

## **NERDS ON SITE INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **FOR THE YEAR ENDED MAY 31, 2020**

##### **FORWARD LOOKING STATEMENTS**

This MD&A may contain forward- looking statements that involve substantial known and unknown risks and uncertainties. All statements other than statements of historical fact are forward-looking statements, including, without limitation, statements regarding future financial position, business strategy, use of proceeds, corporate vision, proposed acquisitions, partnerships, joint-ventures and strategic alliances and cooperation's, budgets, cost and plans and objectives of or involving the Company. Such forward- looking information reflects management's current beliefs and is based on information currently available to management. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "targets", "aims", "anticipates" or "believes" or variations (including negative variations) of such words and phrases or may be identified by statements to the effect that certain actions "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. A number of known and unknown risks, uncertainties and other factors may cause the actual results or performance to materially differ from any future results or performance expressed or implied by the forward-looking information. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control of the Company including, but not limited to, the impact of general economic conditions and industry conditions. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Company does not assume any obligation to update or revise its forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by securities laws.

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 25, 2020. 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 consolidated financial statements and the accompanying notes thereto for the year ended May 31, 2020. The MD&A contains certain forward-looking information that involves risks and uncertainties, including but not limited to, those described in the "*Risk Factors*" section.

##### **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 2020" are to our fiscal year ended May 31, 2020, references to "Fiscal 2019" are to our fiscal year ended May 31, 2019, and references to "Fiscal 2018" are to our fiscal year ended May 31, 2018.

##### **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.

## Overview

The Company 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 a Managed IT and CyberSecurity service provider, we operate a network of 165 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.

We currently find ourselves in interesting and changing times – and by extension exciting ones! Classified an essential service business during this COVID 19 pandemic, Nerds On Site has not experienced a negative impact as so many other enterprises have. As a truly mobile and remote service with almost no burden of office or real estate overhead, our business model has proven most effective during this global event. In fact we have added approximately 5,500 new Clients in the current year – up from approximately 3,000 new Clients last year (increase of more than 80% on year to year).



## 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.*

In this current COVID-19 pandemic era, we have new safety protocols in place with our Nerds, and with our on-site service procedures with Clients. We are also preparing to respond to the 350+% \*increase in cybercrime activity and the resulting onslaught of monetization efforts of this criminal activity 6-12 months (and beyond) down the road. We are working at expanding our partnering efforts in the Risk Aversion and Cyber Insurance space to more fully serve business Clients and their business systems security needs.

Our efforts right now are provisioning the SME space with standard, secure and productive Remote Workplace station setups. The new normal may now be in development, with some of our old – and some of our new – Clients finding higher productivity opportunities with their distributed work-from-home team members. Another new offering is School Zone ([nerdsonsite.com/schoolzone](http://nerdsonsite.com/schoolzone)) for the challenging ‘back to school’ experience of families.

One thing becoming quite clear is that online security and technology will play an ever more important role in the new enterprise normal. Bright future for our Cyber Security focused NOS services indeed!

\*source: <https://www.pcmag.com/news/phishing-attacks-increase-350-percent-amid-covid-19-quarantine>

## COMPANY HIGHLIGHTS

- **Revenue** for the year ended May 31, 2020 was \$10,143,336 as compared to \$8,906,433 for the year ended May 31, 2019, an increase of \$1,236,903 or 14%.
- **Gross profit** for the year ended May 31, 2020 was \$2,639,410 as compared to \$2,265,522 for the year ended May 31, 2019, an increase of \$373,888 or 16%. Gross margin for 2020 was 26% was compared to 25% for 2019.
- **Selling, general and administrative expenses** for the year ended May 31, 2020 was \$4,470,336 as compared to \$5,272,185 for year ended May 31, 2019, a reduction of \$801,849 or 15%.
- **Cash used in operating activities** was (\$1,605,328) for the year ended May 31, 2020, compared to (\$3,617,077) for the year ended May 31, 2019, reflecting an improvement in cash used in operations of \$2,011,749.
- **Net loss** for the year ended May 31, 2020 was (\$2,034,711) as compared to (\$3,423,321) for the year ended May 31, 2019, a decrease of \$1,388,610 or 40%.
- **Loss per share-Basic and diluted** was (\$0.0236) for the year ended May 31, 2020 as compared to (\$0.0478) for the year ended May 31, 2019, a reduction in loss per share by 51%.

