



Clarocity Corporation

Management's Discussion and Analysis ("MD&A")

For the year ended December 31, 2017

All amounts in CAD \$000's except per share amounts and where otherwise noted

Introduction

Clarocity Corporation ("Clarocity" or the "Company") (renamed from Zaio Corporation on October 17, 2016) is a reporting issuer in British Columbia, Ontario and Alberta and trades on the TSX Exchange ("TSX-V") under the symbol CLY and over the counter in the US through OTC Markets Group (OTCQB:CLRYF)

Management recommends reading this MD&A in conjunction with Clarocity's audited annual consolidated financial statements and related notes for the years ended December 31, 2017 and 2016.

The consolidated financial information reported herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars, unless otherwise noted. The information in this MD&A is current to April 30, 2018. Additional information is contained in the Company's filings with Canadian securities regulators. These filings are available on SEDAR at www.sedar.com and on the Company's website at www.Clarocity.com.

Management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by us, is complete and reliable. These procedures include the review and approval of our financial statements and associated information, including this MD&A, first by our management, then by the Board of Directors' Audit Committee and, finally, by our Board of Directors as a whole.

Certain financial measures in this MD&A relating to calculating loss excluding non-cash items such as non-cash stock based compensation, expenses relating to debenture amortization and accretion are not prescribed by, and do not have any standardized meaning under, IFRS. Our method of calculation of the non-IFRS financial measures may not be directly comparable to that of other companies. We consider these non-IFRS financial measures to provide useful information to both management and investors in measuring our financial performance and financial condition. These non-IFRS financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with IFRS.

Forward-Looking Statements

This MD&A, or documents incorporated herein, may include certain information, statements and assumptions regarding management's view of future events, expectations, plans, initiatives or prospects that constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to Clarocity's future outlook and anticipated events or results and may include statements related to anticipated future contracts, rates of currency exchange, operating expenses, software development expenditures, capital expenditures, expectations regarding the ability to raise capital and other guidance provided throughout this MD&A.

These statements are based on certain factors and assumptions regarding, among others: projection of current operations, ongoing and future business negotiations and opportunities, timing of software product development and capital expenditures, market costs and other variables affecting software product development and operating expenses, obtaining services and supplies, including labour, in a cost-effective and timely manner, the availability and costs of financing; foreign currency exchange rates; market presentation and customer acceptance of software services and platforms. Although Clarocity considers these assumptions reasonable as of the current date based on information currently available to management, the assumptions may ultimately prove incorrect.

Forward-looking information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors include, but are not limited to: the cyclical nature of real estate markets, currency exchange rates, access to credit facilities and equity markets, competition from other appraisal valuation companies and for labour; the anticipated results being achieved from the noted acquisition of Valuation Vision, LLC ("Valuation Vision"), and Valued Veterans LLC ("Valued Veterans"), subsequently renamed Clarocity Valuation Services, LLC ("CVS"), both wholly owned subsidiaries of Clarocity. Because of these risks and uncertainties, actual results, expectations, achievements or performance may differ materially from those anticipated and indicated by these forward-looking statements.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on

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management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein. Readers should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Clarocity disclaims any intention, and assumes no obligation, to update or revise any forward-looking statements to reflect actual results, whether as a result of new information, future events, changes in assumptions, changes in factors affecting such forward-looking statements or otherwise, except as required pursuant to applicable securities laws.

Summary

Clarocity provides real estate valuation solutions and platform technologies designed to address today's dynamic housing market. Our innovative platform is driving the next-generation of valuation solutions such as MarketValue Pro (MVP) and BPOMerge and setting new standards in real estate valuation quality and reliability. Every day clients rely on our proprietary solutions to value assets, fund loans, and securitize portfolios. As a fully integrated technology and valuation services company, Clarocity provides a full spectrum of appraisal and alternative valuation solutions.

During 2017, the Company continued to develop its technology platform, consolidated its valuation services in CVS, its appraisal management company licensed to provide services throughout the United States. Consolidated revenues for the year ended December 31 were substantially higher than during comparative periods in 2016, mainly due to including a full year of operations from the integrated CVS operation as compared to the two months included in 2016 post-acquisition of Valued Veterans in November 2016.

The acquisition of Valued Veterans closed November 4, 2016 and provides us with the proper licensure of a United States nationwide Appraisal Management Company. In 2017, Clarocity combined the services component of Valuation Vision with Valued Veterans (renamed to Clarocity Valuation Services, LLC ("CVS")) under the unified CVS brand, that has allowed Clarocity to expand the total addressable market for Clarocity products and allows expansion into additional sectors of banking and financial services industries. The Valued Veterans acquisition and launch of CVS has and will continue to provide continued revenue improvement that is further bolstered by a deep pipeline of lenders, loan servicers, credit unions and U.S. government agencies through new contracts and the expansion of existing contracts through unified user experience for all services. In addition, we received a positive vendor rating from Morningstar, an independent industry ratings agency. This rating affirms our position as a valuation solutions provider that meets the strict requirements needed for loan securitization and will allow the Company to expand its marketing opportunities in the rapidly expanding Loan Securitization space.

The launch of Clarocity Valuation Services has allowed Clarocity to properly segment valuation services as a self-supported operation within the Clarocity family of companies. This segmentation allows the Company to properly focus on the future of Clarocity as a higher revenue margin technology, products and platform provider. With a strong pipeline of technology and platform clients, we look forward to expansion of the technology as a key revenue growth sector for Clarocity that we intend to keep pace with Clarocity Valuation Services.

As 2017 has unfolded, it has become clear that Clarocity management's expectations of a significant market shift away from traditional appraisal products and associated revenue toward next generation appraisals and technology such as MVPro appraisal and our Clarocity platform has begun to pick up considerable speed. We believe that this transformation will continue to gain momentum well into 2018 and 2019. Clarocity Corporation is positioned extremely well to benefit from this shift in the form of new and higher margin services and technology revenue.

Financial Condition and Liquidity

As of the date of this filing the Company has insufficient cash resources to meet its short-term commitments. Financing, including the forbearance of current creditors, is required for the Company to continue operations. If such a financing does not materialize the Company will be required to review all strategic options available that may include a significant curtailment or cessation of operations or development of new products. These matters cast significant doubt on the Company's ability to continue as a going concern.

