Nerds On Site Inc.

Condensed interim consolidated financial statements

For the three and nine months ended February 29, 2020 and February 28, 2019

(Unaudited - expressed in Canadian Dollars)

NERDS ON SITE INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED FEBRUARY 29, 2020 AND FEBRUARY 28, 2019

(Unaudited - Amounts expressed in Canadian Dollars)

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Nerds On Site Inc.

Condensed Interim Consolidated Statements of financial position as at February 29, 2020 and May 31, 2019
(Unaudited – expressed in Canadian dollars)

		February 29, 2020 (unaudited)		May 31, 2019 (audited)
ASSETS				
CURRENT				
Cash	$	70,902	$	157,237
Short-term investment (Note 19)		362,383		1,716,104
Accounts receivable (net of expected credit losses) (Note 4)		289,718		230,347
Inventory (Note 17)		20,494		22,974
Prepaid expenses and other current assets		115,921		639,756
		859,418		2,766,418
NON-CURRENT				
Due from related parties (Note 9)		1,749,348		2,127,464
Intangible assets (Note 13)		67,263		73,378
Right-of-use asset (Note 14)		718,336		-
Property and equipment (Note 5)		90,334		30,934
		2,625,281		2,231,776
TOTAL ASSETS	**$**	**3,484,699**	**$**	**4,998,194**
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities (Note 12)	$	808,812	$	723,342
Contract liabilities		211,350		367,684
Bank debt (Note 6)		209,039		260,381
Preferred shares (Note 8)		100		100
Dividend payable		69,479		69,479
Lease obligation (Note 15)		141,214		-
Current portion of loans payable (Note 7)		35,908		61,980
		1,475,902		1,482,966
NON-CURRENT				
Non-current portion of loans payable (Note 7)		62,972		85,430
Lease obligation (Note 15)		307,739		-
Due to a related party		-		149,000
		370,711		234,430
TOTAL LIABILITIES		1,846,613		1,717,396
SHAREHOLDERS' EQUITY				
Common stock (Note 8)		5,802,564		5,802,564
Reserve for warrants		1,965,400		1,965,400
Reserve for options		231,434		231,434
Contributed surplus		479,015		479,015
Accumulated deficit		(6,840,327)		(5,197,615)
TOTAL SHAREHOLDERS' EQUITY		1,638,086		3,280,798
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**3,484,699**	**$**	**4,998,194**

Basis of presentation and accounting pronouncements (Note 2)

Subsequent events (Note 21)

Approved on behalf of the Board

<Nicole Holden> <David Redekop>

Signed: Director Signed: Director

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

Nerds On Site Inc.

Condensed Interim Consolidated Statements of loss and comprehensive loss
For the three and nine months ended February 29, 2020 and February 28, 2019
(Unaudited – expressed in Canadian dollars)

	For the three months ended February 29, 2020 $	For the three months ended February 28, 2019 $	For the nine months ended February 29, 2020 $	For the nine months ended February 28, 2019 $
Revenue (Note 16)	2,728,401	2,377,836	7,936,490	6,513,807
Cost of revenue	(1,881,219)	(1,721,022)	(5,833,053)	(4,800,682)
Gross profit	847,182	656,814	2,103,437	1,713,125
Expenses:				
Selling, general and administrative (Note 11)	(983,734)	(1,407,775)	(3,576,092)	(3,083,766)
Depreciation of property and equipment (Note 5)	(6,127)	(7,110)	(16,224)	(19,530)
Amortization of right-of-use asset (Note 14)	(62,601)	-	(156,077)	-
Amortization of intangible asset (Note 13)	(2,039)	(2,038)	(6,115)	(6,114)
Total operating expenses	(1,054,501)	(1,416,923)	(3,754,508)	(3,109,410)
Operating loss	(207,319)	(760,109)	(1,651,071)	(1,396,285)
Interest expense	(6,001)	(9,882)	(18,227)	(185,979)
Interest income	18,251	-	57,476	-
Accretion expense	-	-	-	(208,108)
Accretion on lease obligation (Note 15)	(11,878)	-	(30,890)	-
Amortization of convertible debt financing costs	-	-	-	(94,548)
Change in fair value of derivative liability	-	-	-	390,319
Dividends	-	-	-	(9,063)
Loss before income taxes	(206,947)	(769,991)	(1,642,712)	(1,503,664)
Provision for income taxes	-	-	-	-
Net loss and comprehensive loss	(206,947)	(769,991)	(1,642,712)	(1,503,664)
Loss per share - basic and diluted	(0.0024)	(0.0093)	(0.0191)	(0.0225)
Weighted average number of common shares outstanding-Basic and Diluted	86,213,056	83,120,333	86,213,056	66,824,674

Nerds On Site Inc.

