Nerds on Site Inc.

Condensed interim financial statements

For the three months ended August 31, 2018 and 2017

(Unaudited - expressed in Canadian Dollars)

NERDS ON SITE INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED AUGUST 31, 2018 AND 2017

(Unaudited - Amounts expressed in Canadian Dollars)

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Condensed interim statements of financial position as at August 31, 2018 and May 31, 2018
(Unaudited – expressed in Canadian dollars)

	August 31, 2018 (unaudited)	May 31, 2018 (audited)
ASSETS		
CURRENT		
Cash	$ 1,017,910	$ 1,336,340
Restricted cash	2,286	2,286
Accounts receivable (net of allowances) (Note 4)	139,423	125,982
Inventory	89,180	72,435
Prepaid expenses and other current assets	72,180	89,891
	1,320,979	1,626,934
NON-CURRENT		
Due from related parties (Note 9)	2,457,508	2,399,885
Deferred financing costs	269,183	167,167
Intangible assets (Note 14)	79,493	81,531
Property and equipment (Note 5)	44,467	48,386
	2,850,651	2,696,969
TOTAL ASSETS	**$ 4,171,630**	**$ 4,323,903**
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 13)	$ 1,117,278	$ 1,015,888
Deferred revenue	387,504	268,430
Bank debt (Note 6)	245,602	273,312
Preferred shares (Note 8)	470,100	470,100
Dividend payable	69,479	60,417
Convertible debentures, net of issuance costs (Note 11)	2,737,244	2,557,844
Derivative liability (Note 11)	328,764	390,319
Current portion of loans and capital leases payable (Note 7)	342,982	343,164
	5,698,953	5,379,474
NON-CURRENT		
Non-current portion of loans and capital leases payable (Note 7)	118,154	141,158
Due to a related party (Note 9)	-	89,750
	118,154	230,908
TOTAL LIABILITIES	5,817,107	5,610,382
SHAREHOLDERS' DEFICIENCY		
Common stock (Note 8)	8,800	8,800
Reserve for warrants (Note 11)	72,664	72,664
Contributed surplus	406,351	406,351
Accumulated deficit	(2,133,292)	(1,774,294)
TOTAL SHAREHOLDERS' DEFICIENCY	(1,645,477)	(1,286,479)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	**$ 4,171,630**	**$ 4,323,903**

Basis of presentation and accounting pronouncements (Note 2)
Commitment and contingencies (Note 10)

Approved on behalf of the Board

<Eugene Konarev>

Signed: Director

<David Redekop>

Signed: Director

The accompanying notes are an integral part of these condensed interim financial statements.

Nerds on Site Inc.

Condensed interim statements of loss and comprehensive loss
For the three months ended August 31, 2018 and 2017
(Unaudited – expressed in Canadian dollars)

	2018	2017
Revenue	$ 2,067,517	$ 2,125,621
Cost of revenue	(1,499,328)	(1,464,246)
Gross Profit	568,189	661,375
Expenses		
Selling, general and administrative	(702,006)	(681,894)
Depreciation of property and equipment (Note 7)	(6,116)	(6,033)
Amortization of intangible asset	(2,038)	-
Total operating expenses	(710,160)	(687,927)
Operating profit (loss)	(141,971)	(26,552)
Interest expense	(90,119)	(40,287)
Accretion expense (Note 11)	(123,489)	-
Amortization of convertible debt financing costs (Note 11)	(55,911)	-
Change in fair value of derivative liability (Note 11)	61,555	-
Dividends (Note 10)	(9,063)	(9,063)
Loss before income taxes	(358,998)	(75,902)
Provision for income taxes	-	-
Net loss and comprehensive loss	(358,998)	(75,902)
Loss per share - Basic and Diluted	$ (0.0062)	$ (0.0015)
Weighted average number of common shares outstanding - Basic and Diluted	57,795,000	49,995,000

All references to common shares and per common share amounts have been retroactively adjusted to reflect the five-for-one forward stock split which was effective October 3, 2017, unless otherwise noted.

Nerds on Site Inc.

