NERDS ON SITE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MAY 31, 2019

The following Management Discussion and Analysis ("MD&A") of the financial condition and results of Nerds on Site Inc. (the 'Company') is prepared as of September 26, 2019. On December 7, 2018, the Company incorporated a subsidiary in the USA as Nerds on Site USA Inc. In this MD&A only, references to the ''Company'', ''NOS'', ''we'', ''us'' or ''our'' refer to Nerds on Site Inc. This MD&A should be read in conjunction with our audited financial statements for the year ended May 31, 2019. The MD&A contain certain forward-looking information that involves risks and uncertainties, including but not limited to, those described in the ''*Risk Factors*'' section of this filing.

Basis of Presentation

Our consolidated audited financial statements have been prepared in accordance with IFRS and are presented in Canadian dollars unless otherwise indicated. We manage our business based on one operating and reportable segment.

All references in this MD&A to ''Fiscal 2019'' are to our fiscal year ended May 31, 2019, references to ''Fiscal 2018'' are to our fiscal year ended May 31, 2018, and references to ''Fiscal 2017'' are to our fiscal year ended May 31, 2017.

Non-IFRS Financial Measures

This MD&A may refer to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use "days sales outstanding" as a non-IFRS measure of outstanding receivables – the number of receivables divided by annual sales divided by 365.

Overview

The Company was incorporated on June 26, 1996 pursuant to the Ontario Business Corporations Act and is engaged in the business of providing information technology services, hardware, software and related support agreements.

We are an IT service/managed service provider, we operate a network of 140 sub-contractors ("Nerds") servicing on average 11,000 customers per year in Canada, with over 130,000 customers serviced since the inception. Our centralized ERP system IAMANERD.COM ("IAMANERD") is an online operating system used to manage day to day operations of our Nerds.

Our marketplace is growing with more than 34 million SMEs companies across Canada & USA - anywhere from 1 to 500 people in size. We have added 3,000 new Clients during Fiscal year 2019.

There are a number of critical changes in the technology landscape across North America and across the world.

First: IT security was traditionally a bit of an afterthought or addition to IT infrastructure and IT infrastructure. IT security is now ***more important*** than all other IT infrastructure elements.

Second: Traditionally when optimizing or correcting technology issues, an infection of digital threats was not on the radar, provided basic tools such as anti-virus or endpoint security were in place. But in 2019 we are shift our service offering to ***assume*** an infection is present and we respond accordingly inside our Client environments.

Third: bad actors only have to find ***one weakness*** in a Client environment, and they are very organized and sophisticated in this pursuit. The Client must defend on all fronts – ***both technology and team members***.

In response to the increasing threat level, Nerds On Site Inc. is expanding its service offering. Our core business offerings today include …

- Traditional tech-support for printers all the way to full system networks
- Hardware sales
- Software sales
- HaaS - hardware as a service sale
- SaaS - software as a service development and sales
- Virtual real estate (website) and e-commerce creative, development, management and support
- full Managed Security Service Protocol
- VOiP phone systems
- Remote and on-site support and services
- Back-up systems across all physical and cloud platforms
- full office, plant/store premises and mobile online security packages Dash
- full Google cloud and Microsoft online products and support
- NerdCare contracts (blanket SME and corporate tech assurance programs)
- Mobile App development

- full Cyber Security Threat Protection Services
- full Cyber Crime Response Services

Objectives and strategies

Our focus remains *Driving up the Pleasure, Productivity and Profitability of Technology in the lives of our SME and corporate Clients across Canada and the USA.*

Outside of a number of strong regional players in our space, our #1 competitor across the national landscape of Canada and USA, remains the habit and pattern of SMEs and small corporations regarding their technology. It can be encapsulated in a seven-word sentence "*But we've always done it this way*". Our strategy is to make our brand and brand offerings more approachable and attractive by first offering massive value full tech or security audits and even free dark web cyber security compromise reports, to let Clients know the dangers that lurk in their world of technology today. *"We don't service technology… We serve people with technology"*.

