign exchange loss (recovery), interest expense (income), certain financing-related expenses, and certain business acquisition-related expenses that are one-time or non-recurring in nature. We use these metrics as a supplemental measure to review and assess operating performance, assess our ability to generate cash-based earnings, as well as provide a more complete understanding of factors and trends affecting our business that may not otherwise be apparent when relying solely on IFRS measures. The following table reconciles Adjusted EBITDA to net income for the periods indicated.

	Three Months Ended March 31,	
	2022	2021
Net income (loss)	\$(894)	\$2,778
Depreciation and amortization ⁽¹⁾	768	504
Income tax expense (recovery)	(478)	1,007
Share-based compensation ⁽²⁾	2,023	54
Foreign exchange loss ⁽³⁾	363	65
Interest expense	82	128
Financing-related expenses ⁽⁴⁾	18	298
Acquisition-related expenses ⁽⁵⁾	569	-
Adjusted EBITDA	\$2,451	\$4,834
Adjusted EBITDA margin	12%	33%
Net income (loss) margin⁽⁶⁾	(5)%	19%

Notes:

- (1) Depreciation and amortization expenses are primarily related to right-of-use assets and property and equipment. Depreciation and amortization expense for the three months ending March 31, 2022 and 2021 includes recognized depreciation expense on right-of-use assets of \$201, and \$219, respectively. For the three months ended March 31, 2022 and 2021, interest expense related to lease liabilities was \$86, and \$91, respectively.
- (2) These expenses represent non-cash expenses recognized in connection with the issuance of share-based compensation to our employees and directors.
- (3) These losses relate to foreign exchange translation on financial assets and liabilities.
- (4) These expenses include certain professional, legal, consulting and accounting fees, certain employee compensation, and listing fees that are specific to financing activities including the IPO, and the Base Shelf Prospectus and public filings, and credit facility agreements, and are considered non-recurring and not indicative of continuing operations.
- (5) These expenses relate to post-combination compensation of such acquired businesses which represent a portion of the consideration paid that is contingent upon ongoing employment and performance criteria being achieved, including share-based compensation. Additionally, these expenses include certain professional, legal, consulting, accounting, advisory, and other fees relating to acquisitions that are one time, or non-recurring in nature.
- (6) Calculated as net income expressed as a percentage of revenue.

Total Recurring Revenue

Total Recurring Revenue represents the total revenue recognized during the period from contract elements that are recurring in nature, and includes revenues recognized as “License – term” and “Software Maintenance and Support” under Term License Contracts and revenue recognized as “Software Maintenance and Support” from term subscriptions for Software Maintenance and Support purchased by customers under Perpetual Licenses. We believe that Total Recurring Revenue is an indicator of business expansion and provides management with visibility into our ability to generate predictable cash flows.

Our Term License Contracts and subscriptions for Software Maintenance and Support must be renewed upon their contract expiry, permit customers to terminate their contracts for convenience and do not contain penalty provisions

in the event of early termination, though customers that terminate early are not entitled to a refund of amounts paid under the contract. We facilitate customer renewals generally through automatic delivery of renewal notifications sent in advance of the renewal dates, followed by a personal contact from a member of our Sales team. Based on our past experience, early terminations by customers have not been material and a significant majority of customers renew their contracts upon expiry.

The following table presents Total Recurring Revenue for the three months ended March 31:

Revenue	Three Months Ended March 31,	
	2022	2021
Product Type		
License - term	\$4,682	\$3,059
License - perpetual	433	1,241
Software Licenses Total	5,115	4,300
Software maintenance and support- term	6,295	2,543
Software maintenance and support- perpetual	6,323	6,242
Software maintenance and support Total	12,618	8,785
Professional services	2,053	1,577
Total Revenue	\$19,786	\$14,662
Less:		
License - perpetual	433	(1,241)
Professional services	2,053	(1,577)
Total Recurring Revenue	\$17,300	\$11,844
Percentage of Total Revenue	87%	81%

Summary of Factors Affecting Our Performance

We believe that the growth and future success of our business depends on many factors, including those described below. While each of these factors present significant opportunities for our business, they also pose important challenges, some of which are discussed below and in the “Risk Factors” section of the Company’s Annual Information Form dated March 9, 2022, which is available under the Company’s profile on SEDAR at www.sedar.com.

Customer Adoption

Continue to Penetrate the Public Safety Market. We have significant experience in serving public safety organizations in North America, Europe and Asia Pacific and we intend to continue to grow our public safety customer base in these geographies and beyond. We have expanded our direct sales teams and our marketing focus to better serve public safety organizations globally and utilize third-party resellers to actively market and sell our products and services outside North America.

Accelerate New Logo Growth in the Private Sector. While our customer base has historically been weighted to the public sector, we believe there is an opportunity to serve private enterprises with digital forensic solutions that address their particular needs. To address this opportunity, we introduced Magnet AXIOM CYBER at the start of 2020, a product specifically designed for enterprise cyber security teams, and purpose-built for organizations that need to perform remote investigations as well as collect and analyze evidence gathered from multiple sources. In 2021, we had dedicated sales and marketing resources focused on the private enterprise opportunity. While we previously had a strong base of private sector customers that were using Magnet AXIOM, the introduction of Magnet AXIOM CYBER has allowed us to start developing new opportunities in the private sector and we have seen early signs of success with new private sector customers. Going forward, we expect most of our sales in the private sector will involve the sale of Term Licenses Contracts, rather than Perpetual Licenses, of Magnet AXIOM CYBER. In addition,

we anticipate that an increasing share of our revenue will come from the private sector as we further adapt our product and solution offering, including Magnet AXIOM CYBER, in order to satisfy the growing market opportunity presented by private sector enterprises.

Investment in Technology

Our customers expect the ability to identify, extract and analyze not only the latest artifacts from an ever-increasing list of devices and applications, but also legacy versions thereof. We believe that continuing to integrate new and innovative features into our platform will provide us with the opportunity to generate more revenue from new and existing customers and will differentiate our solution from our competitors over time. We intend that our products support investigators at every step of an investigation, including digital forensics, evidence management, and eDiscovery, each of which naturally extends from our core offering. We work directly with our broad customer base to add new capabilities to our products and solutions based on our customers' needs. We plan to invest in our research and development teams and rely on our customer relationships and knowledge to continue to innovate our product and solution offerings in order to meet our customers' rapidly evolving needs.