Condensed interim statements of changes in shareholders' deficiency
For the three months ended August 31, 2018 and 2017
(Unaudited – expressed in Canadian dollars)

	Common stock					
	Shares* #	Amount $	Warrants reserve $	Contributed surplus $	Accumulated deficit $	Total $
Balance as at May 31, 2017	**49,995,000**	**$1,000**	**-**	**189,151**	**(256,680)**	**(66,529)**
Net loss for the period	-	-		-	(75,902)	(75,902)
Balance as at August 31, 2017	**49,995,000**	**1,000**	**-**	**189,151**	**(332,582)**	**(142,431)**
Balance as at May 31, 2018	**57,795,000**	**8,800**	**72,664**	**406,351**	**(1,774,294)**	**(1,286,479)**
Net loss for the period	-	-		-	(358,998)	(358,998)
Balance as at August 31, 2018	**57,795,000**	**8,800**	**72,664**	**406,351**	**(2,133,292)**	**(1,645,477)**

* All references to common shares and per common share amounts have been retroactively adjusted to reflect the five-for-one forward stock split which was effective October 3, 2017, unless otherwise noted.

Nerds on Site Inc.

Condensed interim statements of cash flows
For the three months ended August 31, 2018 and 2017
(Unaudited – expressed in Canadian dollars)

	2018	2017
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss	$ (358,998)	$ (75,902)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization (Note 7)	6,116	6,033
Amortization of intangible asset	2,038	-
Amortization of convertible debt financing costs	55,911	-
Accretion expense (Note 11)	123,489	-
Change in fair value of derivative liabilities	(61,555)	-
Changes in working capital:		
Accounts receivable	(13,441)	156,577
Inventory	(16,745)	6,027
Prepaid expenses and other assets	17,711	29,300
Accounts payable and accrued liabilities	101,390	35,670
Deferred revenue	119,074	(29,386)
Dividend payable (Note 10)	9,062	9,062
Net cash used in operating activities	(15,948)	137,381
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Payments related to intangible assets	-	(18,462)
Payments for acquisition of property and equipment (Note 7)	(2,197)	(16,165)
Net cash from (used in) investing activities	(2,197)	(34,627)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
(Repayments) advances from loans and capital leases payable*	(23,186)	44,765
Repayments made on bank debt	(27,710)	(39,395)
Deferred financing costs	(102,016)	-
Payments to related parties	(147,373)	(44,911)
Net cash flows used in financing activities	(300,285)	(39,541)
NET INCREASE (DECREASE) IN CASH	(318,430)	63,213
CASH, beginning of period	1,336,340	37,804
CASH, end of period	**$ 1,017,910**	**$ 101,017**

The accompanying notes are an integral part of these condensed interim financial statements.

1. Nature of operations

Nerds on Site Inc. (the "Company") was incorporated on June 26, 1997 pursuant to the Ontario Business Corporations Act and is engaged in the business of providing information technology services, hardware, software and related support agreements. The Company's head office is located at 131 Wharncliffe Road South, London, Ontario, N6J 2K4.

2. Basis of presentation and accounting pronouncements

These condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*. They do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended May 31, 2018. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last audited financial statements as at and for the year ended May 31, 2018.

The Company's condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The condensed interim financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value as described in the accounting policies.

Changes in accounting policies

Except for the changes below, the Company has prepared the financial statements using the same accounting policies and methods as the financial statements for the year ended May 31, 2018.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") in May 2014. This IFRS replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser.

The Company adopted IFRS 15 on June 1, 2018 using the cumulative effect method. Under this method, prior years' financial statements have not been restated. As a result of the adoption of IFRS 15, no cumulative effect adjustment to retained deficit was required and there is no impact on net income (loss) or cash flow.

See below for additional disclosures required by IFRS 15.

2. Basis of presentation and accounting pronouncements-Cont'd

Revenue Recognition

Under IFRS 15, the Company classified its revenue as being principally derived from the following sources:

- Service fees charged for consulting services performed by the Company's consultants under written service contracts with customers. The service contracts the Company enters into, generally fall into three specific categories: time and materials, fixed-price and prepaid service agreements.

- Sale of off the shelf software, hardware and related support which are specifically charged on the Company's invoices. Software, hardware and related service are part of what the Company provides to small and medium size enterprises when providing consulting. Software, hardware and related service items are priced and billed separately from IT service charges.