The fast-changing world of technology requires us to build a fully liquid learning culture with our collegial network of Nerds. University of NERDology programs and IT Pro.tv offers technology training modules which are updated daily. To enhance our human engineering skills and abilities we support Dale Carnegie and similar programs for our team members.

Going forward it's all about priorities.

MSPs (Managed Service Providers) of a smaller size are challenged on the talent front and the cost front to offer full MSSP (Managed Security Service Protocols). Our commitment is to search for appropriate M&A targets of a certain nature & certain size to build out our centralized MSSP offerings.

Second priority is to build out our Cyber Security Threat Protection Services.

And third to offer our fully tested and successful three-step Cyber Crime Response Protocol for companies and municipalities of all sizes. With more than 4000 ransomware cases per day, the market is expanding rapidly for these highly specialized and rare services.

In Fiscal 2019, the Company focused on business planning, negotiations and discussion with funding providers on different funding methods to fund the expansion in United States. Revenue increased from $8.440 Million in Fiscal 2018 to $8.906 Million in Fiscal 2019.

IAMANERD contains marketing hub, inventory processing, client processing tools and database, Nerd to Nerd communication medium, credit card payment tools, central ordering, purchasing and invoicing, and a continuing education hub called University of NERDology. This system has been developed by the Company over the last 10 years and is being developed continuously.

Thanks to IAMANERD our Nerds spend most of their time servicing clients. The administration/inventory and other day-to-day admin is done by the system and our admin office that oversees the operation. Our Canadian Nerds are motivated proprietors, who operate under an agreement with the Company, wearing our branded bright red T-shirts and driving bright red fully branded cars, mostly VW Beetles ("NerdMobiles"). Our business model was created to be as flexible for expansion as possible, with low overhead costs. Our Nerds are compensated on per deal or per contract basis, on various revenue splits. Revenue splits range from 37% of the contract revenue to Nerd to 50% of the contract revenue to Nerd. In addition to revenue splits our Nerds receive various volume incentives.

We are very protective of the Nerd Brand. Keyword Nerd, Nerd-mobile, and other combinations are either trademarked or trademark application is filed in 12 countries. We continue to develop and monitor our trademark portfolio on monthly and quarterly basis.

We have exclusive software sales agreements with several related companies providing SaaS products. Those products include TimeWellScheduled ™, Adam networks, MYbusinessOS ™. From each software sale we receive a 20% royalty, which is split based on our standard splits with Nerds.

On November 26, 2018, the Company announced that it had completed its initial public offering ("IPO") of 13,519,830 units ("Units"), each Unit consisting of one common share in the capital of the Company ("Common Shares") and one half (0.5) of one Common Share purchase warrant, at a price of $0.35 per Unit, for gross proceeds of $4,731,940. The Common Shares are listed on the Canadian Securities Exchange ("CSE") under the symbol NERD and began trading on November 28, 2018 at the opening of the market.

Pursuant to the agency agreement dated August 30, 2018, Canaccord Genuity Corp. acted as agent (the "Agent") for the IPO. The Company paid to the Agent an aggregate cash commission of $378,555. In addition, the Company granted the Agent and its sub-agents non-transferable options entitling the Agent and its sub-agents to purchase a total of 1,081,586 Units at a price of $0.35 per Units until November 28, 2020. In connection with closing of the IPO, the

Agent also received a corporate finance fee of $40,000. The Company incurred legal and related expenses for $366,872.

In November and December of 2018, convertible debentures with a face value of $2,826,500 plus interest accrued for $147,057 was converted into 11,894,226 units at $0.25 per unit. 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 years following the Closing Date.