Cross-selling and Up-selling with Existing Customers

Our success in expanding our relationship with existing customers has been a key driver of our revenue growth and success to date, which we expect will continue to be a critical growth strategy for us going forward. We have been successful in growing the value of our customer relationships over time by expanding the size of deployments of our core products and cross-selling add-on products into our existing customer base. In our experience, once a customer experiences our products and solutions and comes to understand the value our platform can provide, opportunities often emerge to increase the number of licenses and add-on products for that customer. A key benefit of our solutions which makes it easier to up-sell and cross-sell new products is that subsequent applications are not added as isolated products that require integration, but rather are implemented as a natural extension of the customer's existing use of our platforms. A core element of our future growth strategy includes continuing to focus on large private and public customers that have "land and expand" potential.

International Sales

With international sales outside of the United States and Canada accounting for 41% of revenue in Fiscal 2021, our ability to expand into international markets has been a key driver of revenue growth. We believe that global demand for our products will continue to increase proportionately with the demand for our products and services in the United States and Canada, as the challenges in both public safety and the private sector are not limited to one region alone. We continue to make investments in our global sales and marketing organization to support our international growth, with an emphasis on managing and investing in our relationships with international resellers. We sell our products and services through both our direct salesforce and software resellers in Europe and Asia and primarily through our direct sales force in North America, with sales professionals located in Canada and the United States. As we believe that global demand for our products will continue to increase proportionately with the demand for our products and services in the United States and Canada, where sales are primarily made through our direct sales force, we do not currently expect the percentage of sales by third-party resellers that actively market and provide sales support for our products to materially change in Fiscal 2022.

Seasonality

The financial performance of our business reflects an element of seasonality as a result of regional buying behaviours that are typical in our industry. Typically, we see timing of new customer acquisition and renewals tied to financial year ends of our customers rather than during the course of their fiscal year. For example, we generally see expansion and new customer growth within the U.S. government sector in our third quarter based on the U.S. federal government's year end. Similarly, we see revenue sourced from the EMEA public sector more heavily weighted to our fourth quarter. As a result, we generally see the second half of a fiscal year account for a larger proportion of annual revenue than the first half. In addition, our customers generally purchase contracts for one year or more and as a result, the timing of revenue recognition may vary given the revenue recognition policy under IFRS pursuant to which the license element of the arrangement is recognized at the beginning of the term and the subscription portion

is recognized over time. We expect this seasonality to continue as we further our efforts to grow our market share in both public and private sectors, as well as internationally.

Scaling our Teams

Our ability to achieve growth in future revenue will depend upon the effectiveness of our sales and marketing efforts, both domestically and internationally, as well our investment in our research and development teams and supporting infrastructure. The majority of our sales and marketing efforts are undertaken internally, and we believe the strength of our sales and marketing team is critical to our success. Additionally, our success will be dependent upon scaling our research and development teams, and the supporting infrastructure to adapt to the growing business. We have invested and intend to continue to make significant investment in expanding our sales force, our research and development teams, and the supporting infrastructure and consequently, anticipate that our headcount will continue to increase as a result of these investments.

Foreign currency

Our presentation and functional currency is the U.S. dollar, and we derive the majority of our revenues in U.S. dollars and a smaller proportion of our expenses in U.S. dollars. Our head office and a significant portion of our employees are located in Canada, along with additional presence in Europe and the United Kingdom, and as a result, a significant amount of our expenses are incurred in Canadian dollars, Euros, and British pounds. Our results of operations will be adversely impacted by a decrease in the value of the U.S. dollar relative to the Canadian dollar, Euro, or British pounds. See the “Risk Factors” section of the Company’s Annual Information Form dated March 9, 2022, which is available under the Company’s profile on SEDAR at www.sedar.com for a discussion on exchange rate fluctuations and their potential negative effect on our results of operations.

Key Components of Results of Operations

We have always been operated and managed as a single economic entity, notwithstanding the fact that we have subsidiaries in several different countries. We have one management team that directs the activities of all aspects of the Company and that manages the Company centrally through our head office in Canada and through function leads in other jurisdictions. As a result, we believe that we have one reporting segment, being the consolidated company. Over time, this may change as we further expand our presence in the global market, at which time we will reflect the change in our reporting practice.

Revenues

Software licenses

We sell software licenses on both a specified-term and perpetual basis.

Term License Contracts provide the customer with the right to use the software for a specified period that is typically one to three years, and also includes forensic artifact updates, cloud collection access, software platform maintenance and technical support (which we refer to as “Software Maintenance and Support”) during the term of the Term License Contract. The fee payable by customers under a Term License Contract is generally paid at the time of contract inception, with a portion of such fee being attributable to the right to use the software for the fixed term, which we generally recognize as “License – term” revenue, and the remainder of such fee being attributable to Software Maintenance and Support, which we generally recognize as “Software Maintenance and Support” revenue (see “*Software Maintenance and Support*” below). The “License – term” revenue under a Term License Contract is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer.

Perpetual Licenses provide customers the right to use the software for an indefinite period of time in exchange for a one-time license fee, generally paid at contract inception, which we recognize as “License – perpetual” revenue. Revenue from the licensing of software on a perpetual basis is recognized at the time that both the right to use the

software has commenced and the software has been made available to the customer for download at the commencement of the term.

We expect a greater proportion of our revenues will come from recurring sources, namely Term License Contracts, as we expand into the private sector where Term License Contracts are a more accepted method of purchasing software. We typically see lower margins for Term License Contracts in the first year of the contract and higher margins thereafter as the recurring value of a Term License Contract is higher than the recurring subscription value for Software Maintenance and Support on a Perpetual License. We do not expect material differences to exist between renewal rates on Term License Contracts and subscriptions for Software Maintenance and Support.

Software Maintenance and Support

We refer to forensic artifact updates, cloud collection access, software platform maintenance and technical support as “Software Maintenance and Support”. The amount of the selling price associated with Software Maintenance and Support is deferred and recognized as revenue over the period during which the services are performed. This deferred revenue is included in our consolidated statements of financial position as a current liability to the extent the services are to be delivered in the next twelve months.