- The Company's customers may also be charged miscellaneous fees, including software licensing fees, shipping fees, cloud storage fees, web hosting fees and fees for other miscellaneous services.

Revenue from the sale of consulting services is recognized based on the consideration specified in the contracts the Company has with its customers. When a customer enters into a time and materials, fixed-price or a prepaid service contract, the Company recognizes revenue in accordance with the Company's evaluation of the deliverables in each contract. If the deliverables represent separate units of accounting, the Company then measures and allocates the consideration from the arrangement to the separate units, based on reliable evidence of fair value for each deliverable. Units of accounting from deliverables include specific objectives delineated in the service contract. Revenue under time and materials contracts is recognized as services are rendered and billed at contractually agreed upon rates. Most contracts are short in duration and revenue is recognized on delivery.

The Company recognizes revenue for sale of off the shelf software, hardware and related support when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer.

The Company has evaluated its revenue streams and major contracts with customers using the IFRS 15 five step model and concluded that there are no material changes to the timing of revenue recognized.

IFRS 9 Financial Instruments

The Company has adopted IFRS 9, Financial Instruments (IFRS 9) with a date of application of June 1, 2018 as relevant to the Company. As a result, the Company has changed its accounting policy for financial instruments as detailed below.

The Company has elected to not restate comparative periods in the year of initial application of IFRS 9 relating to the transition for classification, measurement and impairment, and accordingly, has not restated comparative periods in the year of initial application. As a result, the comparative information

2. Basis of presentation and accounting pronouncements-Cont'd

provided continues to be accounted for on a basis consistent with those followed in the most recent annual Financial Statements.

Classification

As at June 1, 2018, the Company classifies its financial instruments in the following measurement categories:

- Those to be measured subsequently at fair value either through other comprehensive income (OCI) (loss), or through profit (loss).

- Those to be measured at amortized cost.

Specifically, for debt financial assets, the classification depends on the Company's business model for managing the financial instruments and the contractual terms of the cash flows.

Measurement

At initial recognition, the Company measures a financial instrument at its fair value plus, in the case of a financial instrument not at fair value through profit (loss), transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at fair value through profit (loss) are expensed in profit (loss).

Subsequent measurement of financial instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories in which the Company classifies its financial instruments:

- Amortized cost: Financial instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income (expense) from these financial instruments is recorded in net income (loss) using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in net income (loss). When the financial instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to net income (loss) and recognized in other gains (losses). Interest income (expense) from these financial instruments are included in interest using the effective interest rate method. Foreign exchange gains (losses) is presented in other gains (losses) and impairment expenses in other expenses.

2. Basis of presentation and accounting pronouncements-Cont'd

• Fair value through profit (loss) (FVTPL): Financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit (loss). A gain or loss on a financial instrument that is subsequently measured at fair value through profit (loss) and is not part of a hedging relationship is recognized in net income (loss) and presented net in comprehensive income (loss) within other gains (losses) in the period in which it arises.

On the date of initial application, June 1, 2018, the financial instruments of the Company were as follows:

	Measurement Category	
Asset or Liability	**Original (IAS 39)**	**New (IFRS 9)**
Cash and restricted cash	FVTPL	FVTPL
Accounts receivable and due from related parties	Amortized cost	Amortized cost
Accounts payable and accrued expenses	Amortized cost	Amortized cost
Due to a related party	Amortized cost	Amortized cost
Bank debt	Amortized cost	Amortized cost
Loans and capital leases payable	Amortized cost	Amortized cost
Preferred shares	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost
Derivative liabilities	FVTPL	FVTPL

Impairment of Financial Assets

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with its assets carried at amortized cost and FVTPL. For trade and other receivables only, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Company recognizes ECL for assets carried at amortized cost and FVTPL.

2. Basis of presentation and accounting pronouncements-Cont'd

For *accounts receivables*, the Company applies the simplified approach permitted by IFRS 9. The simplified approach to the recognition of ECL does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance at each reporting date based on the lifetime ECL since the date of the trade receivable.

Evidence of impairment may include:

• Indications that a debtor or a group of debtors is experiencing significant financial difficulty;

• A default or delinquency in payments;

• Probability that a debtor or a group of debtors will enter into bankruptcy or other financial reorganization; and

• Changes in arrears or economic conditions that correlate with defaults, where observable data indicates that there is a measurable decrease in the estimated future cash flows.