In March, 2019, the Company raised $600,000 by way of a non-brokered private placement offering of 3,000,000 common share units of the Corporation ("Units") at a price of $0.20 per Unit, with each Unit consisting of one (1) Common Share in the capital of the Company ("Common Share") and one (1) Common Share purchase warrant ("Warrant"), with each whole Warrant entitling the holder thereof to purchase one (1) additional Common Share at a purchase price of $0.25 per Common Share for a period of three years from the closing. The Company incurred agent commissions of $48,000 related to the private placement. The agent was also granted 240,000 agent warrants, each warrant exercisable to purchase one (1) Common Share at an exercise price of $0.25 per share for a period of 24 months from the date of closing.

In Fiscal 2019 and onwards, the focus is to penetrate and roll out our business in the USA. We have a roll out strategy that is in line with historic roll out that was exercised in Canada in multiple cities. The strategy is based on launching in smaller cities and rippling out to neighboring major metropolitan areas. With a smaller number of Nerds and NerdMobiles we generate higher levels of brand recognition and penetration with our marketing tactics of parading in downtown, commercial and industrial sectors. Our US Nerds will be franchisees managed by the Company in the beginning of the roll out. Once business volume is established in the smaller cities close to our historic average, we will attract area developers - to manage, lead and grow individual areas. Pricing of each area developer franchise is based on the number of listed businesses listed by the USA Postal site, targeted at $5-$7 per zip code being purchased.

Our major challenges in 2020 will be effectively recruiting new Nerds and arranging a cost-efficient lease/financing program in US to acquire NerdMobiles. Flexibility on this front enables the transfer of financing and/or lease arrangements from the Company to each Nerd franchisee. A proven and time-tested series of marketing tactics should enable the initiation of cash flow from new operations within 60-90 days.

Key Performance Indicators

Key performance indicators that we use to manage our business and evaluate our financial results and operating performance include: recurring revenue, total revenue, number of customers and expenses. We evaluate our performance on these metrics by comparing our actual results to management budgets, forecasts and prior period performance.

Recurring revenue and retention rates

Our consulting service customers generally enter into agreements for use of our services. Most of these agreements include provisions by which they renew following the initial term. Our consulting services model results in a high proportion of recurring revenue. The power of the consulting service model is only fully realized when a vendor has high retention rates. Our emphasis on recurring revenue has resulted in growth and in revenue maintenance over the past years.

The recurring nature of our revenue provides high visibility into future performance, and upfront payments result in cash flow generation in advance of revenue recognition. However, this also means that agreements with new customers or agreements with existing customers purchasing additional services in a quarter may not contribute significantly to current quarter revenue. As an example, a new customer who enters into an agreement on the last day of a quarter will have no impact on the revenue recognized in that quarter.

Number of customers

We believe that our ability to expand our customer base is an indicator of our market penetration and the growth of our business. We define customers as the number of independent entities that are separately billed.

Significant Factors Affecting Results of Operations

Our results of operations are influenced by a variety of factors, including:

Revenue

The Company recognizes revenue when it transfers control of its services to the customer. The Company follows a 5-step process to determine whether to recognize revenue:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations.
5. Recognizing revenue when/as performance obligations are satisfied.

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.

Cost of Revenue

Cost of revenue include both subcontract costs for providing information technology and related services and associated hardware and software costs. The Company provides mobile IT support for various businesses including PC set up, network installation and support & tailored software services. The Company uses a specially trained network of technically proficient IT consultants to help clients on site by providing effective, consistent and customized IT solutions.

Selling, general and administrative expenses

Selling, general and administrative expenses consist primarily of salaries and related expenses for our sales, administrative and marketing staff, including management services, data centre and call centre costs, professional and legal costs and banking services. These costs also include advertising, events, corporate communications, brand building and product marketing activities. We plan to continue to invest in sales and marketing by expanding our domestic and international selling and marketing activities, building brand awareness and sponsoring additional marketing events. We expect that in the future, sales and marketing expenses will increase with increase in revenue in absolute dollars and we incur additional employee-related costs and professional fees related to the growth of our business and international expansion.