For the year ended December 31, 2017, the Company incurred a consolidated net loss of \$14,531 (2016 – \$9,488) and used cash in operating activities of \$6,329 in the year ended December 31, 2017 (2016 – \$6,135). As at December 31, 2017, the Company had a working capital deficiency of \$20,693 increased from December 2016 - \$13,795 and an accumulated deficit of (\$114,629) (2016 – (\$100,098)).

The Company's ability to continue as a going concern and to continue the pursuit of its objectives is contingent upon obtaining additional sources of financing to fund its operations and to meet its obligations on a timely basis, the continued forbearance of its creditors, and ultimately achieving positive cash flows from operations.

While management believes the use of the going concern assumption is appropriate, there is no assurance that the Company's initiatives to improve its liquidity and financial position and generate positive cash flows from operations will be successful. These consolidated financial statements do not include the disclosures or adjustments to the amounts and classifications of

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assets and liabilities that may be necessary should the Company be unable to continue as a going concern and these adjustments and reclassifications may be material.

Business Overview

Description of the Business

Clarocity owns and continues to develop a technology platform which supports a number of business lines focused on the valuation of residential real estate properties in the United States. The Company's technology base includes database technologies and automated valuation techniques, and software solutions that assist realtors and licensed appraisers in doing their job faster and more accurately. In an effort to conserve capital in late 2015 the development of certain database technologies was suspended and the development team in the Calgary office were terminated and technology development was consolidated to the Valuation Vision office in Carlsbad, California. The Company is focused on continued development of the valuation-products and systems within Valuation Vision based in Carlsbad, California. The product portfolio is stronger than ever and the Company continues to develop new products to meet customer requirements. The Company will continue to evaluate its strategic options relating to certain database technologies in its portfolio to maximize their utility in the fast-moving real estate valuation marketplace.

On May 29, 2015, Clarocity acquired the assets and business of Valuation Vision, based in Carlsbad, California, which now operates as Valuation Vision Inc., a wholly owned subsidiary of Clarocity. Valuation Vision offers a number of innovative software driven valuation solutions utilizing realtor-based price opinion products to financial institutions in the United States.

On November 4, 2016, Clarocity closed the acquisition of Valued Veterans based in Lenaxa, Kansas. Valued Veterans is an Appraisal Management Company which is licensed to operate throughout the United States. During 2017, the company was renamed to Clarocity Valuation Services, LLC as part of its rebranding efforts.

On May 9, 2017, the Company announced that it had retired its convertible debentures. Of the remaining \$4,443 in debentures, \$1,582 were converted and \$2,861 were redeemed. The repayments were financed by issuance of new debentures.

On May 11, 2017, Clarocity announced that it had acquired intellectual property related to regression analysis used to support certain valuation methodology. The Company intends to incorporate this IP into its products to meet customer demand.

Selected Annual Financial Information (\$000's – except per share information)

| | 2017 | 2016 | 2015 | 2014 |
|----------------------------------------|----------|---------|----------|---------|
| Revenue | 13,250 | 6,304 | 3,157 | - |
| Gross margin | 4,334 | 2,496 | 1,376 | - |
| Net loss | (14,531) | (9,488) | (12,997) | (5,429) |
| Comprehensive Loss | (14,527) | (9,627) | (12,593) | (5,429) |
| Net loss per share – basic and diluted | (0.06) | (0.05) | (0.07) | (0.07) |
| Total assets | 11,218 | 11,025 | 9,522 | 6,992 |
| Total long-term financial liabilities | - | - | 3,741 | 4,111 |

Overview of the Business

The Company was recapitalized in 2011 and began to add staff in the last half of 2011, with the intention of developing the GeoScore software and technology it believed it required to go to market. During 2012 the Company focused on bringing Clarocity product to market through a 2009 licensing agreement with Zone Data Systems LLC ("ZDS"). The task involved organization of data, process and people across a large portion of the United States, and the preparation and modernization of the database and appraiser tools to output appropriate products for sale to the US market. The Company started selling product in available areas in 2013, through Zone Data Systems LLC but was unable to recognize any revenue because the license called for revenue to flow to Clarocity as a percentage of ZDS profits and ZDS did not achieve profitability.

Clarocity decided to terminate the arrangement with ZDS in late 2014 (recorded in 2015 upon final close) and provided 13.6 million Clarocity shares and 13.6 million share purchase warrants (\$0.20 exercise price for a one-year term) to ZDS as compensation for terminating the agreement. The cancellation of the ZDS agreement provided the Company with greater control over its revenue streams and earnings and aligned field appraisal personnel under modernized agreements. All ZDS warrants have now been terminated, and a private placement of \$50 at \$0.11/share was undertaken by ZDS.

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The first product launched utilizing Clarocity's patented methodology (U.S. Patent Number 8,046,306) was the Zaid Valuation Report or "Z-VAL". The Z-VAL product filled a mid-market niche that allows a wide audience to access accurate and appraiser signed reports.

During 2013, the Company was presented with opportunities to pursue business activities with Valuation Vision. In 2014, all Z-VAL products were rebuilt, utilizing Valuation Vision technology and workflow. The products were rebranded and re-launched in 2016 as the customer friendly and cost effective MVPPro or Market Value Pro appraisal.

The MVPPro product family today is powered by appraisers, who oversee every report, and has now been joined by the MVPPro incorporating realtors into the process for site inspections, thus allowing the MVPPro product line to meet new and aggressive price points. Powered by the Valuation Vision Order Management and Fulfillment Platform known as Clarocity, the MVPPro family provides excellent accuracy and rapid turn-around time.

During 2016, the Company's acquisition of Valued Veterans provides us with a nationwide AMC which allows us to provide appraisal services to our customers throughout the United States. This also adds additional capability for the Company to provide traditional appraisal services for our customers. During 2017, the Company reorganized to rename Valued Veterans to Clarocity Valuation Services and moved forward with rebranding of its valuation services.

The Company's operational capability in the United States, now offers a comprehensive range of detailed, accurate valuation products in all 50 states through a large national network of real estate agents and appraisers. These products include the BPO Lite, BPO Pro, and BPO Merge and the MVPPro product suite. Valuation Vision has a well-established customer base of government agencies, banks, asset managers, private equity firms, and national mortgage services firms.