Accounts receivables are reviewed qualitatively on a case-by-case basis to determine if they need to be written off. ECL are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available in the measurement of the ECL associated with its assets carried at amortized cost.

Impairment of *cash and cash equivalents and restricted cash* are evaluated by reference to the credit quality of the underlying financial institution or investee. The Company applies the general approach to providing for expected credit losses. These instruments are low credit risk and no provision is considered for the current reporting period.

There are no impacts to the Company's financial statements for the adoption of IFRS 9

Future Accounting Pronouncements

The following standard that has been issued, but is not yet effective, up to the date of issuance of the Company's consolidated financial statements is disclosed below. The Company intends to adopt this standard when it becomes effective.

IFRS 16 Leases

The IASB issued its new Lease Standard on January 13, 2016. This new IFRS requires that, for lessees, former operating leases will now be capitalized and recognized on the balance sheet (exceptions for short-term leases and low-value assets are provided). Lease assets and liabilities will be initially measured at the present value of the unavoidable lease payments and amortized over the lease term. Lessor accounting remains consistent with current IFRS standards. Two transition methods are available under IFRS 16: full retrospective and cumulative catch-up. A significant amount of transition relief is permitted under the cumulative catch-up method but will require additional disclosure information. The

2. Basis of presentation and accounting pronouncements-Cont'd

effective date will be for annual periods beginning on or after June 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of adopting IFRS 16 on its financial statements.

These condensed interim financial statements were authorized for issue by the Board of Directors on October 29, 2018.

Functional and presentation currencies

These condensed unaudited interim financial statements are presented in Canadian dollars, which is also the functional currency of the Company. All financial information is expressed in Canadian dollars unless otherwise stated.

3. Going concern

These condensed interim financial statements have been prepared on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern, and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying condensed unaudited interim financial statements. Such adjustments could be material. It is not possible to predict whether the company will be able to raise adequate financing or to ultimately attain profit levels of operations. These conditions indicate the existence of material uncertainties that may cause significant doubt about the Company's ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values.

The Company has incurred losses to date resulting in a cumulative deficit of $2,133,292 as at August 31, 2018 (May 31, 2018 – $1,774,294). The recoverability of the carrying value of the assets and the Company's continued existence is dependent upon the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary. While management has been historically successful in raising the necessary capital, it cannot provide assurance that it will be able to execute on its business strategy or be successful in future financing activities. As at August 31, 2018, the Company had current assets of $1,320,979 (May 31, 2018 - $1,626,934) to cover current liabilities of $5,698,953 (May 31, 2018 – $5,379,474).

4. Accounts receivable

Accounts receivable consist of amounts due from customers receiving IT consulting services and equipment. Total net accounts receivable amounted to $139,423 and $125,982 at August 31, 2018 and May 31, 2018 respectively. Allowances for bad debts of $79,735 (May 31, 2018: $79,735) were recorded and recognized as at August 31, 2018 and May 31, 2018 respectively.

The Company monitors all accounts receivable and transactions on a monthly basis to ensure collectability and the adequacy of loss provisions. Considerations include payment history, business volume history, financial statements of customers, projections of customers and other standard credit review documentation.

(in Canadian dollars)

5. Property and equipment

	Computer Hardware	Computer Software	Furniture and Fixtures	Vehicles	Websites	Total
Cost						
Balance as at May 31, 2017	$ 61,723	15,684	15,000	349,263	1,250	$ 442,920
Additions	1,198	-	-	37,820	-	39,018
Disposals				(25,228)	-	(25,228)
Balance as at May 31, 2018	62,921	15,684	15,000	361,855	1,250	456,710
Additions	2,197	-	-	-	-	2,197
Balance as at August 31, 2018	**$ 65,118**	**$ 15,684**	**$ 15,000**	**$ 361,855**	**$ 1,250**	**$ 458,907**
Accumulated Depreciation						
Balance as at May 31, 2017	$ 52,970	15,684	15,000	314,425	1,250	$ 399,329
Disposals	-	-	-	(15,137)	-	(15,137)
Depreciation	4,591	-	-	19,541	-	24,132
Balance as at May 31, 2018	57,561	15,684	15,000	318,829	1,250	408,324
Depreciation	1,231	-	-	4,885	-	6,116
Balance as at August 31, 2018	**$ 58,792**	**$ 15,684**	**$ 15,000**	**$ 323,714**	**$ 1,250**	**$ 414,440**
Net Carrying Amounts						
As at May 31, 2018	$ 5,360	$ -	$ -	$ 43,026	$ -	$ 48,386
As at August 31, 2018	$ 6,326	$ -	$ -	$ 38,141	$ -	$ 44,467