Our presentation and functional currency is Canadian dollars and all the amounts in this management discussion and analysis are in Canadian dollars unless otherwise indicated. We derive most of our revenue from customers who pay in Canadian dollars. Our head office and most of our employees are in Ontario, Canada, and as such a significant amount of our expenses are paid in Canadian dollars. As the Company is rolling out its operations in the United States, the Company's future revenues and expenses will include revenues and expenses in both Canadian dollars and United States dollars.

Results of Operations

	Years ended/as at May 31,		
	2019	2018	2017
	(thousands of dollars) (except per share amounts)		
Total Revenue	8,906	8,440	8,667
Gross Profit	2,265	2,192	2,515
Operating Expenses	5,307	3,030	2,434
Operating profit (loss)	(3,041)	(838)	81
Net loss	(3,423)	(1,518)	(21)
Loss per share – Basic and Diluted	(0.0478)	(0.0283)	(0.0004)
Total Assets	4,998	4,324	2,506
Total Liabilities	1,717	5,610	2,573
Cash flows from (used in) operating activities	(3,617)	(395)	60
Cash flows from investing activities	(1,707)	(21)	601
Cash flows used in financing activities	4,145	1,715	(691)

Discussion of Operations-Years ended May 31, 2019, 2018 and 2017

Revenue

The Company has a single reportable segment for managed IT consulting services. We recorded total revenue of $8.906 Million in Fiscal 2019, $8.440 Million in Fiscal 2018 and $8.667 Million for Fiscal 2017. Total revenue increased by 6% in Fiscal 2019 when compared to Fiscal 2018 and dropped by 3% in Fiscal 2018 when compared to Fiscal 2017.

In Fiscal 2019, the Company was focused on business planning, negotiations and discussion with funding providers on different funding methods to fund the expansion in United States.

Break-up of revenue (thousands of dollars)			
	Fiscal 2019	Fiscal 2018	Fiscal 2017
	$	$	$
Service fees	4,296	4,260	4,543
Product revenue (Sale of software, hardware and related)	4,562	4,123	3,993
Miscellaneous fee	48	56	131
Total revenue	**8,906**	**8,440**	**8,667**

Gross Profit

The Company recorded gross profit of $2.265 Million in Fiscal 2019, $2.192 Million in Fiscal 2018 and $2.515 Million in Fiscal 2017.

	Year ended May 31,		2018 to 2019
	2019	2018	% change
	(thousands of dollars)		
Total Revenue	$8,906	$8,440	6 %
Gross Margin	$2,265	$2,192	3 %
Gross Margin %	**25%**	**26%**	

Our overall gross margin as a percentage of revenue increased by 6% between fiscal years 2019 and 2018. Our reduced margin to 25% is primarily due to our revenue mix between sale of software, hardware consulting services.

Selling, general and administrative expenses

	Year ended May 31,		2018 to 2019
	2019	2018	% change
	(thousands of dollars)		
Total Expense	5,272	3,006	(24) %
As a percentage of revenue	**59%**	**36%**	

Break-up of expenses:
(In thousands of dollars)

	2019	2018	2017
	$	$	$
Advertising and promotion	652	288	96
Automobile expenses	110	17	16
Bank and interest charges	185	192	195
Business development	733	163	146
Communication	311	280	127
Payroll and related	345	320	267
Management remuneration	642	397	208
Office and administrative expenses	740	334	279
legal and professional	580	304	193
Programming and related costs	974	711	895
Total	5,272	3,006	2,422

Selling, general and administrative expenses have seen an increase from 2017 to 2018, with increase of $0.6 Million or 24% from 2017 to 2018. There was an increase in expenses during the year 2018, primarily due to additional costs incurred by the Company with the planned expansion into the United States and the Company moving towards becoming a public company. The main drivers for the increase in 2018, is the increase in advertising and promotion costs expensed in new markets, additional costs of $46 Thousand relating to broker warrants expensed and additional costs for legal, audit, employee and business development costs. In addition, the Company recorded a higher management remuneration of $189 Thousand during fiscal 2018 as compared to fiscal 2017.