Term License Contracts include Software Maintenance and Support during the term of the Term License Contract. The fee payable by customers under a Term License Contract is generally paid at the time of contract inception, with a portion of such fee being attributable to the right to use the software for the fixed term, which we generally recognize as “License – term” revenue (see “– *Software Licenses*” above), and the remainder of such fee being attributable to Software Maintenance and Support, which we generally recognize as “Software Maintenance and Support” revenue.

Under a Perpetual License, customers must also purchase a separate term subscription to receive Software Maintenance and Support, which we generally recognize as “Software Maintenance and Support” revenue. Separate term subscriptions for Software Maintenance and Support are offered in one, two, or three-year terms. Most of our customers who purchase Perpetual Licenses also purchase one year term subscriptions for Software Maintenance and Support that are typically renewed annually for so long as they use the licensed product to keep the product current with the latest software and artifact updates.

Professional services

Professional services revenue includes training and implementation services and is recognized as the services are delivered if those services are distinct performance obligations, or when delivered with license revenue if considered a single performance obligation. Training services are sold either as vouchers for specific classes or as training annual passes which can be used to attend unlimited training classes for a period of one year with revenue recognized over time as the services are performed. Implementation services are typically billed on a time and material basis and revenue is recognized over time as the services are performed.

Costs of Sales

Cost of software licenses and Software Maintenance and Support

The cost of software licenses and Software Maintenance and Support revenue primarily consists of personnel expenses for fulfillment of license delivery, as well as costs associated with maintaining certain licensing and product features, including customer support. These costs are generally step costs in nature as they are primarily related to headcount and are driven by management’s decision to add capacity. In general, these costs fluctuate as a percentage of revenue as we add headcount to support increased demand for our products.

Cost of services

Cost of services is comprised of direct personnel expenses related to the delivery of training services, professional services, as well as other direct overhead costs including the cost of the learning management system, and training

materials, travel, and facility costs. These costs are expected to vary as a percentage of the associated revenue due to changes in the mix of training delivery methods, as well as varying levels of professional services activity.

Operating Expenses

Sales and marketing expenses

Sales and marketing expenses are comprised primarily of employee salaries, commissions, benefits and share-based compensation, as well direct costs related to the delivery of marketing programs and events. Sales and marketing expenses also include travel-related expenses and corporate overhead allocations. We plan to continue to expand sales and marketing efforts to attract new customers, retain existing customers and increase revenues from both new and existing customers.

Research and development expenses

Research and development expenses are comprised primarily of personnel expenses including employee salaries, benefits and share-based compensation, product-related expenses including product management, product research and development, and other corporate overhead allocations off-set by certain tax benefits realized through the Canadian Scientific Research and Experimental Development Tax Credit program (“**SR&ED**”). We continue to invest in our research and development program by adding new features and functionality to our products, maintaining our expansive artifact infrastructure, and delivering new products to market. As a public company, our tax credit under the SR&ED program has reduced as we will no longer be eligible to claim refundable SR&ED tax credits, causing our research and development expenses to increase. However, we will remain eligible for non-refundable SR&ED credits under this program, which are available to reduce future income taxes payable.

General and administrative expenses

General and administrative expenses are comprised primarily of personnel expenses including salaries, benefits, and share-based compensation expenses for our administrative, finance, legal, information technology, and human resources teams, allocated rent, travel and general office and administrative expenses, consulting and professional fees and credit impairment losses. We anticipate increases to general and administrative expenses as we incur the costs associated with being a public company, including increased accounting and legal expenses.

Other Income and Expenses

Interest income and expenses

Interest income and expenses are comprised primarily of interest incurred on lease liabilities for our locations in Waterloo, Ontario, Canada, Ottawa, Ontario, Canada, and Herndon, Virginia, USA, and interest on long-term debt, net of interest income realized on cash deposits and short-term investments.

Foreign exchange gain/(loss)

Foreign exchange gain/(loss) generally relates to the translation of monetary assets and liabilities denominated in foreign currencies being translated into United States dollars, our functional currency, at the foreign exchange rate applicable at the end of each period.

Results of Operations

The following table outlines our consolidated statements of income and comprehensive income.

	Three Months Ended March 31,	
	2022	2021
Revenue	\$19,786	\$14,662
Cost of sales	1,505	732
Gross profit	18,281	13,930
Operating expenses		
Sales and marketing	8,356	4,152
Research and development	7,264	3,838
General and administrative	3,588	1,962
	19,208	9,952
Income (loss) before the undernoted items and income taxes	(927)	13,930
Interest expense	82	128
Foreign exchange loss	363	65
Income (loss) before income taxes	(1,372)	3,785
Income tax expense (recovery)	(478)	1,007
Net income (loss) and comprehensive income (loss)	(894)	2,778
Income (loss) per share - basic ⁽¹⁾	(0.02)	0.08
Income (loss) per share – diluted ⁽¹⁾	(0.02)	0.08

Note:

- (1) After giving effect to the amalgamation completed as part of the Pre-Closing Reorganization. See “Description of Share Capital – Pre-Closing Reorganization”.

Results of Operations for the Three Months Ended March 31, 2022 and 2021

Revenue

Product Type	Three Months Ended March 31,			
	2022	2021	Change (\$)	Change (%)
License - term	\$4,682	\$3,059	\$1,623	53%
License - perpetual	433	1,241	(808)	(65%)
Software Licenses Total	5,115	4,300	815	19%
Software maintenance and support - term	6,295	2,543	3,752	148%
Software maintenance and support - perpetual	6,323	6,242	81	1%
Software maintenance and support - total	12,618	8,785	3,833	44%
Professional services	2,053	1,577	476	30%
Total Revenue	\$19,786	\$14,662	\$5,124	35%

Total revenue for the three months ended March 31, 2022 was \$19.8 million, an increase of \$5.1 million compared to the same period in 2021. This increase was primarily due to an increase of \$3.8 million in Software Maintenance and Support revenue, as well as a \$0.8 million increase in Software License revenue. Revenue growth is attributed to growth within our customer base, where Annual Recurring Revenue increased to \$66.0 million as at March 31, 2022 as compared to \$44.2 million as at March 31, 2021.