With the success of the Valuation Vision's suite of innovative products and services, the Company has launched its Platform as a Service or "PaaS" offering that will allow government agencies, lenders, valuation providers and asset managers to produce Valuation Vision's proprietary products on a per click fee basis.

As of the date of this report, the Company has 246 million common shares outstanding and \$5,000 in convertible debt and \$11,700 in non-convertible debenture debt. None of the outstanding shares are convertible into, or exercisable, or exchangeable for, other voting or other equity securities of the Company. Clarocity has 9.8 million stock options and 45 million warrants outstanding each exercisable for one common share.

Acquisition of the business of Valuation Vision LLC

On May 29, 2015, Clarocity closed the acquisition of Valuation Vision, as noted above, through consideration of cash and share consideration and assumption of liabilities. The consideration paid for the assets was finalized in two tranches with a deposit being made on December 15, 2014 that included a cash deposit of \$764,875 together with 5,333,333 Clarocity common shares, valued at closing of the transaction at \$0.28 per share, being \$1,493,333. The second tranche occurred at close on May 29, 2015 where additional consideration consisting of amounts payable of \$167,899 was paid and 8,000,000 common shares were issued at a per share value of \$0.28 amounting to \$2,240,000. The shares provided were valued at the price in effect at the date Clarocity acquired control (\$0.28 per share). In addition, the Company assumed related party liabilities totaling \$2,317,403 resulting in total consideration paid of \$6,983,511. Subsequent to the Valuation Vision transaction closing on May 29, 2015, the results of Valuation Vision have been consolidated into Clarocity results.

The assumption of liabilities includes the US\$1,750,000 (plus accrued interest) debt owed to Clarocity by Valuation Vision. These loans provided to Valuation Vision allowed the entity to attract and secure new major national customers and to invest in, and grow, the business. These customer relationships are expected to enhance the Company's attractiveness to other leaders in the market to allow Clarocity to continue its growth profile. These loans also allowed the company to build the necessary infrastructure to facilitate the onboarding of such large, key customers.

Acquisition of the business of Valued Veterans LLC

On November 4, 2016, Clarocity closed the acquisition of Valued Veterans, as noted above. The consideration paid for the assets included USD\$750,000 of non-interest bearing notes payable to the vendors, which have been subsequently repaid, together with 8,463,377 Clarocity common shares, valued at closing of the transaction at \$0.105 per share, being \$1,703,847. Subsequent to the closing on November 4, 2016, the results of Valued Veterans (subsequently renamed to CVS) have been consolidated into Clarocity results.

Acquisition of intellectual property assets

On May 11, 2017, Clarocity closed the acquisition of some intellectual property assets including regression analysis and data analytics projects and related software. The consideration paid for the assets included USD\$100,000 of non-interest bearing notes payable to the vendors, due March 31, 2018, together with 11,520,000 Clarocity common shares, valued at closing of the transaction at \$0.175 per share, being \$2,150. The transaction was deemed to be an acquisition of assets and the purchase price was allocated to intangible assets.

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Summary results of operations

| (CAD \$000's) | 2016 | | | | | 2017 | | | | |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | YTD |
| Revenue | 1,790 | 1,250 | 938 | 2,326 | 6,304 | 3,231 | 3,639 | 2,794 | 3,586 | 13,250 |
| Cost of Sales | 982 | 671 | 533 | 1,623 | 3,808 | 2,233 | 2,260 | 1,902 | 2,521 | 8,916 |
| Gross Margin | 808 | 580 | 406 | 702 | 2,496 | 998 | 1,379 | 892 | 1,065 | 4,334 |
| Expenses | | | | | | | | | | |
| Selling, general and administrative | 1,782 | 1,854 | 2,141 | 2,320 | 8,097 | 2,008 | 2,540 | 2,410 | 3,254 | 10,212 |
| Platform/product development | 388 | 378 | 346 | 466 | 1,577 | 495 | 589 | 580 | 628 | 2,292 |
| Finance costs | 338 | 360 | 492 | 1,156 | 2,345 | 921 | 1,681 | 1,516 | 1,826 | 5,944 |
| Foreign exchange | 172 | 5 | (58) | (98) | 20 | 35 | 252 | 383 | (1) | 669 |
| Other expense | 247 | 13 | - | 34 | 294 | - | 3 | - | - | 3 |
| Loss before income tax | (2,120) | (2,031) | (2,514) | (3,175) | (9,839) | (2,461) | (3,686) | (3,997) | (4,642) | (14,786) |
| Deferred tax recovery | | | | (351) | (351) | | | | (255) | (255) |
| Net loss for the period | | | | (2,824) | (9,488) | | | | (4,387) | (14,531) |

Comparison of results of operations in the year ended December 31, 2017 and 2016

Revenue

Revenue is comprised of sales of valuation services and products along with revenue from Platform as a Service ("PaaS"). Revenues increased in 2017 over 2016 due to the acquisition of Valued Veterans and the addition of appraisal revenue from customers acquired. The decrease in revenue between Q2 and Q3 was due to: 1) effect of a weaker US dollar as all revenues are earned in USD and the financial statements are reported in Canadian Dollars; 2) timing of some bulk orders which were expected in Q3 but were completed in Q4; and 3) seasonally slower summer period.

Cost of Sales

Cost of sales is comprised of vendor costs incurred in providing valuation services. The vendors are a network of real estate agents and appraisers who are engaged to produce information for valuation reports. Depending on the product ordered, the vendor costs may be represented by one or more vendors being required. Vendor costs vary depending on the product ordered and other details pertaining to the specifics of each undertaking. Cost of sales as a % of revenue increased in 2017 over 2016 due to the change in the mix of revenues. Cost of sales for traditional appraisals, such as those performed by Valued Veterans is typically higher than the cost of sales for non-traditional valuation services. With the addition of more traditional appraisal services through the Valued Veterans acquisition, cost of sales as a percentage of revenue has increased from 60% for the YTD 2016 to 68% in YTD 2017. Cost of sales in Q3 have increased from Q2 as a result of a changing mix of products. The Company is continuing to focus on the relationship between vendor costs and revenues, working to optimize the margins achieved.

Gross Margin Analysis

The Company has focused on improving its gross margins by ensuring the best match of the appropriate vendors to the product being requested. This involves ensuring tight management of rural and urban projects and ensuring that proper revenues are attained for the type of project undertaken.