Selling, general and administrative expenses have seen an increase from 2018 to 2019, with increase of $2.27 Million or 75% from 2018 to 2019. There was an increase in expenses during the year 2019, primarily due to additional costs incurred by the Company with the commencement of expansion into the United States resulting in increased business development, office and administration and advertising and promotion expenses, in addition to the Company incurring legal, accounting and audit expenses to become a public company during the year . The main drivers for the increase in 2019, is the increase in advertising and promotion costs expensed in new markets and additional costs for legal, audit, employee and business development costs. In addition, the Company recorded a higher management remuneration of $245 Thousand during fiscal 2019 as compared to fiscal 2018 primarily due to non-cash stock- based compensation expense for $231 Thousand.

Operating loss

	Year ended May 31,	
	2019	2018
	(thousands of dollars)	
Operating loss	(3,041)	(838)

Our operating loss of $(3,041) Thousand in Fiscal 2019 as compared to an operating loss of $(838) Thousand in fiscal 2018. The operating loss is result of increase in operating costs as explained above.

Net loss

	Year ended May 31,	
	2019	2018
	(thousands of dollars)	
Net loss	($3,423)	($1,518)

Our net loss was $3,423 Thousand in fiscal 2019 as compared to net loss of $1,518 Thousand in fiscal 2018. Beyond the impact of operating loss as noted above, the other drivers for our annual net losses in 2019 and 2018 is the interest expense for $191 Thousand and $334 Thousand for 2019 and 2018 respectively, non-cash accretion expense of $208 Thousand and $282 Thousand for 2019 and 2018 respectively relating to convertible debt issued and non-cash amortization of deferred financing costs for 95 Thousand and $127 Thousand for 2019 and 2018 respectively.

Key balance sheet items

	As at May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Total Assets	4,998	4,324
Total Liabilities	1,717	5,610
Cash dividends declared for common shares	$nil	$nil

The primary reason for increase in total assets and reduction in total liabilities in 2019 is the direct result of the Company's increase in cash flow for $4.1Million in financing activities.

Our balance sheet has several key items that are necessary to analyze to gain a full understanding of our financial results. The following analysis explains those items.

Trade and other receivables

	As at May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Trade and other receivables (net)	230	126
Days sales outstanding ("DSO")	9 days	5 days

As at May 31, 2019, our trade receivables balance was $230 Thousand. We have a diverse group of customers, not one of which represents greater than 10% of the total receivables balance.

Accounts payable and accrued liabilities

	As at May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Accounts payable	504	684
Accrued liabilities	214	155
Wages payable	5	12
Accrued interest	-	165
Total	723	1,016

Preferred Shares

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 rights to the assets of the Company in the event of a liquidation of the Company.

	As at May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Preferred shares	-	470

On January 27, 2015, the Company issued 1,000,000 Class A Preferred shares. 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 do not meet the criteria for equity classification under IFRS due to the cash redemption feature and have therefore been recorded as a liability. During the year ended May 30, 2017, the Company redeemed $500 Thousand of the Class A Preferred shares and during the year ended May 31, 2018, the Company redeemed additional $30 Thousand of the Class A Preferred shares. During the year ended May 31, 2019, the Company redeemed the balance of $470,000 of Class A Preferred Shares.

Contract liabilities

	As at May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Deferred revenue	368	268

Our business model results in us billing our customers in advance of providing the service and, as a result, we record contract liabilities at the close of the reporting period.

Liquidity and capital resources

	As at May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Cash	157	1,336
Short-term investments	1,716	-

The Company's primary cash flow has come from its sale of software, hardware and consulting services. The Company has also increased liquidity through debt financing at various times in its history. The Company has successfully raised $2.8 Million by issue of convertible debt in fiscal 2018 and gross of $4.7Million in Units in fiscal 2019.