## Fundraising

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

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.

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

## **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.

### *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**

	<b>2020</b>	2019	2018
	\$	\$	\$
Total Revenue	<b>10,143,336</b>	8,906,433	8,439,576
Gross Profit	<b>2,639,410</b>	2,265,522	2,191,967
Operating Expenses	<b>4,719,909</b>	5,306,610	3,030,015
Operating profit (loss)	<b>(2,080,499)</b>	(3,041,088)	(838,048)
Net loss	<b>(2,034,711)</b>	(3,423,321)	(1,517,614)
Loss per share - Basic and Diluted	<b>(0.0236)</b>	(0.0478)	(0.0283)
Total Assets	<b>2,837,657</b>	4,998,194	4,323,903
Total Liabilities	<b>1,591,570</b>	1,717,396	5,610,382
Cash flows from (used in) operating activities	<b>(1,605,328)</b>	(3,617,077)	(395,213)
Cash flows from investing activities	<b>1,656,557</b>	(1,706,534)	(21,220)
Cash flows used in financing activities	<b>108,327</b>	4,144,508	1,714,969

## **Discussion of Operations-Years ended May 31, 2020, 2019 and 2018**

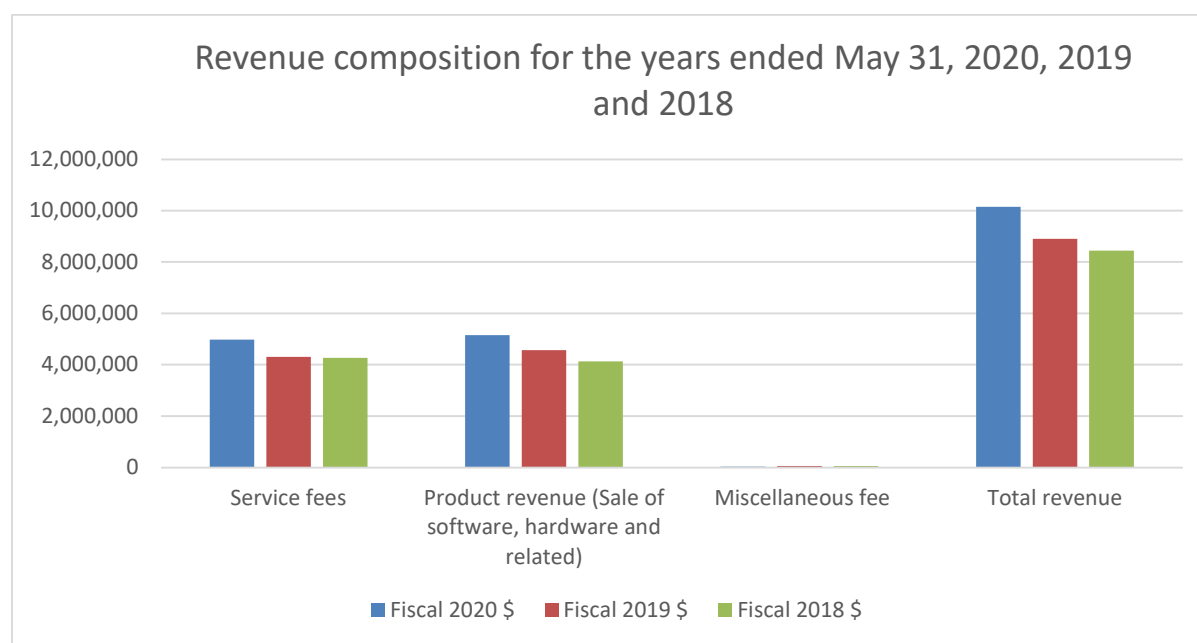
### *Revenue*

The Company has a single reportable segment for managed IT consulting services. We recorded total revenue of \$10,143,336 in Fiscal 2020, \$8,906,433 in Fiscal 2019 and \$8,439,576 for Fiscal 2018. Total revenue increased by