Selling, General and Administration Expenses

Selling, General and Administrative expense ("SG&A") has increased with the growth of the Company over the last two years, including the acquisition of Valuation Vision and Valued Veterans.

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| (CAD \$000's) | 2016 | | | | | 2017 | | | | |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | YTD |
| Wages, benefits and consulting | 761 | 732 | 701 | 993 | 3,188 | 996 | 1,204 | 1,106 | 1,407 | 4,713 |
| Other | 114 | 53 | 159 | 210 | 536 | 111 | 171 | 138 | 259 | 679 |
| Public company | 49 | 73 | 46 | 43 | 211 | 53 | 137 | 107 | 116 | 413 |
| Office costs | 119 | 159 | 104 | 29 | 411 | 123 | 145 | 124 | 137 | 529 |
| Insurance | 25 | 25 | 18 | 66 | 134 | 33 | 37 | 34 | 39 | 143 |
| Share based payments | 257 | 235 | 55 | 164 | 710 | 196 | 173 | 173 | 478 | 1,020 |
| Professional fees | 181 | 313 | 798 | 492 | 1,784 | 153 | 252 | 302 | 392 | 1,099 |
| Depreciation of equipment | 28 | 31 | 24 | 32 | 115 | 28 | 30 | 28 | 23 | 109 |
| Amortization of intangible assets | 248 | 233 | 236 | 292 | 1,009 | 315 | 391 | 398 | 403 | 1,507 |
| | 1,782 | 1,854 | 2,141 | 2,321 | 8,098 | 2,008 | 2,540 | 2,410 | 3,254 | 10,212 |

The major component of SG&A expenses related to wages, benefits and consulting costs. These costs have increased through 2017 as a result of building the Company's capabilities in order to manage anticipated growth. In addition, these costs have grown relative to 2016 due to the addition of Valued Veterans. This is partially offset by a reduction in corporate wages and benefits in Calgary.

Other costs such as travel, and promotion costs are relatively consistent throughout the period.

Public company costs relating primarily to TSXV fees, investor relations and Computershare trustee expenses have increased in 2017 as a result of financing activities and the establishment of an over the counter listing in the US.

Office costs include lease and operating costs for the Company's offices. Office expenditures were consistent between 2016 and 2017. Increased costs associated with the Valued Veterans acquisition were offset by a reduction resulting from the closing of the Calgary office.

Share based payments reflect total stock-based compensation which is made up of costs related to stock options and restricted stock units. Stock option expense includes the value of the initial vesting of options granted during the period plus the amortization through the vesting period for stock option previously granted. There have been no new RSU's granted in 2017.

Professional fees include legal, accounting, audit and other professional fees for the consolidated Clarocity operations. Fees were lower in 2017 than 2016 due to reduced legal activity. The increase in Q3 2017 over Q1 and Q2 is due to increased activities related to financing activities and corporate restructuring.

Amortization of intangible assets primarily relates to the assets added through the acquisition of the Company's subsidiaries. As a result, expense levels have increased in 2017 over 2016 as a result of the Valued Veterans acquisition.

Platform and Product Development Costs

| (CAD \$000's) | 2016 | | | | | 2017 | | | | |
|-----------------------------------|------|-----|-----|-----|-------|------|-----|-----|-----|-------|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | YTD |
| Information and service providers | 245 | 246 | 210 | 286 | 987 | 298 | 287 | 285 | 292 | 1,162 |
| Development remuneration | 143 | 132 | 136 | 180 | 591 | 197 | 302 | 295 | 336 | 1,130 |
| | 388 | 378 | 346 | 466 | 1,578 | 495 | 589 | 580 | 628 | 2,292 |

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Types of expenditures included in this category relate to access to national property data bases, internet search capabilities, MLS information, county, state and federal tax rolls, etc. These costs are important as they form the base of the valuation services provided. The increase in 2017 over 2016 is due to the addition of Valued Veterans.

Development remuneration includes both staff and contract developers. The increase in 2017 over 2016 is as a result of added development staff at Valuation Vision.

Finance Costs

Finance costs have increased in 2017 primarily due to the additional debenture financing. This resulted in both an increase in interest paid plus the accretion of the equity discount associated with the financing. In addition, the Company incurred significant costs for professional fees and advisory services directly related to obtaining the financing.

Foreign Exchange

The functional and presentation currency of Clarocity is the Canadian dollar ("CDN"). Transactions occurring in currencies other than the CDN give rise to foreign exchange gains and losses. The Company incurs several expenditures denominated in United States dollars ("USD") resulting in exposure to USD payables. Offsetting this exposure is an intercompany operating loan due from Valuation Vision denominated in USD. Although the loan is eliminated on consolidation, the exchange difference caused by measuring the loan to CDN in Clarocity's functional currency results in a foreign exchange gain or loss.

Revenue and expenses of the Company's wholly owned subsidiaries, Valuation Vision and Valued Veterans, are denominated in USD and translated into Canadian dollars for financial reporting, therefore fluctuations in the USD to CDN exchange rate can cause fluctuations in assets, liabilities, revenues and expenses of Valuation Visions. However, any exchange gains and losses resulting on translation of Valuation Vision and Valued Veterans to the CDN presentation currency of the Company is recognized in Other Comprehensive Income and does not impact net loss.

Other Expense

There was no significant Other Expense recognized in 2017.

Selected Quarterly Financial information

A summary of results for the last eight quarters follows.

| (CAD \$000's) | 2016 | | | | 2017 | | | |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Revenue | 1,790 | 1,250 | 938 | 2,326 | 3,231 | 3,639 | 2,794 | 3,586 |
| Net (loss) | (2,119) | (2,031) | (2,516) | (2,822) | (2,461) | (3,686) | (3,997) | (4,387) |
| (Loss) per share | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) | (0.02) | (0.02) | (0.06) |

Financial Instruments

In 2011, the Company closed a private placement of secured redeemable convertible debentures totaling \$5.036 million. This private placement of debentures replaced \$800 in debentures including accrued interest the Company had issued in 2010 and bridge-loan financing of \$310 including accrued interest received in the first nine months of 2011 resulting in new gross proceeds of \$4.0 million. In 2013, the Company closed a private placement of secured redeemable convertible debentures totaling \$3.498 million.