The following is a summary of our cash flows provided by (used in) operating activities, investing activities and financing activities for the years and periods as indicated:

	Year ended May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Operating activities	(3,617)	(395)
Investing activities	(1,707)	(21)
Financing activities	4,145	1,714
Increase (decrease) in cash	(1,179)	1,298
Cash beginning of period/year	1,336	38
Cash end of period/year	157	1,336

Net cash from (used) in operating activities

Cash flow used in operations for Fiscal 2019 was ($3,617) Thousand compared to cash used in operations for Fiscal 2018 of $(395) Thousand. The primary driver of the year-over-year change was the increase in selling, general and administrative costs in Fiscal 2019 which resulted in net loss of $3,423 Thousand in Fiscal 2019 as compared to a net loss of $1,518 Thousand in Fiscal 2018. The timing of receipts and payments, including increase in accounts receivables by $104 Thousand in Fiscal 2019 as compared to a reduction in accounts receivables by $178 Thousand in Fiscal 2018 resulted in usage in cash from operating activities in Fiscal 2019. The change in trade payables in Fiscal 2019 resulted in decrease in cash of $293 Thousand as compared to increase of cash of $369 Thousand in

Fiscal 2018. The change in prepaid expenses in Fiscal 2019 resulted in decrease in cash of $549 Thousand as compared to increase cash of $15 Thousand in Fiscal 2018.

Net cash from (used) in investing activities

Cash flow used in investing activities was ($1,707) Thousand in Fiscal 2019 as compared to cash flow of ($21) Thousand in Fiscal 2018. During Fiscal 2019, the outflow of cash was primarily for short-term investments for $1.7 Million

Net cash from (used) in financing activities

Net cash from financing activities in Fiscal 2019 was $4,145 Thousand as compared to net cash from financing activities of 1,715 Thousand in Fiscal 2018.

<u>Fiscal 2019</u>

On November 26, 2018, the Company announced that it had completed its initial public offering ("IPO") for gross proceeds of $4,732 Thousand. Pursuant to the agency agreement dated August 30, 2018, Canaccord Genuity Corp. acted as agent (the "Agent") for the IPO. The Company paid to the Agent an aggregate cash commission of $378 Thousand. In connection with closing of the IPO, the Agent also received a corporate finance fee of $40 Thousand. The Company incurred legal and related expenses for $367 Thousand.

In March 2019, the Company raised $600 Thousand by way of a non-brokered private placement offering. The Company incurred agent commissions of $48 Thousand related to the private placement.

On October 27, 2017, the Company completed the issuance of an aggregate of $2,140 Thousand principal amount of unsecured convertible debentures at a price of $1Thousand per convertible debenture. On November 20, 2017, the Company completed the issuance of an additional $720 Thousand principal amount of unsecured convertible debentures due November 20, 2018 at a price of $1 Thousand per convertible debenture.

In 2019, the Company reduced debt from loans and capital lease by $(337) Thousand as compared to reduction in debt from loans and capital lease by $(230) Thousand in 2018.

As of May 31, 2019, the Company has a working capital of $1.28Million

As of May 31, 2018, the Company has a working capital deficiency of $3.8Million.

The following constitutes the current assets and current liabilities as of May 31, 2019:

ASSETS		(thousands of dollars)
CURRENT		
Cash	$	157
Restricted cash		-
Short-term investments		1,716
Accounts receivable (net)		230
Inventory		23
Prepaid expenses and other current assets		640
		2,766

LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$	723
Contract liabilities		368
Bank debt		260
Preferred shares		-
Dividend payable		70
Convertible debentures		-
Derivative liability		-
Current portion of loans and capital leases payable		62
		1,483

The following constitutes the current assets and current liabilities as of May 31, 2018:

ASSETS		(thousands of dollars)
CURRENT		
Cash	$	1,336
Restricted cash		2
Accounts receivable (net of allowances)		126
Inventory		73
Prepaid expenses and other current assets		90
		1,627
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$	1,016
Contractual liabilities		268
Bank debt		273
Preferred shares		470
Dividend payable		61
Convertible debentures		2,558
Derivative liability		390
Current portion of loans and capital leases payable		343
		5,379