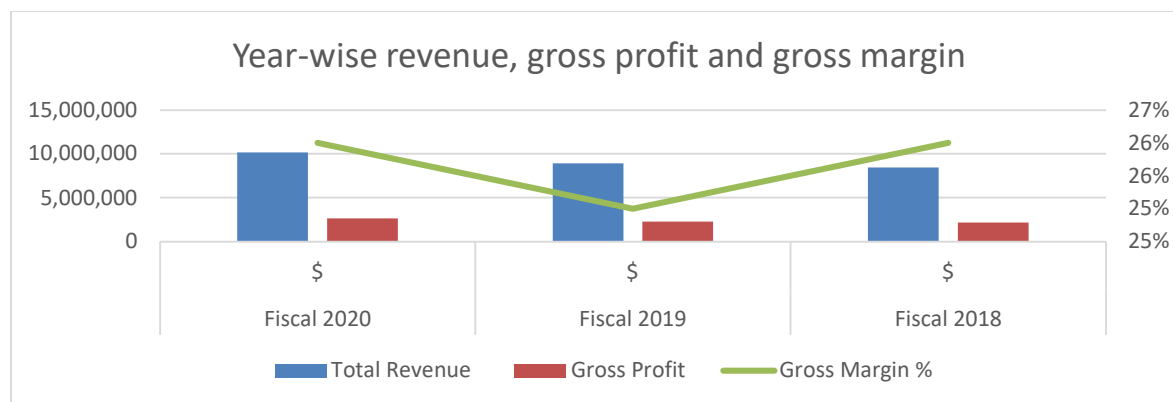
14% in Fiscal 2020 when compared to Fiscal 2019 and increased by 6% in Fiscal 2019 when compared to Fiscal 2018.

In Fiscal 2019 and onwards, 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			
	<b>Fiscal 2020</b>	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Service fees	<b>4,971,575</b>	4,296,638	4,259,788
Product revenue (Sale of software, hardware and related)	<b>5,151,552</b>	4,561,923	4,123,458
Miscellaneous fee	<b>20,209</b>	47,872	56,330
<b>Total revenue</b>	<b>10,143,336</b>	8,906,433	8,439,576



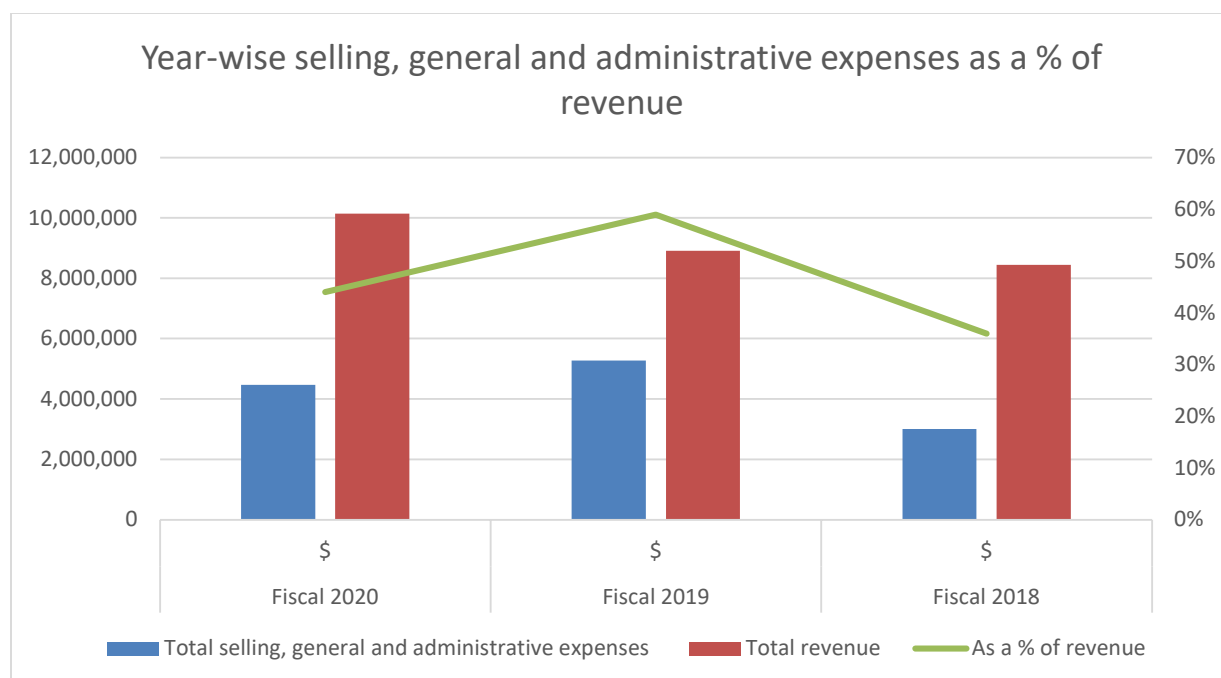
Gross profits and gross margins			
	<b>Fiscal 2020</b>	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Total Revenue	<b>10,143,336</b>	8,906,433	8,439,576
Gross Profit	<b>2,639,410</b>	2,265,522	2,191,967
Gross Margin %	<b>26%</b>	25%	26%