Condensed Interim Consolidated Statements of changes in shareholders' equity
For the nine months ended February 29, 2020 and February 28, 2019
(in Canadian dollars)

	Common stock						
	Shares **#**	**Amount** **$**	**Warrants reserve** **$**	**Option reserve** **$**	**Contributed surplus** **$**	**Accumulated deficit** **$**	**Total** **$**
Balance as at May 31, 2018	**57,795,000**	**8,800**	**72,664**	**-**	**406,351**	**(1,774,294)**	**(1,286,479)**
Conversion of convertible debt and accrued interest	11,894,226	2,010,141	963,416	-	-	-	2,973,557
Issuance of units	13,519,830	3,344,438	602,075	-	-	-	3,946,513
Reclassification on expiry of broker warrants	-	-	(72,664)	-	72,664		-
Net loss for the period	-	-	-	-	-	(1,503,664)	(1,503,664)
Balance as at February 28, 2019	**83,209,056**	**5,363,379**	**1,565,491**	**-**	**479,015**	**(3,277,958)**	**4,129,927**
Balance as at May 31, 2019	**86,213,056**	**5,802,564**	**1,965,400**	231,434	**479,015**	**(5,197,615)**	**3,280,798**
Net loss for the period	-	-	-	-	-	(1,642,712)	(1,642,712)
Balance as at February 29, 2020	**86,213,056**	**5,802,564**	**1,965,400**	**231,434**	**479,015**	**(6,840,327)**	**1,638,086**

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

Nerds On Site Inc.

Condensed Interim Consolidated Statements of cash flows
For the nine months ended February 29, 2020 and February 28, 2019
(Unaudited – expressed in Canadian dollars)

	2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net loss	$ (1,642,712)	$ (1,503,664)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property and equipment (Note 5)	16,224	19,530
Amortization on right-of-use asset (Note 14)	156,077	-
Amortization of intangible asset (Note 13)	6,115	6,114
Amortization of convertible debt financing costs	-	94,548
Conversion of interest on convertible debt into units		147,057
Accretion on lease obligation (Note 15)	30,890	-
Accretion expense	-	208,108
Change in fair value of derivative liabilities	-	(390,319)
Changes in working capital:		
Accounts receivable	(59,371)	(33,491)
Inventory	2,480	58,091
Prepaid expenses and other assets	523,835	(452,961)
Reclassification of prepaid expenses to right-of-use asset	(340,495)	-
Accounts payable and accrued liabilities	85,470	(472,754)
Contract liabilities	(156,334)	(63,892)
Dividend payable	-	9,062
Net cash used in operating activities	(1,377,821)	(2,374,571)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Restricted cash	-	2,286
Lease obligation expense	(115,855)	-
Changes in short-term investments	1,353,721	-
Payments for acquisition of property and equipment (Note 5)	(75,624)	(6,303)
Net cash from (used) in investing activities	1,162,242	(4,017)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
(Repayments) advances from loans and capital leases payable	(48,530)	(320,954)
Repayments made on bank debt	(51,342)	(70,529)
Proceeds from issuance of units, net of expenses	-	3,946,513
Redemption of Series A preferred shares	-	(470,000)
Payments from (to) related parties	229,116	230,019
Net cash from (used) in financing activities	129,244	3,315,049
NET INCREASE (DECREASE) IN CASH	(86,335)	936,461
CASH, beginning of period	157,237	1,336,340
CASH, end of period	**$ 70,902**	**$ 2,272,801**

a) In November and December of 2018, the Company converted convertible debentures for $2,826,500 plus accrued and unpaid interest for $147,057 into 11,006,994 Units at $0.25 per Unit

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

1. Nature of operations

Nerds On Site Inc. (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. On December 7, 2018, the Company incorporated a subsidiary in the USA as Nerds On Site USA Inc. 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 consolidated 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, 2019. 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, 2019.

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, 2019.

New standards adopted

(a) Leases and right-of-use assets

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

At June 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

2. Basis of presentation and accounting pronouncements (Cont'd)

New standards adopted (Cont'd)

(a) Leases and right-of-use assets (Cont'd)

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonably certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term. The Company adopted this standard and the impact on the Company's unaudited condensed interim consolidated financial statements are disclosed in notes 15 and 16.