Contractual Obligations

The aggregate amount of principal payments required in each of the next 5 years to meet the retirement provisions of loans and capital leases payable are as follows:

Fiscal year		May 31, 2019 Principal (in thousands of dollars)
2020	**$**	62
2021		30
2022		25
2023		22
2024		6
2025		2
	$	147

The carrying values of our loan and capital lease payable are as follows:

		May 31, 2019 (in thousands of dollars)
Current portion		
Balloon loans payable	$	-
BDC Loans		47
Capital leases		15
		62
Non-current portion		
BDC Loans		56
Capital leases		29
		85
	$	147

In addition, the Company has a revolving line of credit from Toronto-Dominion Bank (“TD Bank”) available for up to $175 Thousand to fund working capital. Interest is charged at TD Bank Prime rate plus 2.25% and repayment is due on demand. 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 amount overdrawn over $175 Thousand are considered temporary as such overdrawn amounts are repaid subsequently.

The balance outstanding was $260 Thousand and $273 Thousand at May 31, 2019 and 2018 respectively, presented as current liability on the statements of financial position.

	Payments Due by Period				
Contractual Obligations	**Total (thousands of dollars)**	**Less than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Obligations	Total	1 Year	Years	Years	5 Years
Loans and Capital Lease Obligation	147	62	77	8	nil
Operating Leases	65	49	11	Nil	nil
Purchase Obligations	nil	nil	Nil	Nil	nil
Total Contractual Obligations	$212	$111	$88	$8	nil

Off-balance sheet arrangement

The Company has no off-balance sheet arrangement as of May 31, 2019 and May 31, 2018.

Transactions with related parties

The origin of these related party receivables was to provide start-up costs and cash flow for start-up operations.

	Year ended May 31,	
	2019	2018
	(thousands of dollars)	
	$	$
Ready Aim Fire Enterprising Inc. (a) and (b)	793	834
Nerds On-Site South Africa (b)	203	294
Adam network Inc. (a) and (b) *	1,040	999
Other related parties (b)	91	273
	2,127	2,400

(a) via same key management personnel
(b) by virtue of common control
(a) and (b) these are due upon demandable and interest-free
* This related party changed its name from DNSthingy In.c to Adam Networks Inc.

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

		For the year ended May 31, 2019		For the year ended May 31, 2018 *
		(in thousands)		(in thousands)
Salaries and benefits, including bonuses	$	282	$	397
Directors fees	$	108		
Stock-based compensation	$	231		
Total	$	621	$	397

On April 25, 2019, the Company issued 2,450,000 options to directors and officers. The Black-Scholes option pricing model was used to determine the fair value of these options.
*Includes compensation of $150 Thousand paid to a related party by issuance of 7,500,000 common shares

Outstanding Share Data

(a) Authorized: Unlimited number of common shares

(b) Issued

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 preferred shares respectively.

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 of $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.

On November 28, 2018, the Company announced that it had completed its initial public offering (“IPO”) of 13,519,830 units (“Units”), each Unit consisting of one common share in the capital of the Company (“Common Shares”) and one half (0.5) of one Common Share purchase warrant, at a price of $0.35 per Unit, for gross proceeds of $4,731,940.

In March, 2019, the Company raised $600,000 by way of a non-brokered private placement offering of 3,000,000 common share units of the Corporation ("Units") at a price of $0.20 per Unit, with each Unit consisting of one (1) Common Share in the capital of the Company ("Common Share") and one (1) Common Share purchase warrant ("Warrant").

In March 2019, the Company received cash for $1,000 for the exercise of 4,000 agent warrants at $0.25 per share.