Software License Revenue

Software license revenue for the three months ended March 31, 2022 was \$5.1 million, an increase of \$0.8 million or 19% compared to the same period in 2021. The increase in term license revenue was primarily due to an increase in term license sales in the period to both new and existing customers as well as an increase in new revenue from our expanded suite of products being sold into the customer base. The increase in term license revenue was partially offset by a decrease in perpetual license revenue, as customers elect to purchase licenses on a term versus perpetual basis. As we have experienced Term License Contracts gaining greater acceptance in our customer base, we have in recent years pursued a strategy to increase the proportion of customers on Term License Contracts as compared to Perpetual Licenses.

Software Maintenance and Support Revenue

Software Maintenance and Support revenue for the three months ended March 31, 2022 was \$12.6 million, an increase of \$3.8 million or 44% compared to the same period in 2021. This increase was primarily due to the net increases in the customer base and an increase mix towards products and related subscriptions for Software Maintenance and Support with a higher average selling price. The shift towards term-based products has increased the proportion of term license support revenue as a percentage of total Software Maintenance and Support revenue to 50% as of the end of the three months ended March 31, 2022, compared to 29% for the same period in 2021.

Professional Services Revenue

Services revenue for the three months ended March 31, 2022 was \$2.1 million, an increase of \$0.5 million or 30% as compared to the same period in 2021. The increase is primarily attributed to the increase in the number of customers trained on the platform.

Costs of Sales

	Three Months Ended March 31,			
	2022	2021	Change (\$)	Change (%)
Software licenses	\$318	\$238	\$80	34%
Software maintenance and support	436	187	249	133%
Professional services	751	307	444	145%
Total cost of sales	\$1,505	\$732	\$773	106%

Cost of Sales

Cost of sales for the three months ended March 31, 2022 was \$1.5 million, an increase of \$0.8 million or 106% as compared to the same period in 2021.

Cost of Software Licenses

Cost of software licenses for the three months ended March 31, 2022 was \$0.3 million, an increase of \$0.1 million or 34% compared to the same period in 2021. Cost of software licenses increased faster than the percentage growth of license revenue as the Company increased headcount to support the growing customer base.

Cost of Software Maintenance and Support

Cost of Software Maintenance and Support for the three months ended March 31, 2022 was \$0.4 million, an increase of \$0.3 million or 133% compared to the same period in 2021. Cost of Software Maintenance and Support increased faster than the growth of software maintenance and support revenue in the period as the company increased headcount in its support teams to support the growing customer base, a larger product portfolio through its MDIS suite of products, and new products as a result of the DME acquisition.

Cost of Professional Services

Cost of professional services for the three months ended March 31, 2022 was \$0.8 million, an increase of \$0.4 million or 145% compared to the same period in 2021. The increase in both periods was a result of additional headcount and overhead costs related to the increased demand for in-class training compared to the prior period where the majority of classes were held remotely due to travel restrictions. In addition, professional services expenses increased related to the delivery of implementation services through increased headcount and activity compared to the same period in 2021.

Gross Profit

	Three Months Ended March 31,			
	2022	2021	Change (\$)	Change (%)
Gross profit	\$18,281	\$13,930	\$4,351	31%
Percentage of total revenue	92%	95%		

Gross profit for the three months ended March 31, 2022 was \$18.3 million, an increase of \$4.4 million or 31% as compared to the same period in 2021. The growth in gross profit was primarily driven by growth in Software License and Software Maintenance and Support Revenue, realized through increase license sales in the period, and an overall growth within our customer base. The growth was partially offset by increased professional services and software maintenance and support cost of sales. The Company realized additional headcount and overhead costs related to the increased demand for in-class training compared to the prior periods where the majority of classes were held remotely due to travel restrictions. Software Maintenance and Support cost of sales increased as a result of increased headcount related to supporting a larger customer base, a larger product portfolio through its MDIS suite of products, and new products as a result of the DME acquisition.

Operating Expenses

Sales and Marketing

	Three Months Ended March 31,			
	2022	2021	Change (\$)	Change (%)
Sales and marketing	\$8,356	\$4,152	\$4,204	101%
Percentage of total revenue	42%	28%		

Sales and marketing expenses for the three months ended March 31, 2022 were \$8.4 million, an increase of \$4.2 million or 101% as compared to the same period in 2021. Included in sales and marketing expenses for the three months ended March 31, 2022 is \$1.2 million of share-based compensation expense compared to the same period in 2021. As part of the IPO on May 3, 2021, the Company began issuing RSU's under its newly adopted long-term incentive plan, which was a notable change to its compensation strategy as compared to the prior period. When excluding share-based compensation, sales and marketing expenses increased by \$3.0 million, or 72% when compared to the same period in the prior year. This increase was primarily driven by the growth in the Company's sales and marketing teams, increased investment in demand generation, marketing events and digital marketing programs, and increases in travel and in-person events which were restricted in the prior period due to the impact of the COVID-19 pandemic.

Research and Development

	Three Months Ended March 31,			
	2022	2021	Change (\$)	Change (%)
Research and development	\$7,264	\$3,838	\$3,426	89%
Percentage of total revenue	37%	26%		

Research and development expenses for the three months ended March 31, 2022 were \$7.3 million, an increase of \$3.4 million or 89% as compared to the same period in 2021. Included in research and development expenses for the three months ended March 31, 2022 is \$0.5 million of share-based compensation expense compared to the same period in 2021. As part of the IPO on May 3, 2021, the Company began issuing RSU's under its newly adopted long-term incentive plan, which was a notable change to its compensation strategy as compared to the prior period. In addition, the Company has realized additional acquisition-related expenses from the acquisitions of DME (September 2021) and Comae (March 2022). Acquisition-related expenses and the associated amortization of acquired intangibles were \$0.7 million for the three months ended March 31, 2022, as compared to nil in the prior period. When excluding share-based compensation expense and acquisition-related expenses, research and development expenses increased by \$2.3 million, or 60% when compared to the same period in the prior year. This increase was primarily driven by growth in the Company's research and development teams.