(b) Uncertainty over Income Tax Treatments: On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Company adopted this standard at June 1, 2019 and there was no material impact on the Company's unaudited condensed interim consolidated financial statements.

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

Other accounting standards and amendments to existing accounting standards that have been issued and have future effective dates are not applicable or are not expected to have a significant impact on the Company's financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 27, 2020.

Functional and presentation currencies

These condensed unaudited interim consolidated 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.

Basis of consolidation

The consolidated statements incorporate the financial statements of Nerds on Site Inc., and its wholly owned subsidiary, Nerds on Site USA Inc.

Subsidiaries are entities controlled by the Company. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and it has the ability to affect those returns through its power over the investee. In assessing control, only rights which give the Company the current ability to direct the relevant activities and that the Company has the practical ability to exercise, is considered.
All intercompany transactions, balance, income and expenses are eliminated on consolidation.

3. Going concern

These condensed interim consolidated 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 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 not yet realized profitable operations and has incurred losses to date resulting in a cumulative deficit of $6,840,327 as at February 29, 2020 (May 31, 2019 - $5,197,615). 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 February 29, 2020, the Company had current assets of $859,418 (May 31, 2019 - $2,766,418) to cover current liabilities of $1,475,902 (May 31, 2019 - $1,482,966).

(in Canadian dollars)

4. Accounts receivable

IFRS 9 introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial application. The Company assumes that the credit risk on a financial asset has increased if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due. The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Accounts receivables are stated net of allowance for expected credit losses of $116,889 and $122,961 for February 29, 2020 and May 31, 2019, respectively. Accounts receivable consist of amounts due from customers receiving IT consulting services and equipment. Total net accounts receivable amounted to $289,718 and $230,347 at February 29, 2020 and May 31, 2019 respectively.

5. Property and equipment

	Computer Hardware	Computer Software	Furniture and Fixtures	Vehicles	Websites	Leasehold Improvement	Total
Cost							
Balance as at May 31, 2018	$ 62,921	$ 15,684	$ 15,000	$ 361,855	$ 1,250	$ -	$ 456,710
Additions	9,420	-	-	-	-	-	9,420
Disposals	(600)	-	-	(24,658)	-	-	(25,258)
Balance as at May 31, 2019	71,741	15,684	15,000	337,197	1,250	-	440,872
Additions	30,948	-	-	-	-	44,676	75,624
Disposals	-	-	-	-	-	-	-
Balance as at February 29, 2020	**$ 102,689**	**$ 15,684**	**$ 15,000**	**$ 337,197**	**$ 1,250**	**$ 44,676**	**$ 516,496**
Accumulated Depreciation							
Balance as at May 31, 2018	$ 57,561	$ 15,684	$ 15,000	$ 318,829	$ 1,250	$ -	$ 408,324
Disposals	-	-	-	(24,658)	-	-	(24,658)
Depreciation	6,731	-	-	19,541	-	-	26,272
Balance as at May 31, 2019	64,292	15,684	15,000	313,712	1,250	-	409,938
Disposals	-	-	-	-	-	-	-
Depreciation	5,165	-	-	10,873	-	186	16,224
Balance as February 29, 2020	**$ 69,457**	**$ 15,684**	**$ 15,000**	**$ 324,585**	**$ 1,250**	**$ 186**	**$ 426,162**
Net Carrying Amounts							
As at May 31, 2019	$ 7,449	$ -	$ -	$ 23,485	$ -	-	$ 30,934
As at February 29, 2020	**$ 33,232**	**$ -**	**$ -**	**$ 12,612**	**$ -**	**$ 44,490**	**$ 90,334**

(in Canadian dollars)

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 nine months ended February 29, 2020, total interest expense recorded under selling, general and administrative expenses was $ 10,171. 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 $209,039 and $260,381 as at February 29, 2020 and May 31, 2019 respectively, which is presented as a current liability on the statements of financial position.

7. Loans payable

The carrying values of loans payable were as follows:

		February 29, 2020		May 31, 2019
Current portion				
BDC Loans	$	**24,920**	$	47,420
Vehicle loans		**10,988**		14,560
		35,908		61,980
Non-current portion				
BDC Loans		**41,500**		56,440
Vehicle loans		**21,472**		28,990
		62,972		85,430
	$	**98,880**	$	147,410

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 nine- month period ended February 29, 2020 was $8,055 (February 28, 2019: $35,440)

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. As at November 30, 2019, $69,479 of dividends remain unpaid (May 31, 2019: $69,479). 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 31, 2018 and 2017, the Company redeemed $30,000 and $500,000 of Class A Preferred Shares respectively. During the period ended November 30, 2018, the Company redeemed the balance of $470,000 of Class A Preferred Shares.