The Company has the following breakdown of selling, general and administrative expenses for the years ended May 31, 2020, 2019, 2018:

	2020	2019	2018
	\$	\$	\$
Programming and related costs	<b>878,144</b>	974,271	711,009
Office and administrative expenses	<b>744,766</b>	740,018	334,442
Business development	<b>679,895</b>	732,966	162,794
Advertising and promotion	<b>511,909</b>	652,073	287,603
Management remuneration	<b>432,209</b>	642,177	396,581
Legal and professional	<b>223,114</b>	579,605	303,650
Payroll and related costs	<b>387,881</b>	320,144	267,044
Communication	<b>233,496</b>	279,750	127,081
Bank and interest charges	<b>211,156</b>	185,447	192,418
Automobile expenses	<b>167,766</b>	110,145	17,492
	<b>4,470,336</b>	5,272,185	3,005,883

<b>Selling, general and administrative expenses</b>			
	<b>Fiscal 2020</b>	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Total selling, general and administrative expenses	<b>4,470,336</b>	5,272,185	3,005,883
Total revenue	<b>10,143,336</b>	8,906,433	8,439,576
As a % of revenue	<b>44%</b>	59%	36%



Selling, general and administrative expenses have seen a substantial decline in 2020 as compared to 2019, with decrease in expense by more than \$800,000. The total revenue has also increased by 14% in 2020 as compared to 2019. The main drivers for the decrease in expenses in 2020 as compared to 2019 is the reduction in programming and related costs, business development costs, advertising and promotion costs, legal and professional and management remuneration costs.

Our operating loss was 2,080,499 in fiscal 2020 as compared to operating loss of \$3,041,088 in fiscal 2019. Beyond the impact of selling, general and general expenses as noted above, the other major drivers for our annual operating losses in 2020 and 2019 is the loss of \$51,895 in 2020 (2019: \$nil) arising out of the early termination of vehicle leases and amortization of right-of-use assets for \$165,059 in 2010 on the adoption of IFRS 16 (2019: \$nil).

Key balance sheet items	Fiscal 2020	Fiscal 2019	Fiscal 2018
	\$	\$	\$
	<b>2,837,657</b>	4,998,194	4,323,903
Total Assets			
<b>1,591,570</b>	1,717,396	5,610,382	
Total Liabilities			
<b>\$nil</b>	\$nil	\$nil	
Cash dividends declared for common shares			

The primary reason for increase in total assets and reduction in total liabilities in prior fiscal 2019 is the direct result of the Company's increase in cash flow for \$4,144,508 in financing activities in the prior year. In Fiscal 2020, the Company did not raise any cash from private placements and focussed on increase in revenue and monitoring of operating costs.