General and Administrative

	Three Months Ended March 31,			
	2022	2021	Change (\$)	Change (%)
General and administrative	\$3,588	\$1,962	\$1,626	83%
Percentage of total revenue	18%	13%		

General and administrative expenses for the three months ended March 31, 2022 were \$3.6 million, an increase of \$1.6 million or 83% as compared to the same period in 2021. Included in general and administrative expenses for the three months ended March 31, 2022 is \$0.3 million of share-based compensation expense compared to the same period in 2021. As part of the IPO on May 3, 2021, the Company began issuing RSU's under its newly adopted long-term incentive plan, which was a notable change to its compensation strategy as compared to the prior period. When excluding the share-based compensation, general and administrative expenses increased by \$1.3 million, or 67% when compared to the same period in the prior year. This increase was driven by additional personnel expenses as we continue to scale our finance, human resources, IT, operations, and legal teams to support the business, along with increased infrastructure costs to support the growing employee base, and incremental ongoing insurance and compliance costs as a result of the listing on the Toronto Stock Exchange ("TSX").

Other Expenses

	Three Months Ended March 31,			
	2022	2021	Change (\$)	Change (%)
Interest expense	\$82	\$128	(\$46)	(36%)
Foreign exchange loss	363	65	298	458%
Total other expenses	\$445	\$193	\$252	131%

Other expenses for the three months ended March 31, 2022 were \$0.4 million, an increase of \$0.3 million or 131% as compared to the same period in 2021. The change was primarily due to unrealized foreign exchange losses related to Euro denominated cash, as well as the right-of-use liability associated with leased properties whereby certain leases denominated in Canadian dollars translated to U.S. dollars as both experienced unfavourable foreign exchange fluctuations during the three months ended March 31, 2022.

Income Tax Expense

	Three Months Ended March 31,		
	2022	2021	Change (\$)
Current	\$48	\$1,006	\$(958)
Deferred	(526)	1	(527)
Total income tax expense	(\$478)	\$1,007	(\$1,485)

Income tax recovery for the three months ended March 31, 2022 was \$0.5 million. Income tax expense for the three months ended March 31, 2021 was \$1.0 million. The decrease in income tax expense was primarily due to lower income before taxes as compared to the same period in 2021. The increase in the effective income tax rate in the current three months ended is primarily the result of an increase in certain non-deductible expenses related to RSUs granted under the long-term incentive plan.

Selected Annual Information

	Fiscal Year Ended December 31,		
	2021	2020	2019
Revenue	\$70,287	\$51,229	\$38,654
Net income / (loss)	7,341	10,604	973
Income / (loss) per share – basic ⁽¹⁾	0.19	0.33	0.03
Income / (loss) per share – diluted ⁽¹⁾	0.18	0.32	0.03
Total assets	161,979	45,294	43,521
Total non-current liabilities	17,421	14,030	11,955

Note:

- (1) After giving effect to the amalgamation completed as part of the Pre-Closing Reorganization, including a conversion of the Company's pre-closing common shares on a one-to-three basis. Additional information related to Magnet Forensics Inc. and the Pre-Closing Reorganization can be found in the Company's Annual Information Form dated March 9, 2022, which is available under the Company's profile on SEDAR at www.sedar.com.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations" for a more detailed discussion of the year-over-year changes in revenues and net income (loss).

Key Balance Sheet Information

	March 31, 2022	December 31, 2021
Cash	117,127	\$118,058
Total assets	156,116	161,979
Total liabilities	65,666	72,839

Total Assets

March 31, 2022 Compared to December 31, 2021

Total assets as at March 31, 2022 were \$156.1 million, a decrease of \$5.9 million or 4% as compared to December 31, 2021. The decrease was primarily within accounts receivable which decreased by \$7.6 million, driven by collections on invoiced sales from the three months ended December 31, 2021. The Company also acquired technology software from Comae, for a purchase price of \$1.8 million paid on closing, and \$0.2 million withheld as an indemnification holdback for a period of eighteen months.

Total Liabilities

March 31, 2022 Compared to December 31, 2021

Total liabilities as at March 31, 2022 were \$65.7 million, a decrease of \$7.1 million or 10% as compared to December 31, 2021. The decrease was primarily within accounts payable which decreased \$4.0 million, primarily pertaining to certain Fiscal 2021 related compensation expenses that were paid during the three months ended March 31, 2022. Additionally, certain vendor payables increased during the three months ended December 31, 2021 and were paid during the three months ended March 31, 2022.

Within total liabilities, deferred revenue at March 31, 2022 was \$49.8 million, a decrease of \$2.9 million compared to December 31, 2021. The Company generally bills customers at contract inception resulting in initially recording the amount associated with software maintenance and support as deferred revenue and is recognized as revenue over the period during which the services are performed. The amounts invoiced and deferred during the three months ended

March 31, 2022 of \$15.0 million were offset by \$17.9 million recognized as revenue which was included in deferred revenue as at December 31, 2021.

Quarterly Results of Operations

The following table sets forth selected unaudited quarterly consolidated statements of operations data for each of the eight quarters ending March 31, 2022. The information for each of these quarters has been prepared on the same basis as the audited annual consolidated financial statements included for the year ended December 31, 2021. This data should be read in conjunction with our audited annual consolidated financial statements and related notes thereto. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Revenue	\$19,786	\$21,388	\$17,773	\$16,464	\$14,662	\$15,587	\$12,352	\$11,566
Cost of sales	1,505	1,556	1,331	975	732	654	648	629
Operating expenses	19,208	17,771	13,312	13,103	9,952	10,063	8,729	6,907
Net income (loss)	(894)	806	2,167	1,590	2,778	4,543	1,996	2,915
Income per share – basic ⁽¹⁾	(0.02)	0.02	0.05	0.04	0.08	0.14	0.06	0.09
Income per share – diluted ⁽¹⁾	(0.02)	0.01	0.05	0.04	0.08	0.13	0.06	0.09

Note:

- (1) After giving effect to the amalgamation completed as part of the Pre-Closing Reorganization, including a conversion of the Company's pre-closing common shares on a one-to-three basis. Additional information related to Magnet Forensics Inc. and the Pre-Closing Reorganization can be found in the Company's Annual Information Form dated March 9, 2022, which is available under the Company's profile on SEDAR at www.sedar.com.