As at August 31, 2018, the cost and accumulated depreciation of the vehicles under capital lease was $101,666 and $79,157, respectively (May 31, 2018: $101,666 and $74,272).

6. Bank debt

The Company has a revolving line of credit from Toronto-Dominion Bank (“TD Bank”) available for up to $175,000 in order to fund working capital. Interest is charged at TD Bank Prime rate plus 2.25% and repayment is due on demand. During the three months ended August 31, 2018, total interest expense recorded under selling, general and administrative expenses was $ 2,640. The operating line is secured by a general security agreement, assignment of insurance, unlimited guarantee advances executed by the Company and postponement of assignments of creditors’ claims.

Any amounts overdrawn over $175,000 are considered temporary as such overdrawn amounts are repaid subsequently.

The Company had a balance outstanding of $245,602 and $273,312 as at August 31, 2018 and May 31, 2018 respectively, which is presented as a current liability on the statements of financial position.

(in Canadian dollars)

7. Loans and capital leases payable

The carrying values of loans and capital leases payable were as follows:

		August 31, 2018		May 31, 2018
Current portion				
Balloon loans payable	$	**250,000**	$	250,000
BDC Loans		**74,880**		74,880
Capital leases		**18,102**		18,284
		342,982		343,164
Non-current portion				
BDC Loans		**78,900**		97,620
Capital leases		**39,254**		43,538
		118,154		141,158
	$	**461,136**	$	484,322

Balloon loans payable consist of a $250,000 balloon loan with an original annual interest rate of 25% and maturity date of July 31, 2012 and amended in 2012 to 16% annual interest rate due February 28, 2017. The loan is now due on demand. Interest is paid monthly with payments of approximately $3,333.

The Company entered into a loan agreement with Thinking Capital on March 28, 2017 for $225,000. The loan has no maturity and is payable through 9% of daily debit and credit card sales until the principal amount has been paid. The Company fully paid the balance as at May 31, 2018.

BDC loans payable were obtained on December 2014 for the two principal amounts of $150,000 and $100,000 with interests charged at BDC floating base rate plus 3.5% and 1% or 8.2% and 5.7%, respectively, and principal plus interest repayable monthly until the years 2020 and 2019, respectively. In addition, the Company obtained an additional BDC for $100,000 with interests charged at BDC floating base rate plus 2.06%, the first principal and interest payment due April 3, 2018 and repayable monthly to 2023. The BDC loans are secured by a guarantee for a full outstanding amount of the loans and first security interest in all present and after-acquired property except consumer goods, subject only to priority on inventory and receivables to lender extending the line of credit.

Interest expense incurred for the three- month periods ended August 31, 2018 was $18,607.

8. Preferred shares liability and Common stock

On June 25, 1996, the Company issued 1,550 founder shares to three founding stockholders. Effective with a stock split on January 27, 2015 of 5,031 to 1, the 1,550 shares were adjusted to 7,800,000 common shares outstanding. Effective with stock split on October 3, 2017, these 7,800,000 common shares outstanding were further adjusted to 39,000,000 common shares outstanding. Historical amounts have been adjusted to reflect the stock split.

On February 20, 2013, the Company issued, on a split adjusted basis, 1,199,000 shares of common stock to two consultants in exchange for consulting services to execute certain capital market transactions. Effective with stock split on October 3, 2017, these 1,199,000 common shares outstanding are adjusted to 5,995,000 common shares outstanding. The shares were valued based on the value of services provided and the Company recorded a charge of $191,859 recorded over three years (2013 - 2015) based on term of services provided.