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.



<b>Trade and other receivables</b>			
	<b>Fiscal 2020</b>	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Accounts receivables (net)	<b>144,335</b>	230,347	125,982
Days sales outstanding (“DSO”)	<b>5 days</b>	9 days	5 days

We have a diverse group of customers, not one of which represents greater than 10% of the total receivables balance.

<b>Accounts payable and accrued liabilities</b>			
	<b>Fiscal 2020</b>	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Accounts payable	<b>336,390</b>	443,840	623,434
Accrued liabilities	<b>308,365</b>	214,213	155,566
Wages payable	<b>13,253</b>	5,298	11,995
Subcontractor payable	<b>33,994</b>	40,513	33,359
Accrued interest	-	-	164,545
Others	<b>20,856</b>	19,478	26,989

#### 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.

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.

<b>Contract liabilities</b>			
	Fiscal 2020	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Contract liabilities	<b>267,659</b>	367,684	268,430

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.

<i>Liquidity and capital resources</i>			
	Fiscal 2020	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Cash	<b>316,793</b>	157,237	1,336,340
Short-term investments	-	1,716,104	-

The Company's primary revenues have come from its sale of software, hardware and consulting services. The Company has also increased liquidity through equity and 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 \$4.7 Million 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:

<b>Cash-Flow</b>			
	Fiscal 2020	Fiscal 2019	Fiscal 2018
	\$	\$	\$
Operating activities	<b>(1,605,328)</b>	(3,617,077)	(395,213)
Investing activities	<b>1,656,557</b>	(1,706,534)	(21,220)
Financing activities	<b>108,327</b>	4,144,508	1,714,969
Increase (decrease) in cash	<b>159,556</b>	(1,179,103)	1,298,536
Cash beginning of period/year	<b>157,237</b>	1,336,340	37,804
Cash end of period/year	<b>316,793</b>	157,237	1,336,340

*Net cash from (used) in operating activities*

Cash used in operations for Fiscal 2020 was \$(1,605,328) compared to cash used in operations for Fiscal 2019 of \$(3,617,077). The primary driver of the year-over-year change was the increase in revenues and decrease in selling, general and administrative costs in Fiscal 2020 which resulted in net loss of \$2,034,711 in Fiscal 2020 as compared to a net loss of \$3,423,321 in Fiscal 2019. The timing of receipts and payments, including decrease in accounts receivables by \$86,012 in Fiscal 2020 as compared to Fiscal 2019 and decrease in prepaid expenses for \$178,086 in

Fiscal 2020 as compared to Fiscal 2019 resulted in decrease in usage in cash from operating activities in Fiscal 2020 as compared to Fiscal 2019 by \$2,011,749.

*Net cash from (used) in investing activities*

Cash inflow from investing activities was \$1,656,557 in Fiscal 2020 as compared to cash usage of (\$1,706,534) in Fiscal 2019. During Fiscal 2020, the inflow of cash primarily related to reduction in short-term investments for \$1,716,104.

*Net cash from (used) in financing activities*

Net cash from financing activities in Fiscal 2020 was \$108,327 as compared to \$4,144,508 in Fiscal 2019.

Fiscal 2019

On November 26, 2018, the Company announced that it had completed its initial public offering (“IPO”) for gross proceeds of \$4,731,940. 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 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 March 2019, the Company raised \$600,000 by way of a non-brokered private placement offering. The Company incurred agent commissions of \$48,000 related to the private placement.

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.