As at May 31, 2019 and 2018, the Company had the following number of shares outstanding post- split adjustment:

Description	**May 31, 2019**	**May 31, 2018**
Common A Shares	86,213,056	57,795,000
Class A Preferred Shares	-	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

Financial Instruments and risk management

Risk management

In the normal course of its business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

Interest rate

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates, relative to interest rates on cash and cash equivalents and bank debt due to the short-term nature of these balances and the loans and capital leases payable due to the Company’s current borrowing rate does not materially differ from market rates for similar bank borrowings.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. For financial assets, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. In the normal course of business, the Company’s trade accounts receivable are potentially exposed to credit risk from its customers. To mitigate this risk the Company provides an allowance for expected credit losses equal to the estimated losses expected to be incurred in the collection of accounts receivable.

Currency risk

The Company's reported earnings include gain/losses on foreign exchange, largely reflecting revaluation of its foreign operations in the United States. The future foreign exchange gain or loss would change based on the level of foreign operating activities.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company.
As at May 31, 2019, the Company had cash of $157,237, short-term investments for $1,716,104 and current liabilities for $1,482,966. Appropriate going concern disclosures have been made in Note 2 to the financial statements.

Capital Management

Our objective in managing capital is to ensure sufficient liquidity to pursue our growth strategy and to provide sufficient resources to meet day-to-day operating requirements, while at the same time taking a conservative approach towards financial leverage and management of financial risk. In managing the capital structure, we take into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. The officers and senior management of the Company are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. We manage capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and capital transactions.

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.

In November and December of 2018, convertible debentures with a face value of $2,826,500 plus interest accrued for $147,057 was converted into 11,894,226 units at $0.25 per unit. 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 years following the Closing Date.

Critical Accounting Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, costs, expenses and other comprehensive loss that are reported in the financial statements and accompanying disclosures. The estimates and associated assumptions are based on historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Significant areas requiring the use of estimates and assumptions include the determination of useful lives of property and equipment, accounts receivable, valuation allowance and loans. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, anticipated sales and future commitments to assess the Company's ability to continue as a going concern. A critical judgment is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

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 modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application, without restatement of comparative figures. As a result of the adoption of IFRS 15, no cumulative effect adjustment to shareholders' deficit was required and there is no impact on consolidated net income (loss) or cash flow.

The Company recognizes revenue when it transfers control of its services to the customer. The Company follows a 5-step process to determine whether to recognize revenue:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations.
5. Recognizing revenue when/as performance obligations are satisfied.

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 transaction price 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 performance obligations in each contract. If the obligations 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 obligations 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.

Financial instruments

(i) Impact of adoption

The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) issued in July 2014 with a date of initial application of June 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model.

As permitted by the transition provisions of IFRS 9, the Company adopted the standard retrospectively without restating comparatives as the change did not impact the opening balances. New or amended disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods.

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an expected credit loss (“ECL”) model and applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI.

IFRS 9 does not apply to investments under equity instruments where IAS 39 still applies. Under the ECL model, credit losses are recognised earlier under IFRS 9 when compared to IAS 39. Adoption of IFRS 9 did not change the Company’s accounting policies for financial liabilities.

Future accounting pronouncements

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16, Leases, effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. IFRS 16 will replace IAS 17, Leases. The Company intends to adopt IFRS 16 in its financial statements for the fiscal year beginning on June 1, 2019.

IFRS 16 removes the distinction between operating and finance leases from the lessee’s perspective and introduces a single lessee accounting model. The standard requires a lessee to recognize a “right of use” asset and a corresponding lease liability for substantially all leases, with the exception of leases with terms less than 12 months and leases of low value assets. Requirements for lessor accounting are largely unchanged from IAS 17. IFRS 16 will also result in reclassification of the nature of lease expenses to depreciation and interest expense, from their classification of “premises expense” under IAS 17.

IFRS 16 offers a range of transition options. The Company plans to apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16, if any, will be recognized as an adjustment to opening retained earnings as at June 1, 2019, with no restatement of comparative information.

The Company is on track to complete its implementation of IFRS 16 effective June 1, 2019.