On January 27, 2015, the Company issued 1,000,000 shares of Class B Preferred shares to the three founding shareholders. Each Class B Preferred share is entitled to 10 votes per share. Proceeds to the Company were $nil. Class B Shares were issued to provide the founders with 10 votes per share, do not entitle the holders to interest, dividends, and do not provide assets rights in the event of a liquidation of the Company.

On January 27, 2015, the Company issued 1,000,000 Class A Preferred shares and 1,000,000 Common shares to a certain investor in exchange for $1,000,000. Effective with stock split on October 3, 2017, these 1,000,000 common shares outstanding are adjusted to 5,000,000 common shares outstanding. The Class A shares are non-voting and entitle the holder to cumulative dividends at a rate of 7.25% per year, paid quarterly, beginning June 30, 2016 and are redeemable upon given notice at any time, the whole or from time to time any part of the outstanding shares, by the Company from the date of issuance in cash for $1 per share together with an amount equal to all dividends accrued and remaining unpaid. The shares are redeemable any time by the shareholder, with 30 days-notice, starting from June 30, 2016. The Class A Preferred shares are not convertible but do have priority in event of liquidation. Preferred shares do not meet the criteria for equity classification due to the cash redemption feature and have therefore been recorded as a liability. During the years ended May 21, 2018 and 2017, the Company redeemed $30,000 and $500,000 of Class A Preferred Shares respectively. No dividends were paid during the years ended May 31, 2018, 2017 and 2016.

On November 8, 2017, the Company issued 100,000 common shares at $0.25 per share for a total cash consideration of $25,000. On November 8, 2017, $50,000 of debt was settled by issuance of 200,000 common shares at $0.25 per share.

During the year ended May 31, 2018, the Company issued 7,500,000 common shares issued to settle $150,000 owed to a related party for services. These common shares issued for services were recorded based on the fair value of services received by the Company.

(in Canadian dollars)

8. Preferred shares liability and Common stock (continued)

As at August 31, 2018 and May 31, 2018, the Company had the following number of shares outstanding post- split adjustment:

Description	August 31, 2018	May 31, 2018
Common A Shares	57,795,000	57,795,000
Class A Preferred Shares	470,000	470,000
Class B Preferred Shares	1,000,000	1,000,000

All references to common shares and per common share amounts have been retroactively adjusted to reflect the five-for-one forward stock split which was effective October 3, 2017, unless otherwise noted.

9. Related party balances and transactions

Amounts due from related parties as at August 31, 2018 and May 31, 2018 included the following. The origin of these related party receivables was to provide start-up costs and cash flow for start-up operations.

		August 31, 2018	May 31, 2018
Ready Aim Fire Enterprising Inc. (a) and (b)	$	847,944	834,252
Nerds On-Site South Africa (b)		242,740	294,244
DNSthingy Inc. (a) and (b)		1,075,475	998,607
Other related parties (b)		291,349	272,782
	$	2,457,508	2,399,885

(a) via same key management personnel
(b) by virtue of common control
(a) and (b) these are due upon demandable and interest-free

The Company recorded revenue from the following related parties during the three months ended August 31, 2018 and 2017:

	Ready Aim Fire	DNSthingy Inc.	Total
	$	$	$
Three months ended August 31, 2018	6,339	22,926	29,265
Three months ended August 31, 2017	2,458	16,473	18,931

(in Canadian dollars)

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation is as follows:

	For the three month period ended August 31, 2018	For the three month period ended August 31, 2017
Salaries and benefits, including bonuses	$ 58,209	$ 56,917
Total	$ 58,209	$ 56,917

10.Commitments and contingencies

Rental expense is recorded on a straight-line basis over the lease term. The Company currently leases approximately 2,900 square feet of office space in London, Ontario Canada, where it conducts all central administration and strategic leadership operations. Annual rent is $32,355. The current lease term expires in 2020 and this facility is adequate for the Company current and projected needs. The total minimum lease payments as at August 31, 2018 until 2020 are $56,620.

11. Convertible debentures

On October 27, 2017, the Company completed the issuance of an aggregate of $2,140,500 principal amount of unsecured convertible debentures at a price of $1,000 per convertible debenture. On November 20, 2017, the Company completed the issuance of an additional $720,000 principal amount of unsecured convertible debentures due November 20, 2018 at a price of $1,000 per convertible debenture (collectively the "debentures"). The debentures are unsecured convertible debentures and bear simple interest at a rate of 10% per annum from the date of issue.