As of May 31, 2020, the Company has a working capital deficiency of \$692,130

As of May 31, 2019, the Company has a working capital of \$1,283,452

As of May 31, 2018, the Company has a working capital deficiency of \$3,752,540

The following constitutes the current assets and current liabilities as of May 31, 2020:

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<b>ASSETS</b>	
<b>CURRENT</b>	
Cash	\$ 316,793
Restricted cash	-
Short-term investments	-
Accounts receivable (net)	144,335
Inventory	34,542
Prepaid expenses and other current assets	121,175
Current portion of due from related party	324,984
	<hr/>
	941,829
	<hr/>

**LIABILITIES****CURRENT**

Accounts payable and accrued liabilities	\$	712,859
Contract liabilities		267,659
Bank debt		206,649
Preferred shares		100
Dividend payable		69,479
Convertible debentures		-
Derivative liability		-
Current portion of lease liabilities		22,366
Current portion of loans payable		29,863
		<u>1,308,975</u>

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

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**ASSETS****CURRENT**

Cash	\$	157,237
Restricted cash		-
Short-term investments		1,716,104
Accounts receivable (net)		230,347
Inventory		22,974
Prepaid expenses and other current assets		639,756
		<u>2,766,418</u>

**LIABILITIES****CURRENT**

Accounts payable and accrued liabilities	\$	723,342
Contract liabilities		367,684
Bank debt		260,381
Preferred shares		100
Dividend payable		69,479
Convertible debentures		-
Derivative liability		-
Current portion of lease liabilities		-
Current portion of loans and capital leases payable		61,980
		<u>1,482,966</u>

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

<b>ASSETS</b>	
<b>CURRENT</b>	
Cash	\$ 1,336,340
Restricted cash	2,286
Accounts receivable (net)	125,982
Inventory	72,435
Prepaid expenses and other current assets	89,891
	<u>1,626,934</u>
<b>LIABILITIES</b>	
<b>CURRENT</b>	
Accounts payable and accrued liabilities	\$ 1,015,888
Contract liabilities	268,430
Bank debt	273,312
Preferred shares	470,100
Dividend payable	60,417
Convertible debentures	2,557,844
Derivative liability	390,319
Current portion of loans payable	343,164
	<u>5,379,474</u>

*Contractual Obligations*

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

Fiscal year	Principal
2021	\$ 29,863
2022	25,636
2023	61,732
2024	5,693
2025	2,498
2026	-
	<u>\$ 125,422</u>

The carrying values of our loan payable are as follows:

	<u>May 31, 2020</u>	<u>May 31, 2019</u>
<i>Current portion</i>		
BDC Loans	\$ 19,920	\$ 47,420
Vehicle loans	9,943	14,560
	<u>29,863</u>	<u>61,980</u>
<i>Non-current portion</i>		
BDC Loans	36,520	56,440
CERB loan	40,000	-
Vehicle loans	19,039	28,990
	<u>95,559</u>	<u>85,430</u>
	<u>\$ 125,422</u>	<u>\$ 147,410</u>

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.

CERB (Canada Emergency Business Account) is an interest free loan to assist with cash flow needs. If this loan is repaid in full by December 31, 2022, 25% of the amount loaned under CEBA is forgiven.

In addition, 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. 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 balance outstanding was \$206,649 and \$260,381 at May 31, 2020 and May 31, 2019, respectively, and is presented as a current liability in the consolidated statements of financial position.

	<b>Payments Due by Period</b>				
	<b>Total (thousands of dollars)</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>4 – 5 Years</b>	<b>After 5 Years</b>
<b>Contractual Obligations</b>	<b>Total</b>	<b>Year</b>	<b>Years</b>	<b>Years</b>	<b>5 Years</b>
Obligations	Total	Year	Years	Years	5 Years
Loans Obligation	125,422	29,863	87,368	8,191	nil
Purchase Obligations	nil	nil	Nil	Nil	nil

*Off-balance sheet arrangement*

The Company has no off-balance sheet arrangement as of May 31, 2020 and May 31, 2019.