Effective July 31, 2015 the Company issued common shares in accordance with provisions of the Convertible Debentures of Clarocity pursuant to the Trust Indenture dated May 9, 2013, as amended. The Common Shares were issued in accordance with the provisions of the Indenture that provided holders electing early redemption were entitled to a "Make Whole Amount". An aggregate of \$607 principal amount of debentures were converted resulting in 307,116 Common Shares being issued for the Make Whole Amount at a deemed price of \$0.28 per share. As part of the transaction, debenture holders electing to convert their debentures and receive the Make Whole Amount were required to exercise the related warrants. Total funds received by the Company from this exercise amounted \$759 and total Common Shares issued in exchange for the extinguished debentures together with the Make Whole Amount was 10,423,786.

On June 15, 2016 Clarocity announced that a group of holders of 10% secured, redeemable convertible debentures (the "Debentures") commenced legal proceedings against Clarocity in the Court of Queen's Bench of Alberta (the "Court") disputing the results of the May 25, 2016 meeting of the holders of Debentures. The Court decided that the convertible debentures will not be automatically converted, leaving the rights and obligations associated with the debentures unchanged.

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The remaining debentures matured on May 9, 2017. Of the total \$4,443 remaining, \$1,582 were converted under the terms of the indenture and \$2,861 were redeemed.

The Company has raised additional financing during 2016 and 2017 through a series of convertible and non-convertible debentures. To date, gross proceeds from these financings totaled \$17,400. As these debentures are compound financial instruments, the gross proceeds, net of financing costs, were allocated between the liability and the equity components on initial recognition.

Operating cash flows

During the year ended December 31, 2017, the Company used cash of \$6,329 in operating activities compared to using cash of \$6,135 in the comparative period. The cash used in operations is a result of the continuing development of both the Company's platform and the market for its business as the Company continues to invest in building its capabilities.

Financing cash flows

During the year ended December 31, 2017, the Company generated cash of \$6,519 from financing activities compared to generating \$6,767 in the comparative period.

The Company issued non-convertible debentures, resulting in gross proceeds during 2017 of \$6,420 million. The debentures accrue interest at an annual rate of 15%, reducing to 12% after the convertible debentures were retired on May 9, 2017. Each subscriber received 2.444 common share purchase warrants for every \$1.00 of principal amount of Debenture, with each warrant entitling the holder to purchase one common share. The debentures will mature on three years after the date of issuance. The warrants are exercisable for 36 months from the date of issuance at \$0.135 per share.

The Company issued \$5,000 million of convertible debentures in 2017. Clarocity paid a standby fee of 7% of the standby amount to StableView upon drawdown of the facility, satisfied by way of promissory notes. The Maturity Date is three months from the Advance Date, which has been extended by four months and may be extended at the option of the Lenders for a further five months (total one year). The Company pays interest in the amount of 2% per month, calculated and payable monthly in cash in arrears or at the option of the Lenders Representative in common shares issued at Discounted Market Price. The principal amount outstanding of the Standby Facility shall be convertible at the option of the Lender Representative at the lesser of Market Price (as defined in TSXV policies) and \$0.11.

During 2017, warrants were exercised for proceeds of \$104.

Investing Cash Flows

During the year ended December 31, 2017 the Company's only investing activities related to minor fixed asset acquisitions.

Critical Accounting Estimates

General

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenues and expenses, in cases where they are not readily ascertainable from other sources. Actual amounts may differ from these estimates under different assumptions or conditions. Our significant accounting policies are fully described in Note 4 to our annual consolidated financial statements that are available on SEDAR (www.sedar.com).

The preparation of financial statements requires management to make estimates and assumptions that affect the results of operations and financial position. By their nature, these judgments are subject to an inherent degree of uncertainty and are based on historical experience, trends in the industry and information available from outside sources. Management reviews these estimates on an ongoing basis. Different accounting policies, or changes to estimates or assumptions could potentially have a material effect, positive or negative, on Clarocity's financial position and results of operations. Actual results could differ from those reported.

Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. We believe that there have been no significant changes in our critical accounting estimates for the years presented in our consolidated financial statements.

Critical accounting estimates and judgments

The significant accounting policies used in the preparation of the financial statements are described below.

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1. Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using period-end exchange rates. Generally, foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in a currency other than the functional currency are recognized in the income statement.

2. Cash and cash equivalents

Cash and cash equivalents include cash on hand and other short-term highly liquid investments with original maturities of less than three months.

3. Consolidation

The Company consolidates the financial statements of Valuation Vision and CVS (formerly Valued Veterans) in their financial statements starting on the date of their acquisition. Control was achieved over Valuation Vision on May 29, 2015 when the Company finalized its acquisition of 100% of Valuation Vision. The acquisition of Valued Veterans closed on November 4, 2016.

These consolidated financial statements include the accounts of Clarocity and its subsidiaries. All inter-entity transactions and balances have been eliminated upon consolidation. Subsidiaries are fully consolidated from the date of acquisition, being the date on which Clarocity obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the rights to benefits from its involvement with the investee begins and when Clarocity has the ability to affect those returns through its power over the investee. Specifically, Clarocity controls its subsidiaries as the Company has all of the following via its 100% ownership:

- Power over the investee giving it the rights to direct the relevant activities of the investee
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The financial statements of the subsidiaries are prepared for the same reporting period as Clarocity, using consistent accounting policies.

The results of operations of Valuation Vision are included in the consolidated financial statements from the date that control commenced on May 29, 2015. The results of operations of Valued Veterans are included in the consolidated financial statements from the date the acquisition transaction closed, on November 4, 2016. Where necessary, adjustments are made to the financial statements of Valuation Vision and CVS to conform their accounting policies with Clarocity's. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

On acquisition, the identifiable assets, liabilities and contingent liabilities of each of the subsidiaries were measured at their fair values at the date of acquisition.

4. Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition including any contingent consideration is measured as the aggregate of the consideration transferred at acquisition date fair value. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the consideration transferred below the fair value of the net assets acquired is recorded as a gain in net income. Associated transaction costs are expensed when incurred. Contingent consideration classified as a financial asset or liability is measured at fair value, with changes in fair value recorded in net income.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of CGUs that are expected to benefit from the combination. Goodwill is carried at cost less impairment and is not amortized.