The Company has the option to prepay the principal amount of a Debenture, in whole or in part, in addition to all accrued but unpaid interest accumulated to the date of such prepayment subject to providing the debenture holder with thirty (30) days prior written notice in respect of such prepayment.

The holder of the debenture may elect to convert, in whole or in part, the principal amount of the debenture together with any accrued but unpaid interest accumulated thereon as of the date of such conversion into units of the Company (the "Units") at a deemed conversion price (the Conversion Price) equal to the lesser of: (i) $0.25 per Unit; or (ii) the initial public offering price of a common share in the capital of the Corporation (each a Common Share) on the Canadian Securities Exchange (or any other Canadian exchange on which the Common Shares may be listed). The Company may at any time and on written notice to the holder require the conversion of the debenture (inclusive of the principal amount together with any accrued but unpaid interest accumulated thereon as of the date of such required conversion) into Units at the conversion price of $0.25 per Unit in the event that, during the term of the Debenture, the closing price of a common share in the capital of the Corporation (each a Common Share) on the Canadian Securities Exchange (or any other Canadian exchange on which the Common Shares may be listed) equals or exceeds $0.50 per Common Share for at least five (5) consecutive trading days.

Each Unit consists of one (1) Common Share and one (1) common share purchase warrant of the Company (each a Warrant). Each Warrant entitles the holder thereof to acquire one (1) Common Share for an exercise price of $0.30 per Common Share for a period of two (2) years following the Closing Date (the Warrant Exercise Period). If, at any time prior to the expiry of the Warranty Exercise Period, the closing price of the Common Shares on the Canadian Securities Exchange (or any other Canadian exchange on which the

(in Canadian dollars)

11. Convertible debentures-Cont'd

Common Shares may be listed) equals or exceeds $0.60 per Common Share for at least five (5) consecutive trading days, the Company shall be entitled to accelerate the Warrant Exercise Period to a period ending thirty (30) days from the date that notice of such acceleration is provided to holders of the Warrants (the Accelerated Warrant Exercise Period). Any unexercised Warrants shall automatically expire at the end of the Accelerated Warrant Exercise Period.

The Company paid the following compensation for the initial raise of $2,140,500 on October 27, 2017 and the additional raise of $720,000 on November 20, 2017 to the agents:

- Total cash compensation for of $140,360 plus issuance of 561,440 broker warrants. Each broker warrant is exercisable to purchase one additional common share of the Company at a price of $0.25 for a period of 12 months expiring October 27, 2018.
- Total cash compensation for of $54,640 plus issuance of 194,560 broker warrants. Each broker warrant is exercisable to purchase one additional common share of the Company at a price of $0.25 for a period of 12 months expiring November 20, 2018.

The Company evaluated the terms and conditions of the convertible debentures and noted that the embedded conversion feature did not meet the 'fixed for fixed' criteria for equity classification. The Company has therefore accounted for the conversion feature as a derivative financial liability to be revalued at each reporting period.

The fair value of the embedded conversion feature derivative liability was estimated using the Black-Scholes option pricing model using the following assumptions:

	October 27, 2017	**November 20, 2017**
Volatility	100%	100%
Risk-free interest rate	0.5%	0.5%
Expected life	1 year	1 year
Unit price	$0.35	$0.35
Unit conversion price	$0.25	$0.25
Forfeiture rate	nil	nil

Upon issuance, the Company valued the conversion feature of the convertible debt instrument as a derivative liability with the residual amount of proceeds being recognized as debt.

	$	$	$
	27-Oct-17	**20-Nov-17**	**Total**
Total proceeds from convertible debt offering	2,140,500	720,000	2,860,500
Less: value of conversion feature - derivative liability upon issuance	366,613	123,318	489,931
Value of host debt instrument upon issuance	1,773,887	596,682	2,370,569

(in Canadian dollars)

11. Convertible debentures-Cont'd

The broker warrants issued by the Company were also estimated using the Black-Scholes option pricing model using the following assumptions:

	October 27, 2017 Broker Warrants	November 20, 2017 Broker Warrants
Volatility	100%	100%
Risk-free interest rate	0.5%	0.5%
Expected life	1 year	1 year
Share price	$0.25	$0.25
Share conversion price	$0.25	$0.25
Forfeiture rate	nil	nil

The Company used the most recent price per common share raised by the Company during the year as an input to value the broker warrants using the Black-Scholes model.