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)

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. One whole warrant is exercisable to purchase one (1) Common Share at an exercise price of $0.70 per share for a period of 24 months from date of closing. The Company incurred agent commissions of $378,555, corporate finance fees of $40,000 paid to the agent, legal and related expenses of $366,872 for a total of $785,427, which was offset against the proceeds in equity.

The net proceeds from the issuance of units for $3,946,513 was allocated to common shares and warrants. The Black-Scholes option pricing model was used to determine the relative fair value of the warrants using the following weight average assumptions: Expected dividend yield of 0%; risk free interest rate of 2.21%; expected volatility of 100%; expected life of 2 years; and share price of $0.275. The total proceeds were allocated as follows:

Total proceeds	$ 4,731,940
Issuance costs	$ (785,427)
Net proceeds	$ 3,946,513
Allocated to share capital	$ 3,416,240
Allocated to warrant reserve	$ 530,273

The agent was granted 1,081,586 agent warrants, each warrant exercisable to purchase a unit at a price of $0.35 per unit for a period of 24 months from the date of listing. The fair value of these agent warrants was estimated at $121,861 using Black-Scholes option pricing model. The valuation considered the following assumptions- risk free rate of 2.21%; expected dividends 0%; expected forfeiture rate of 0%; expected volatility of 100%; expected life of 2 years; and unit price of $0.275.

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 Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weight average assumptions: Expected dividend yield of 0%; risk free interest rate of 1.68%; expected volatility of 100%; expected life of 3 years; and share price of $0.21.

The Company incurred agent commissions of $48,000 related to the private placement which was offset against proceeds within equity. 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. The fair value of these agent warrants was estimated at $18,692 using Black-Scholes option pricing model. The valuation considered the following assumptions- risk free rate of 1.68%; expected dividends 0%; expected forfeiture rate of 0%; expected volatility of 100%; share price of $0.21 and expected life of 3 years. The total proceeds were allocated as follows:

(in Canadian dollars)

8. Preferred shares liability and Common stock (continued)

Total proceeds	$ 600,000
Issuance costs	$ (48,000)
Net proceeds	$ 552,000
Allocated to share capital	$ 328,584
Allocated to warrant reserve – agent warrants	$ 18,692
Allocated to warrant reserve – common share purchase warrants	$204,724

In March 2019, the Company received cash for $1,000 for the exercise of 4,000 agent warrants at $0.25 per share. Accordingly, $312 was transferred from warrant reserve to share capital.

As at February 29, 2020 and May 31, 2019, the Company had the following number of shares outstanding post- split adjustment:

Description	February 29, 2020	May 31, 2019
Common A Shares	86,213,056	86,213,056
Class A Preferred Shares	-	-
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 February 29, 2020 and May 31, 2019 included the following. The origin of these related party receivables was to provide start-up costs and cash flow for start-up operations (see also note 21-subsequent events)

		February 29, 2020	May 31, 2019
Ready Aim Fire Enterprising Inc. (a) and (b)	$	613,535	793,792
Nerds On-Site South Africa (b)		168,285	202,813
Adam Networks Inc. (a) and (b)*		925,797	1,039,773
Other related parties (b)		41,731	91,086
	$	1,749,348	2,127,464

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

(in Canadian dollars)

9. Related party balances and transactions (Continued)

The Company recorded revenue from the following related parties during the three and nine months ended February 29, 2020 and February 28, 2019:

	Ready Aim Fire Enterprising Inc. ($)	Adam Networks Inc ($)	Nerds On-Site South Africa ($)	Total ($)
Three months ended February 29, 2020	16,245	18,251*	5,225	39,721
Three months ended February 28, 2019	21,643	7,164	6,321	35,128
Nine months ended February 29, 2020	63,519	57,476*	19,391	140,386
Nine months ended February 28, 2019	67,073	20,052	19,585	106,710

*interest on receivables

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

	For the three month period ended February 29, 2020	For the three month period ended February 28, 2019	For the nine month period ended February 29, 2020	For the nine month period ended February 28, 2019
Salaries and benefits, including bonuses	$ 82,800	$ 69,690	$ 254,400	$ 193,607
Directors fees	$ 33,000	$ 107,614	$ 114,809	$ 107,614
Total	$ 115,800	$ 177,304	$ 369,209	$ 301,221

(in Canadian dollars)

10. 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 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).