Revenue

Our quarterly revenue generally increased for most periods presented due primarily to increased sales to existing and new customers. Revenue from the sales of licenses, Software Maintenance and Support, and services during the last eight quarters reflects our continued efforts to cross-sell and up-sell within our base and secure new customers. The decrease in revenue during the three months ended March 31, 2022 and 2021, as compared to the previous respective quarter is generally due to seasonality as a result of regional buying behaviours. Refer to the Seasonality paragraph within the "Summary of Factors Affecting Our Performance" section of this MD&A for further information.

Cost of Sales

Our total quarterly costs of sales increased in conjunction with revenue for all periods presented, with a gross profit percentage of between 92% and 96%. The aggregate increase was primarily due to increased headcount costs associated with a growing customer base and a larger product portfolio, including the impact of the DME acquisition and the related support costs. The Company has increased headcount and technology infrastructure costs where required to support the growing customer base, as well as to support the growth of our training programs.

Operating Expenses

Total operating expenses generally increased for each period which was primarily due to the additional resources such as headcount required to support our expanding customer base and suite of products as well as higher sales and marketing expenses required to attract additional customers to our platform.

Since the IPO in 2021, the Company has realized additional personnel and operating expenses as we continued to scale our finance, human resources, IT, operations, and legal infrastructure to support the business, incurred costs related to acquisitions, and realized incremental ongoing insurance and compliance costs as a result of listing on the

TSX. In addition to these increases, the Company made changes to its compensation strategy by granting RSU awards and making changes to certain compensation arrangements of key management personnel, which in combination with other expenses, increased overall operating expenses and reduced net income. The timing of these expenses, in combination with seasonality in revenue, can have a varying impact on net income period over period.

See “Results of Operations”, and “Summary of Factors Affecting Our Performance” in this MD&A for a more detailed discussion of the year-over-year changes in revenues and expenses, as well as discussion on seasonality.

Liquidity and Capital Resources

Overview

The general objectives of our capital management strategy reside in the preservation of our capacity to continue operating, in providing benefits to our stakeholders and in providing an adequate return on investment to our shareholders by selling our services at a price commensurate with the level of operating risk assumed by us.

We thus determine the total amount of capital required consistent with risk levels. We seek to adjust our capital structure on a timely basis depending on changes in the economic environment and risks of the underlying assets. We are not subject to any externally imposed capital requirements.

Working Capital

For the three months ended March 31, 2022, we generated \$1.6 million in cash flow from operating activities, primarily from sales to customers. Our approach to managing liquidity is to ensure, to the extent possible, that we have sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flow, performing budget-to-actual analysis, and forecasting future performance and its effect on cash on a regular basis. Working capital as at March 31, 2022 was \$87.4 million, relatively consistent as compared to December 31, 2021. Excluding the short-term portion of deferred revenue of \$39.4 million, our working capital as at March 31, 2022, was \$126.8 million, as compared to \$130.6 million as at December 31, 2021.

In addition to cash balances, at December 31, 2021 we had a \$25.0 million revolving demand credit facility available to meet ongoing working capital requirements if required. Our principal cash requirements are for working capital, which is also expected to be the principal requirement in the short-term and long-term as we execute on our planned growth initiatives, including through investments in sales and marketing and research and development. Given our existing cash and credit facility, and anticipated cash flow generated from operations in the future, we believe that we will have sufficient liquidity to meet our current and short-term financial obligations.

Cash Flows

The following table presents cash and cash equivalents as at March 31, 2022 and 2021, and cash flows from operating, investing, and financing activities for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Cash as at period end	\$117,127	\$16,637
Net cash provided by (used in):		
Operating activities	1,583	(4,009)
Investing activities	(2,196)	(139)
Financing activities	(318)	(420)
Net decrease in cash	(\$931)	(\$4,568)

Cash Flows from Operating Activities

Cash flows from operating activities for the three months ended March 31, 2022 were \$1.6 million, an increase of \$5.6 million compared to the same period in 2021. The increase in cash flow from operating activities was primarily the result of income tax payments totalling \$5.1 million made during the three months ended March 31, 2021, pertaining to the fiscal year ended December 31, 2020 as compared to income tax payments of \$0.4 million made during the three months ended March 31, 2022, pertaining to the fiscal year ended December 31, 2021. Changes in operating assets and liabilities resulted in an increase of cash of \$3.8 million, offset by a decrease in net income of \$3.7 million.

Cash Flows Used in Investing Activities

Cash flows used in investing activities for the three months ended March 31, 2022 were \$2.2 million, an increase of \$2.1 million compared to the same period in 2021. The increase in cash used was due to the use of \$1.8 million for the acquisition of Comae, and \$0.4 million for the purchase of property and equipment to support the growing employee base in the period.

Cash Flows from Financing Activities

Cash flows used in financing activities for the three months ended March 31, 2022 were \$0.3 million, a decrease of \$0.1 million compared to the same period in 2021.

Credit Facility

The Company has an existing credit facility with RBC that provides the Company with a 2-year revolving demand credit facility for up to \$25,000 (2021 - \$5,000). The interest rate on the credit facility is equal to the RBC US prime rate plus 0.10%. As of March 31, 2022, the available line of credit was \$25,000 with an interest rate of 3.35% and no amounts were drawn and outstanding.

The credit facility is subject to certain general and financial covenants, including the delivery of audited annual consolidated financial statements and includes a borrowing limit applied that is based principally on the Company's revenue. The credit facility is secured by a general security interest in the Company's personal property and the personal property of certain of its subsidiaries.

The Company was in compliance with these financial covenants as at March 31, 2022 and continues to be at the time of approval of these consolidated financial statements.

Contractual Obligations

We have contractual obligations with a variety of expiration dates. The remaining contractual obligations of our financial liabilities at March 31, 2022, are as follows:

	Contractual cash flows						
	Carrying amount	Total	3 months or less	3-12 months	1-2 years	2-5 years	More than 5 years
Accounts payable and accrued liabilities	\$6,526	\$6,526	\$5,306	\$1,220	\$-	\$-	\$-
Government loan payable	1,733	1,940	130	391	522	897	-
Lease liabilities	6,697	8,003	333	978	1,212	2,943	2,537
Acquisition-related payables	867	910	-	-	910	-	-
	\$ 15,823	\$ 17,379	\$ 5,769	\$ 2,589	\$ 2,644	\$ 3,840	\$ 2,537

Off-Balance Sheet Arrangements

We have not entered into off-balance sheet financing arrangements. Except for certain operating leases not recognized as lease liabilities under IFRS 16, all of our liabilities and commitments are reflected as part of our statement of financial position. From time to time, we may be contingently liable with respect to litigation and claims that arise in the normal course of operations.