Goodwill is assessed for impairment annually at year-end or more frequently if events occur that indicate possible impairment. The recoverable amount is determined by calculating the recoverable amount of the group of CGUs that goodwill has been allocated to.

The excess of the carrying value of goodwill over the recoverable amount is then recognized as impairment and charged to net income in the period in which it occurs. An impairment loss in respect of goodwill is not reversed.

5. Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities

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are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

a) Non-derivative financial instruments

Non-derivative financial instruments comprise cash, other receivables, loan receivable, loans payable, convertible debentures, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

- i. Financial assets at fair value through profit or loss: cash is classified as held-for-trading. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. The financial instruments are measured at fair value, and changes therein are recognized in profit or loss.
- ii. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables currently comprise accounts receivable which are measured at amortized cost using the effective interest method less any provision for impairment.
- iii. Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, notes payable, convertible debentures, and non-convertible debentures. Financial liabilities are initially recognized at the amount required to be paid, plus directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

b) Derivative financial instruments

Derivative financial instruments comprise the accrual for restricted share units. Derivative financial instruments are recognized initially and subsequently at fair value.

The Company may enter into certain financial derivative contracts in order to manage the exposure to risks from fluctuations in foreign currencies. The Company currently does not hold any foreign currency contracts.

c) Compound financial instruments

Convertible debentures issued by the Company can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of compound financial instruments is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component, if any, is recognized initially as the difference between the face value of the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of compound financial instruments is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not measured again subsequent to initial recognition. Interest, losses and gains relating to financial liabilities are recognized in profit or loss.

Upon conversion, the common shares and warrants issued are measured at the carrying value of the related convertible debenture liability and equity components.

6. Equipment, furniture and leasehold improvements

Computer equipment, furniture and leasehold improvements are recorded at cost less accumulated depreciation and impairment. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The Company provides for depreciation using the declining balance method at 30% for equipment and 20% for furniture to depreciate the cost of the assets over their estimated useful life. Leasehold improvements are depreciated over the term of the lease.

7. Intangible assets

Intangible assets, comprised of patents, customer relationships, trade names and technology, are recorded at cost less accumulated amortization and impairment. Amortization is recognized on a straight-line basis over their estimated useful lives. The Company provides for amortization of patents over their useful lives and software over 5 years. The estimated useful life and amortization method are reviewed at the end of each financial year, with the effect of any changes in estimate being accounted for on a prospective basis.

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8. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

9. Income tax

Income tax expense comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case, the income tax is also recognized in equity. Current tax charge is calculated on the basis of expected taxable income for the year using the tax laws enacted or substantively enacted at the balance sheet date. In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

10. Revenue

The Company recognizes revenue when the amount of revenue can be reliably measured, when collectability is reasonably assured, and when probable future economic benefits will flow to the entity. Revenue is recognized at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of any sales-related taxes.

Capital Resources

As noted above, the Company has insufficient capital resources to execute its business plan. The Company's ability to continue as a going concern and to continue the pursuit of its objectives is contingent upon obtaining additional sources of financing to fund its operations and to meet its obligations on a timely basis, the continued forbearance of its creditors, and ultimately achieving positive cash flows from operations.

During 2017, the Company has raised an additional \$10.2 million to fund operations and to pay out maturing convertible debentures.

During 2017, the Company has worked to improve the overall capitalization structure. To that end, it has achieved reductions in conversion rights, RSU's and warrants. On September 12, 2017, warrant holders approved extraordinary resolutions relating to 52,757,045 warrants to amend the warrants to: (a) reduce the exercise price to \$0.132; (b) reduce the exercise period to 30 days; (c) add the right to put the warrants to the Company in consideration of \$0.0125 per warrant; and (d) automatically exercise the put immediately prior to expiry. On October 12, 2017, the warrants expired and, subject to the approval of the stock exchange, the Company will issue shares in satisfaction of the \$0.0125 per warrant noted above.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements, other than operating leases.

Related Party Transactions

The key management personnel of the Company are the members of the Company's executive management team at the Company's operating segments and head office and the directors of the company. The Company reimbursed a lender for legal services provided to the lender by a firm of which a director is a partner.

| | December 31, 2017 | December 31, 2016 |
|----------------------------------|-------------------|-------------------|
| Salaries and employee benefits | \$1,303 | \$1,104 |
| Share-based compensation | 483 | 519 |
| Severance | - | 243 |
| Disbursements for legal services | 384 | 291 |
| Total | \$2,170 | \$2,157 |

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There were no significant post-employment benefits or other long-term benefits attributed to the key management personnel in 2017.

In May 2017, the Company acquired intellectual property assets for \$2,150. One of the vendors is a senior vice president of the Company. As a result of the transaction, 50% of the shares and notes issued as consideration for the acquisition were with a related party.

An officer of the Company holds \$100 of the Standby Facility convertible debentures.

StableView Asset Management ("StableView") has arranged and provided financing for the Company during the past two years.

As of December 31, 2017, StableView has control or direction over 14% of common shares, substantially all of the non-convertible debentures and holds 36.3 million warrants.

During the period, the Company paid or accrued the following amounts to StableView or its managed accounts (settled in common shares or debentures in some cases):

| | December 31, 2017 | December 31, 2016 |
|---------------------------------------|-------------------|-------------------|
| Financing facility and administration | \$214 | \$599 |
| Placement fees | - | 5 |
| Reimbursements | 6 | - |
| Financial advisory fees | 1,024 | 150 |
| Standby facility fee and waiver fee | 1,380 | - |
| Standby facility drawdown fee | 1,220 | 350 |
| Interest | 2,382 | 527 |
| Total | \$6,226 | \$1,630 |

Recasting

During 2017, management determined that a deferred tax liability had not been recorded on the temporary difference arising on the equity portion of the convertible and non-convertible debentures issued since 2010. This matter has been corrected by adjusting the January 1, 2016 opening balances within the Consolidated Statement of Changes in Equity. The adjustments affect Share Capital, Warrants, Contributed Surplus and the Equity of Component Debentures in the amounts of \$267, \$195, \$172, and \$480 respectively and are offset against the Deficit to reflect amounts arising prior to January 1, 2016. Additionally, a deferred tax recovery amount of \$351 has been recognized in 2016 with an offset to Warrants. This recast did not result in any changes to EPS.