Each Unit consisted 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).

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

(in Canadian dollars)

10. Convertible debentures-Cont'd

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

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

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 Canadian dollars)

10. Convertible debentures-Cont'd

The continuity of the convertible debentures and the derivative liability is as follows:

Convertible debenture

	27-Oct-17	20-Nov-17	Total
Value of host debt instrument upon issuance	1,773,887	596,682	**2,370,569**
Less: Deferred financing costs	(161,041)	(60,779)	**(221,820)**
Debt instrument, net of deferred financing costs	1,612,846	535,903	**2,148,749**
Accretion expense	216,955	64,868	**281,823**
Amortization of deferred financing costs	95,301	31,971	**127,272**
Balance, May 31, 2018	1,925,102	632,742	**2,557,844**
Accretion expense	149,658	58,450	**208,108**
Amortization of deferred financing costs	65,740	28,808	**94,548**
Balance, before conversion	2,140,500	720,000	**2,860,500**
Accrued interest, May 31, 2018	126,671	37,874	**164,545**
Accrued interest prior to conversion	101,492	36,416	**137,908**
Total interest accrued	228,163	74,290	**302,453**
Total convertible debenture at conversion	2,368,663	794,290	**3,162,953**
Paid in cash	(144,190)	(45,206)	**(189,396)**
Balance before conversion	2,224,473	749,084	**2,973,557**
Reclassification to equity upon conversion	(2,224,473)	(749,084)	**(2,973,557)**
Convertible debenture as at May 31, 2019 and February 29, 2020	-	-	**-**

During the year ended May 31, 2019 and prior to the conversion, accretion expense of $208,108 (May 31, 2018: $281,823) and interest expense of $137,908 (May 31, 2018: $164,545) was recognized in the consolidated statement of loss and comprehensive loss.

(in Canadian dollars)

10. Convertible debentures-Cont'd

The fair value of the conversion feature on exercise was estimated using the Black-Scholes pricing model with the following assumptions: share price of $0.35, expected dividend yield of 0%, risk fee interest rate of 2.19%- 2.22%, volatility of 100%, and expected life of 0 years. At extinguishment, the Company recognized a gain on fair value of derivative liability of $104,225 in the consolidated statement of loss and comprehensive loss, and $286,095 of the derivative liability's value was reclassified to equity upon conversion.

Derivative liability

	27-Oct-17	20-Nov-17	Total
Value of derivative liability at issuance	366,613	123,318	489,931
Change in fair value of derivative liability	(77,178)	(22,434)	(99,612)
Value of conversion feature as at May 31, 2018	289,435	100,884	390,319
Change in fair value of derivative liability	(75,352)	(28,873)	(104,225)
Value of derivative liability as at conversion	214,083	72,011	286,094
Reclassification to equity upon conversion	(214,083)	(72,011)	(286,094)
Value of conversion feature as at May 31, 2019	-	-	-

The Black-Scholes option pricing model was used to determine the relative fair value of the warrants using the following weight average assumptions: Expected dividend yield of 0%; risk free interest rate of 2.16%; expected volatility of 100%; expected life of 2 years; and share price of $0.270.

The proceeds of the convertible debenture conversion were allocated as follows:

Total amounts reclassified to equity upon conversion	$ 3,259,651
Allocated to share capital	$ 2,169,489
Allocated to warrant reserve	$ 1,090,162

(in Canadian dollars)

11. Selling, general and administrative expenses

The Company has the following breakdown of selling, general and administrative expenses for the three and nine months ended February 29, 2020 and February 28, 2019:

	9 months 2020	9 months 2019	3 months 2020	3 months 2019
	$	$	$	$
Programming and related costs	682,068	375,627	223,813	117,209
Management remuneration and directors' fees	369,209	301,221	115,800	177,304
Office and administrative expenses	694,814	512,251	110,377	251,747
Payroll and related costs	253,973	254,527	94,329	104,748
Legal and professional	111,396	411,439	28,918	53,019
Advertising and promotion	479,550	269,159	96,695	88,459
Bank and interest charges	158,585	139,425	60,416	45,776
Business development	507,706	508,404	161,487	425,048
Communication	176,983	234,138	53,080	83,419
Automobile expenses	141,808	77,575	38,819	61,046
Total	3,576,092	3,083,766	983,734	1,407,775

12. Accounts Payable

Accounts payable and accrued liabilities as of February 29, 2020 and May 31, 2019 constitutes the following:

	February 29, 2020	May 31, 2019
	$	$
Accounts payable	**512,987**	443,840
Accrued liabilities	**176,256**	214,213
Wages payable	**5,817**	5,298
Subcontractor payable	**74,353**	40,513
Others	**39,399**	19,478
	808,812	723,342

13. 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 $67,263 as at February 29, 2020 (May 31, 2019: $73,378) is being amortized on certification over a period of 10 years.