Related Party Transactions

We have no related party transactions, other than those noted in our consolidated financial statements for the three months ended March 31, 2022, which are summarized below. The following table includes compensation of the key management personnel comprised of the Company's executive officers and directors and certain other key management personnel for the three months ended March 31, 2022, and 2021;

	Three Months Ended March 31,	
	2022	2021
Salaries and wages	\$673	\$528
Other employee benefits	53	30
Share-based compensation	921	11
	\$1,647	\$569

Financial Instruments and Other Instruments

Credit and Concentration Risk

Generally, the carrying amount in our consolidated statement of financial position exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

Our credit risk is primarily attributable to our cash and cash equivalents and trade receivables. We do not require guarantees from our customers. Credit risk with respect to cash and cash equivalents is managed by maintaining balances only with high credit quality financial institutions.

Due to our diverse customer base, there is no particular concentration of credit risk related to our trade receivables. Moreover, balances for trade receivables are managed and analyzed on an ongoing basis to ensure allowances for doubtful accounts, which are established and maintained at an appropriate amount.

We estimate anticipated losses from doubtful accounts based upon the expected collectability of all accounts receivable, which estimate takes into account the number of days past due, collection history, identification of specific customer exposure and current economic trends. An impairment loss on trade receivables is calculated as the difference between the carrying amount and the present value of the estimated future cash flow. Impairment losses are charged to general and administrative expense in the consolidated statements of income (loss) and comprehensive income (loss). Receivables for which an impairment provision was recognized are written off against the corresponding provision when it is deemed uncollectible. Impairment losses for trade receivables have been calculated based on the expected credit losses model instead of historical collection evidence as under the previous standards.

The maximum exposure to credit risk at the date hereof is the carrying value of each class of receivables mentioned above. We do not hold any collateral as security.

Foreign Currency Exchange Risk

We are exposed to currency risk due to financial instruments denominated in foreign currencies. Our primary exposure with respect to foreign currencies is from Canadian dollar and Euro denominated cash and cash equivalents. The net carrying value of these foreign denominated balances held in Euros and Canadian dollars as at March 31, 2022 and December 31, 2021 presented in U.S. dollars is as follows:

	March 31, 2022			December 31, 2021		
	CAD \$	Euro \$	GBP \$	CAD \$	Euro \$	GBP \$
Cash and cash equivalents	2,044	9,780	24	998	8,942	25
Government loan payable	1,733	-	-	1,809	-	-

We have not entered into arrangements to hedge our exposure to currency risk.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We review these estimates on an ongoing basis based on management's best knowledge of current events and actions that we may undertake in the future. Actual results could differ from these estimates. Areas requiring the most significant estimates and judgements are outlined below. Management has determined that we operate in a single operating and reportable segment.

Revenue Recognition

Revenues are derived from the license of software products, service fees for Software Maintenance and Support, and professional services. Professional services primarily include customer training as well as implementation services. Revenue from contracts with customers is recognized through the application of the following steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when, or as we satisfy a performance obligation.

Principal versus agent

We assess our revenue contracts against specific criteria in order to determine if the Company is acting as principal or agent. In certain markets where we use resellers, we have assessed the reseller as the principal in the arrangement with the end-user and therefore the Company recognizes revenue on the fees invoiced to the reseller. We are a reseller of third-party software and have been assessed as the agent in those arrangements and therefore recognizes revenue on a net basis at the point in time when we perform our obligations.

Arrangements with multiple performance obligations

We typically contract with customers to deliver more than one of the goods and services noted below as part of a single arrangement. We exercise judgement to evaluate these arrangements to determine whether the goods or services are considered distinct performance obligations that should be accounted for separately from some or all of the other goods or services in the arrangement. A good or service is distinct if the customer can benefit from it on its own or together with other readily available resources and our promise to transfer the good or service is separately identifiable from other promises in the contract. Goods and services that are not distinct are combined with other goods and services until they are distinct as a bundle and are accounted for as a single performance obligation. License, Software Maintenance and Support, and professional services are generally capable of being distinct and are accounted for as separate performance obligations.

Standalone selling price

The stand-alone selling price (“SSP”) reflects the price we charge for a specific good or service if it was sold separately to similar customers in similar circumstances. For license and Software Maintenance and Support revenue, this is typically determined by maximizing observable inputs, including the Software Maintenance and Support renewal rates and the relative value relationship between the software license and Software Maintenance and Support. This relative value is subject to periodic review and assessment when material changes in facts and circumstances warrant it. For other services, the observed price is used.

Allocation of transaction price

The transaction price is determined based on the consideration we expect to be entitled to in exchange for transferring promised goods and services to the customer, excluding amounts collected on behalf of third parties such as sales taxes. Determining the allocation of transaction price requires significant judgement. Consideration in contracts with multiple performance obligations is allocated to the separate performance obligations based on the estimated SSP.

License revenue

We sell software licenses on both a specified-term and perpetual basis.

Perpetual Licenses provide customers with the right to use the software for an indefinite period of time in exchange for a one-time license fee, generally paid at contract inception, which we recognize as “License – perpetual” revenue. Revenue from the licensing of software on a perpetual basis is recognized at the time that both the right to use the software has commenced and the software has been made available to the customer for download at the commencement of the term.

Term License Contracts provide the customer with the right to use software for a specified period that is typically one to three years and also includes forensic artifact updates, cloud collection access, software platform maintenance and technical support (which we refer to as “Software Maintenance and Support”) during the term of the Term License Contract. The fee payable by customers under a Term License Contract is generally paid at the time of contract inception, with a portion of such fee being attributable to the right to use the software for the fixed term, which we generally recognize as “License – term” revenue. The “License – term” revenue under a Term License Contract is

recognized at the time that both the right to use the software has commenced and the software has been made available to the customer.