The Company calculated the total compensation or financing cost for the debentures which was proportionately allocated to the conversion feature and the host debt instrument. Costs allocated to the conversion feature were expensed immediately while the costs allocated to the host debt instrument were recorded as an offset to the convertible debt liability on the statement of financial position.

	27-Oct-17	20-Nov-17	Total
	$	$	$
Cash financing costs	140,360	54,640	195,000
Broker warrants	53,964	18,700	72,664
Total compensation costs	194,324	73,340	267,664
Costs allocated to conversion feature (expensed immediately)	33,283	12,561	45,844
Costs allocated to host debt instrument	161,041	60,779	221,820
Total compensation costs	194,324	73,340	267,664

The debt instrument, net of financing costs is being accreted up to the face value of the debentures of $2,140,000 and $720,000 as follows:

	27-Oct-17	20-Nov-17	Total
	$	$	$
Host debt instrument	1,773,887	596,682	2,370,569
Less: financing costs	(161,041)	(60,779)	(221,820)
Debt instrument, net of financing costs	1,612,846	535,903	2,148,749
Accretion expense	216,955	64,868	281,823
Amortization of financing costs	95,302	31,970	127,272
Balance of debt instrument, May 31, 2018	1,925,103	632,741	2,557,844
Accretion expense	92,406	31,083	123,489
Amortization of financing costs	40,590	15,321	55,911
Balance of debt instrument, August 31, 2018	2,058,099	679,145	2,737,244

(in Canadian dollars)

11. Convertible debentures-Cont'd

The conversion feature was revalued at August 31, 2018 using the Black-Scholes option pricing model using the following assumptions:

	October 27, 2017 conversion feature revalued at August 31, 2018	**November 20, 2017 conversion feature revalued at August 31, 2018**
Volatility	100%	100%
Risk-free interest rate	0.5%	0.5%
Expected life	0.16 year	0.22 year
Unit price	$0.35	$0.35
Unit conversion price	$0.25	$0.25
Forfeiture rate	nil	nil

12. Selling, general and administrative expenses

The Company has the following breakdown of selling, general and administrative expenses for the three-months ended August 31, 2018 and 2017:

	2018	2017
	$	$
Programming and related costs	**141,507**	260,867
Management remuneration	**58,209**	56,917
Office and administrative expenses	**93,276**	68,363
Payroll and related costs	**69,514**	69,314
Legal and professional	**18,958**	22,384
Advertising and promotion	**160,105**	18,136
Bank and interest charges	**42,854**	56,611
Business development	**38,491**	51,041
Communication	**74,342**	74,154
Automobile expenses	**4,750**	4,107
	702,006	681,894

(in Canadian dollars)

13. Accounts Payable

Accounts payable and accrued liabilities as of August 31, 2018 and May 31, 2018 constitutes the following:

	August 31, 2018	May 31, 2018
	$	$
Accounts payable	**687,807**	623,434
Accrued liabilities	**120,552**	155,566
Wages payable	**6,331**	11,995
Accrued interest	**236,057**	164,545
Subcontractor payable	**33,359**	33,359
Others	**33,172**	26,988
	1,117,278	1,015,888

14. Intangible assets

The Company has capitalized development costs under IAS 38 relating to the costs incurred to become certified by Apple Canada in order to be able to service Apple products. The capitalized costs of $79,493 as at August 31, 2018 (May 31, 2018: $81,531) is being amortized on certification over a period of 10 years.

15. Deferred finance costs

The Company has capitalized costs incurred to file a long-form prospectus with the Ontario Security Commission (OSC) in Canada. These costs will be adjusted against the Initial Public offering (IPO) the Company plans to undertake once it has completed the registration.

16. Revenue

Details of revenue for the three months ended August 31, 2018 and 2017:

	2018	2017
	$	$
Service fees	**1,037,658**	1,145,670
Product sales (Sale of software, hardware and related)	**1,017,748**	956,933
Miscellaneous fee	**12,111**	23,018
	2,067,517	2,125,621