(in Canadian dollars)

14. Right-of-use Asset

IFRS 16-right-of-use asset recognition (Note 15)	$385,470
Right -of-use asset at June 1, 2019	**$385,470**
Addition	$488,943
Amortization	$(156,077)
Balance, February 29, 2020	**$718,336**

Right-of-use asset includes prepayments and lease for vehicles amortized over their period of lease.

15. Lease Liability

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10% which is the Company's incremental borrowing rate. The continuity of the lease liabilities is presented in the table below:

Balance June 1, 2019	**$262,770**
Addition	$271,148
Accretion on lease obligation	$30,890
Lease payments made during the period	$(115,855)
Balance February 29, 2020	**$448,953**
As at February 29, 2020	
Less than one year	$141,214
Greater than one year	$307,739
Total lease obligation	$448,953

(in Canadian dollars)

16. Revenue

Details of revenue for the three and nine months ended February 29, 2020 and February 28, 2019:

	9 months 2020	9 months 2019	3 months 2020	3 months 2019
	$	$	$	$
Service fees	3,906,538	3,218,914	1,315,033	1,168,562
Product sales (Sale of software, hardware and related)	3,989,294	3,270,509	1,402,388	1,201,776
Miscellaneous fee	40,658	24,384	10,980	7,498
Total	7,936,490	6,513,807	2,728,401	2,377,836

17. Inventory

The Company had $20,494 and $22,974 of finished goods inventory purchased for resale as at February 29, 2020 and May 31, 2019, respectively. The value of the inventory is equivalent to lower of cost or market value as of the reporting dates above.

18. Segment information

The Company has a single reportable segment for managed IT consulting services.

The Company provides managed 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.

For the three months ended February 29, 2020, the Company's revenue comprises 97% sales in Canada and 3% sales within USA. (February 28, 2019: 96% sales within Canada and 4% sales within USA).

For the nine months ended February 29, 2020, the Company's revenue comprises 98% sales in Canada and 2% sales within USA. (February 28, 2019: 96% sales within Canada and 4% sales within USA).

As of February 29, 2020, all assets of the business are located in Canada except for cash and cash equivalent for $26,804 (May 31, 2019: $5,820), accounts receivable for $26,971 (May 31, 2019: $22,301), right-of-use asset for $701,062 (May 31, 2018: $nil) and prepaid expenses for $29,062 (May 31, 2018: $386,244) which are located in USA.

19. Short-term investments

The Company holds short-term investments that include $362,383 in term deposits. The principal accrues interest at 1.65% per annum and matures in March 2020.

(in Canadian dollars)

20. Warrants

The following table reflects the continuity of warrants for the period ended February 29, 2020:

	Number of warrants outstanding and exercisable #
Balance at May 31, 2017	-
Issued as part of convertible debentures	756,000
Balance at May 31, 2018	**756,000**
Issued as part of IPO Issuance (Note 8)	6,759,915
Agent warrants issued as part of IPO Issuance (Note 8)	1,081,586
Issued as part of convertible debentures conversion (Note 10)	11,894,226
Issued as part of Private Placement (Note 8)	3,000,000
Agent warrants issued as part of Private Placement (Note 8)	240,000
Exercised warrants (Note 8)	(4,000)
Expired warrants	(756,000)
Balance at May 31, 2019 and February 29, 2020	**22,971,727**

21. Subsequent events

Commencing March 1, 2020, the Company executed a new lease agreement for office space at 4026 Meadowbrook Drive, London, Ontario, N6L 1C. The lease is for a period for 10 years, with the annual rent for the first 5 years being $31,625 and for the balance of 5 years the annual lease rent will be $32,872.

In March 2020, the Company executed agreements with related parties to repay the outstanding balances with interest at 10% per annum, payable in monthly installments over a period of 5 years commencing April 1, 2020.

Since December 31, 2019, the break of the novel strain of coronavirus, specially identified as “COVID-19” has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Corporation and its operating subsidiaries in future periods.