Subsequent Events

- On February 14, 2018, the Company announced the closing of \$300 under the Bridge Facility in exchange for issuance of \$330 of debentures and 900,000 share purchase warrants exercisable at \$0.10 per share.
- On March 9, 2018, the Company issued 6,594,636 shares to former warrant holders to satisfy \$659 payable as a result of early termination of the warrants.

Outstanding Share Data

At December 31, 2017, the Company has 253,983,679 common shares and no preferred shares outstanding. The Company has options, warrants and convertible debentures outstanding, which if exercised or converted would result in an additional 146,311,100 shares outstanding.

To the annual financial statements, the number of warrants outstanding has reduced by 52,757,045 as a result of the expiry of the warrants described in Note 11(e)(ii).

Business Risks and Uncertainties

A number of risks and uncertainties affect Clarocity's operations. Although Clarocity can take actions to mitigate some of these risks, many are beyond the Company's control. The risks discussed in this section are not an exhaustive list of all possible

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risks. As an early stage business, Clarocity is subject to all risks inherent in such companies. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of our securities to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

We require the ability to generate or raise sufficient cash to fund operations or current losses

As we are in the early stages of our company growth, our operations are cash flow negative and we have built up liabilities that will need to be addressed in order to continue our growth. We will require financing in the short term to be able to discharge our responsibilities, to repay our liabilities, to provide capital for growth and to fund on-going operations. There is no guarantee that we will be able to raise the required funds to be able to capitalize on our business plan and if this financing is not available the Company would be required to curtail, reduce or eliminate services and products and this would jeopardize our viability.

We cannot assure you that we will achieve profitability in the future. If we do not generate profits our share price may decline.

As we continue to grow our business, our operating expenses and capital expenditures may increase, and/or our revenues will not grow and as a result, we may not attain profitability. If our revenues do not grow our business can be negatively impacted because many of our expenses are fixed in the short term and cannot be easily or quickly reduced. A failure to reach profitable operations could materially and adversely affect our business.

We may be required to recognize impairment of the carrying value of assets in the future

We periodically review the estimated value of acquired intangibles and goodwill to determine whether any impairment exists and we could write-down a portion of our intangible assets and goodwill as part of any such future review, which occurs when impairment indicators exist or, in the case of goodwill, at least once annually. We occasionally review opportunities to reorganize operations, and may record restructuring charges in connection with any such reorganization. Any write-down of intangible assets or goodwill or restructuring charges in the future could affect our results of operations materially and adversely and as a result our share price may decline.

Our quarterly revenues and operating results may fluctuate.

Factors which may cause our revenues and operating results to fluctuate include:

- the demand for our software products and the market conditions for technology spending;
- patterns of capital spending and changes in budgeting cycles by our customers;
- our ability to acquire or develop (independently or through strategic relationships with third parties), to introduce and to market new and enhanced versions of our software products on a timely basis;
- the number, timing and significance of new software product announcements and releases by us or our competitors;
- the level of software product and price competition;
- the geographical mix of our sales, together with fluctuations in foreign currency exchange rates;
- market acceptance of new and enhanced versions of our software products;
- changes in personnel and related costs;
- the amount and timing of operating costs and capital expenditures relating to the expansion of our business;
- changes in the pricing and the mix of software solutions that we sell and that our customers demand;
- seasonal variations in our sales cycles; and

In addition, potential new customer related revenue may fluctuate significantly on a quarterly and annual basis in the future, as a result of a number of factors, many of which are outside of our control. Attracting new customers requires them to make decisions on selecting from different providers that is a significant decision process that is not made quickly or without significant due diligence.

Demand for our software solutions may fluctuate with market conditions that may impact potential profitability in the future.

We depend upon the market demand put upon our customers. World and regional economic conditions have, in the past, adversely affected software product and support revenue. If economic or other conditions reduce our customers' demand, our business, results of operations and financial condition may be adversely affected. In addition, the use of our software solutions requires our customers to remain loyal and satisfied with the product delivery and valuation outcomes compared to other competitors or from outside providers. Challenging economic conditions may also impair the ability of our customers to pay for software solutions.

We face competition from other software solutions providers, which may reduce our market share or limit the prices we can charge for our software solutions.

We face competition from a large number of competitors ranging in size from small private companies to the large enterprise vendors. As a result, in certain market segments, competition can be intense, and pricing pressure may exist. To maintain and improve our competitive position, we must continue to develop and to introduce, in a timely and cost-effective manner, new software solutions. In addition, we expect that a substantial portion of our revenue will continue to be derived from key large

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customers and we need to ensure they remain entirely satisfied with our product offerings and the accuracy and timelines of our valuations. Increased competition could reduce the need for our services, as customers could decide to replace our software applications with a competitor's applications. Additional competition may arise as other companies enter the market and as new products and technologies are introduced. Further risks exist if the industry trends toward consolidation. Accordingly, it is possible that new competitors or alliances among current and new competitors may emerge and rapidly gain significant market share.

Some of our competitors and potential competitors have greater financial, technical, marketing, and other resources and a larger base of customers than we do. Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or may devote greater resources to the development, promotion, and sale of their products than we do. Many competitive factors affect the market for our products and our ability to earn revenue.

If we cannot attract and retain qualified personnel and software developers, we may not be able to sell and to support our existing products or to develop new products.

We depend on key technical, sales, and senior management personnel. Many of these individuals would be difficult to replace if they were to leave our employment. In addition, our success is highly dependent on our continuing ability to identify, hire, train, assimilate, motivate, and retain highly qualified personnel. Periodically, competition for qualified employees is intense in the technology industry, and we have in the past experienced difficulty recruiting qualified employees. Our failure to attract and to retain the necessary qualified personnel could seriously harm our operating results and financial condition.

Our future growth depends, in part, upon our ability to develop new products and to improve existing software products. Our ability to develop new software solutions and to enhance our existing software solutions will depend, in part, on our ability to recruit and to retain top quality personnel. If we are unable to hire and to retain sufficient numbers of qualified personnel, we may not be able to develop new software solutions or to improve our existing software solutions in the time frame necessary to execute our business plan.