Software Maintenance and Support revenue

Software Maintenance and Support revenue consists primarily of technical support and the provision of unspecified upgrades and updates made on a when-and-if-available basis. This Software Maintenance and Support is related to our Perpetual License and Term License Contract arrangements. Software Maintenance and Support is not critical to the customer's ability to derive benefit from its right to use our software and is considered a distinct performance obligation when sold together with licenses in a bundled transaction. The amount of the selling price associated with Software Maintenance and Support is deferred and recognized as revenue over the period during which the services are performed. This deferred revenue is included on our consolidated statements of financial position as a current liability to the extent the services are to be delivered in the next twelve months. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenues – Software Maintenance and Support." for further information.

Professional services revenue

Professional services revenue includes training and implementation services and, subject to all other revenue recognition criteria being met, are recognized as the services are delivered when distinct or when delivered if considered a single performance obligation with license revenue. Training services are sold either as vouchers for specific classes or can be used to access unlimited training for a specific period with revenue recognized over time as the services are performed. Implementation services are typically billed on a time and material basis and revenue is recognized over time as the services are performed subject to all other revenue recognition criteria being met. For professional services contracts billed on a fixed price basis, revenue is recognized over time based on the proportion of services performed.

Recoverability of Deferred Tax Assets and Current and Deferred Income Taxes and Credits

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. We establish provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgement is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Share-Based Compensation

We use the Black-Scholes valuation model to determine the fair value of equity-settled stock options under the Legacy Option Plan. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield and the risk-free interest rate. Variation in actual results for any of these inputs may result in a different value of the stock option realized from the original estimate.

Restricted stock units ("RSUs") and deferred share units ("DSUs") are measured based on the grant date fair value as determined by the volume weighted average price ("VWAP") of the Subordinate Voting Shares for the preceding day prior to the day of the grant. The number of awards expected to meet the service requirements is reviewed at least annually, with any impact being recognized immediately. It is the Company's intention to settle vested RSUs and DSUs with the participants by way of disbursement of common shares from treasury. As such, the Company accounts for RSU and DSU compensation expense using the equity settlement method. The Company recognizes compensation

expense equal to the fair value of the RSU and DSU awards expected to meet service requirements over the corresponding service vesting period.

Provisions

We have recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

Business combinations

The Company follows the acquisition method to account for business combinations in accordance with IFRS 3, Business Combinations. The acquisition method of accounting requires that assets acquired, and liabilities assumed, be recorded at their fair values on the date of a business acquisition. The excess of the purchase price over the fair values is recorded as goodwill.

The Company estimates the fair value of customer relationships, brand, and technology acquired in a business combination based on the income approach. The income approach is a valuation technique that calculates the fair value of an intangible asset based on the present value of future cash flows that the asset can be expected to generate over its remaining useful life. The cost approach is a valuation technique that calculates the fair value of an intangible asset based on the amount that would be required to replace the assets acquired. Valuations involves significant subjectivity and estimation uncertainty, including assumptions related to the future revenues attributable to acquired customer relationships, brand, or technology, customer attrition rates, royalty rate, technology migration rate, future expenses, and discount rates.

The amounts included in the consolidated statements of income and comprehensive income include ongoing post-combination consideration of certain key employees related to continuing employment of pre-existing shareholders. These amounts are required to be recognized in accordance with the vesting terms in the acquisition agreement and consequently, these costs are not included in the total purchase consideration of the business combination. All other costs that are not eligible for capitalization related to the acquisition are expensed as incurred.

New information obtained during the measurement period, up to 12 months following the acquisition date, about facts and circumstances existing at the acquisition date may affect the acquisition accounting. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of income and comprehensive income.

Description of Share Capital – Pre-Closing Reorganization

In connection with the Company's Pre-Closing Reorganization as part of the Company's initial public offering ("IPO") completed on May 3, 2021, the Company completed a conversion of the Company's pre-closing common shares on a one-to-three basis.

Additional information related to Magnet Forensics Inc. and the Pre-Closing Reorganization can be found in the Company's Annual Information Form dated March 9, 2022, which is available under the Company's profile on SEDAR at www.sedar.com.

Authorized Share Capital

The Company is authorized to issue an unlimited number of Subordinate Voting Shares, an unlimited number of Multiple Voting Shares, and an unlimited number of preferred shares, issuable in series.

As of May 4, 2022, the Company had 11,911,801 Subordinate Voting Shares, 28,903,303 Multiple Voting Shares, and nil preferred shares issued and outstanding.

Disclosure

Limitation on Scope of Design

The scope of design of internal controls over financial reporting and disclosure controls and procedures excluded the controls, policies, and procedures of DME and Comae, acquired on September 13, 2021 and March 11, 2022, respectively.

Revenue included in the consolidated statement of income (loss) for the three months ended March 31, 2022 related to the DME acquisition was \$1.1 million. The net loss included in the consolidated statement of income (loss) related to DME, including post-combination consideration for services expense of \$0.4 million and amortization expense related to the acquired intangible assets, was \$0.2 million. The net loss included in the consolidated statement of income (loss) related to Comae, including post-combination consideration for services expense and amortization expense related to the acquired intangible assets, was \$0.1 million.

The amounts recognized for the assets acquired and liabilities assumed of DME at the date of acquisition are described in Note 5 of the audited annual consolidated financial statements for the year ended December 31, 2021. The amounts recognized for the assets acquired of Comae at the date of acquisition are described in Note 3 of the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2022.

Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in reports filed with the securities regulatory authorities are recorded, processed, summarized and reported in a timely fashion. The DC&P are designed to ensure that information required to be disclosed by the Company in such reports is then accumulated and communicated to the Company's management to ensure timely decisions regarding required disclosure. Management regularly reviews DC&P; however, they cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud. The CEO and the CFO, along with Management, have evaluated and concluded that the Company's DC&P as at March 31, 2022 provide reasonable assurance that significant information relevant to the Company, including that of its subsidiaries, is reported to them during the preparation of disclosure documents.

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting. The Company's internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer have been advised that the control framework the Chief Executive Officer and the Chief Financial Officer used to design the Company's internal controls over financial reporting is recognized by the Committee of Sponsoring Organizations of the Treadway Commission. The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its internal controls over financial reporting during the period ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting. No such changes were identified through their evaluation.

Limitations of Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, believes that any DC&P or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the reality judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.