Several members of our senior management team are important to our business and if these individuals do not remain with us in the future it may have a negative impact on our financial condition and results of operations.

Our future success depends on the continued efforts and abilities of our senior management team. Their skills, experience and industry contacts significantly benefit us. Although we have employment and non-competition agreements with members of our senior management team we cannot assure you that they or our other key employees will all choose to remain employed by us. If we lose the services of one or more of these individuals, or if one or more of them decide to join a competitor or otherwise compete directly or indirectly with us, our business, operating results, and financial condition could be harmed. We do not maintain key man life insurance on any of our employees.

We may experience customer attrition, which could affect our revenues more adversely than we expect, and we may be unable to adapt quickly to such attrition. Any significant reduction in revenues as a result of such attrition may have a material adverse effect on our business, results of operations or financial condition.

We expect that a substantial portion of our revenue will continue to be derived from key large customers and although we believe we have strong customer loyalty due to our strong product base attrition in our customer base may occur if existing customers elect to cease purchasing products from us. Customer attrition occurs for a variety of reasons, including a customer's decision to replace our product with that of a competing vendor. It can also occur when a customer is acquired or ceases operations. In this event, it could be difficult to replace the revenue lost through attrition with new revenue from other customers or product offerings. However, any factors that adversely affect the ability of our software products to compete with those available from others, such as availability of competitors' products offering more advanced product architecture, superior functionality or performance or lower prices, or intensifying price competition, could lead to increased rates of customer attrition.

Currency exchange rate fluctuations and other risks associated with our international operations may adversely affect our operating results.

We are subject to risks of doing business in the United States, including fluctuations in currency exchange rates, increases in duty rates, difficulties in obtaining export licenses and potential difficulties in the enforcement of intellectual property rights. We currently do not typically use derivative instruments to mitigate our exposure to those risks. Although a large part of our expenses are incurred in the same currency as our revenues thus mitigating some of our exposure to currency fluctuations, we are still subject to foreign currency risk as our current reporting currency is the Canadian dollar. We may choose to enter into forward foreign exchange contracts in the future with the objective of mitigating volatility in profit or loss but there is no assurance that these hedging strategies will be effective.

Revenues and expenses generated in foreign currencies are translated at exchange rates during the month in which the transaction occurs. We cannot predict the effect of foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition.

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The market price of the Common Shares will fluctuate.

The market price of the Common Shares will fluctuate due to a number of factors, including:

- actual or anticipated changes in our results of operations;
- changes in estimates of our future results of operations by management or securities analysts;
- announcements of technological innovations or new software products by us or our competitors;
- general industry changes; or
- potential acquisitions or divestitures.

In addition, the financial markets have experienced significant price and value fluctuations that have particularly affected the market prices of equity securities of many technology companies and that sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally and in the software industry specifically, may adversely affect the market price of the Common Shares.

Sales of substantial amounts of Common Shares by our existing shareholders, or the perception that these sales will occur, may cause the market price of the Common Shares to fall.

No limit on indebtedness

The existing debenture indentures do not limit the ability of the Company to incur additional debt or liabilities (including senior indebtedness). The debentures have various maturity dates with some just over one year in term remaining. In order to extinguish any debentures, the Company will be required to obtain financing with one potential form being additional debt or debenture offerings. Any new debt or debentures could have terms that could increase the interest payable by the Company from time-to-time until such amounts are repaid, which will represent an increase in the Company's cost and a potential reduction in the Company's income. In addition, the Company may need to find additional sources of financing to repay these amounts when they become due. There can be no guarantee that the Company will be able to obtain financing on terms acceptable to it or at all at any such time.

We may in the future become, subject to civil litigation, which if decided against us, could require us to pay judgments, settlements or other penalties and could potentially result in the dilution of our Common Shares.

In addition to being subject to litigation in the ordinary course of business, we may become subject to class actions, securities litigation or other actions, including anti-trust and anti-competitive actions.

Any litigation may be time consuming, expensive and distracting from the conduct of our daily business. The adverse resolution of any specific lawsuit could have a material adverse effect on our financial condition and liquidity.

In addition, the resolution of those matters may require us to issue additional Common Shares, which could potentially result in the dilution of our Common Shares. Expenses incurred in connection with these matters (which include fees of lawyers and other professional advisors and potential obligations to indemnify officers and directors who may be parties to such actions) could adversely affect our cash position.

Periodic technological advances characterize technology products, and we must improve our products to remain competitive.

Periodic technological change and associated new product introductions and enhancements characterize our industry. Our current and potential customers increasingly require more sophisticated product offerings. In addition, the life cycles of many of our products are difficult to estimate. We cannot estimate the decline in demand from our customers for existing products and whether new and improved products may become available. Accordingly, we believe that our future success depends upon our ability to enhance current products and to develop and to introduce new products offering enhanced performance at competitive prices in a timely manner. Our failure to develop and to introduce or to enhance products in a timely manner could have a material adverse effect on our business, results of operations, and financial condition.

We may be unable to respond on a timely basis to the changing needs of our customer base and the new applications we design for our customers may prove to be ineffective. Our ability to compete successfully will depend in large measure on our ability to bring to market effective new products or services and to adapt to technological changes and advances in the industry. Competitive or technological developments and new regulatory requirements may require us to make substantial, unanticipated investments in new products and technologies, and we may not have sufficient resources to make these investments. If we were required to expend substantial resources to respond to specific technological or product changes, our operating results would be adversely affected.

We may have exposure to unforeseen tax liabilities.

We are subject to federal and state taxes as well as non-income based taxes, in Canada and the United States and our tax structure is subject to review by numerous taxation authorities. Significant judgment is required in determining our provision for income taxes and other tax liabilities. There are many intercompany transactions and calculations where the ultimate tax



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determination is uncertain. Although we strive to ensure that our tax estimates are reasonable, we cannot assure you that the final determination of any tax audits and litigation will not be different from what is reflected in our historical income tax provisions and accruals, and any such differences may materially affect our operating results for the affected period or periods.

We also have exposure to additional non-income tax liabilities. We are subject to non-income taxes, such as payroll, sales, use, property and goods and services taxes, in Canada and the United States.

Additional Information

Additional information relating to Clarocity Corporation is available on SEDAR at www.sedar.com. To obtain copies of published corporate information, visit our website at www.Clarocity.com.