*Transactions with related parties*

Amounts due from related parties as of May 31, 2020 and May 31, 2019 represent funds to provide start-up costs and cash flow for start-up operations. The Company has executed agreements with these related parties to repay the principal outstanding over a period of five years at rates of interest ranging from 8%pa to 10%pa. In addition, an amount of \$149,000 due to a related party in the prior year was netted during the year with a receivable from related party. The carrying values of the related party balances were as follows:

	<b>May 31, 2020</b>	<b>May 31, 2019</b>
<i>Current portion</i>		
Ready Aim Fire Enterprising Inc. (a) and (b)	\$ 98,830	\$ -
Nerds On-Site South Africa (b)	27,455	-
Adam Networks Inc. (a) and (b)*	198,699	-
	<u>\$ 324,984</u>	<u>\$ -</u>
<i>Non-current portion</i>		
Ready Aim Fire Enterprising Inc. (a) and (b)	\$ 481,724	\$ 793,792
Nerds On-Site South Africa (b)	135,581	202,813
Adam Networks Inc. (a) and (b)*	676,475	1,039,773
Other related parties (b)	46,621	91,086
	<u>\$ 1,340,401</u>	<u>\$ 2,127,464</u>

(a) via same key management personnel

(b) by virtue of common control

\* This related party changed its name from DNSthingy Inc to Adam Networks Inc.

The Company recorded revenue from the following related parties during the years ended May 31, 2020, 2019 and 2018:

	<u>Ready Aim Fire Enterprising Inc.</u>	Adam Networks Inc	Nerds On- Site South Africa	Total
	(\$)	(\$)	(\$)	(\$)
Year ended May 31, 2020	86,006 (a)	74,794 (b)	26,262 (c)	187,062
Year ended May 31, 2019	89,339	29,844	-	119,183
Year ended May 31, 2018	82,767	9,723	-	92,490

(a) includes interest on receivables for \$4,792

(b) includes interest on receivables for \$74,794

(c) includes interest on receivables for \$2,666

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

	2020	2019*	2018**
	\$	\$	\$
Salaries and benefits, including bonuses	<b>284,400</b>	281,606	396,580
Directors fees	<b>147,809</b>	107,614	-
Stock-based compensation	-	231,434	-
	<b>432,209</b>	620,654	396,580

\*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 valued at \$231,434

\*\*The Company issued 7,500,000 common shares for \$150,000 owed to a related party for services during the year ended May 31, 2018.

### 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, 2020 and 2019, the Company had the following number of shares outstanding post- split adjustment:

<b>Description</b>	<b>May 31, 2020</b>	<b>May 31, 2019</b>
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

## **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.

The following default rates are used to calculate the ECLs on billed receivables as at May 31, 2020:

	Total	Current	Over 30 days	Over 60 days	Over 90 days
Default rates (%)		0.46%	9.39%	26.10%	40.59%
Trade receivables (\$)	281,329	63,206	12,650	8,510	196,963
<b>Provision for ECL (\$)</b>	<b>83,647</b>	<b>291</b>	<b>1,188</b>	<b>2,221</b>	<b>79,947</b>

Provision for expected credit losses, as above	\$	83,647
Add: additional specific identification	\$	53,347
<b>Total expected credit losses</b>	<b>\$</b>	<b>136,994</b>

The following default rates are used to calculate the ECLs on billed receivables as at May 31, 2019:

	Total	Current	Over 30 days	Over 60 days	Over 90 days
Default rates (%)		0.78%	18.01%	30.33%	50.88%
Trade receivables (\$)	353,308	104,356	75,816	10,362	162,774
<b>Provision for ECL (\$)</b>	<b>100,430</b>	<b>814</b>	<b>13,654</b>	<b>3,143</b>	<b>82,819</b>

Provision for expected credit losses, as above	\$	100,430
Add: additional specific identification	\$	22,531
<b>Total expected credit losses</b>	<b>\$</b>	<b>122,961</b>

#### *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.

As at May 31, 2020 and 2019, the Company was exposed to currency risk for its US dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Held in US dollars (stated in Canadian dollars)	
	May 31, 2020	May 31, 2019
Cash	\$ 35,704	\$ 1,458
Accounts receivable	13,639	22,301
Inventory	39	1,147
Prepaid expenses	25,066	386,244
Accounts payable	(45,902)	(73,463)
<b>Net financial assets</b>	<b>\$ 28,546</b>	<b>\$ 337,687</b>

Based upon the above net exposure as at May 31, 2020, an 8% depreciation or appreciation of the US dollar relative to the Canadian dollar would result in approximately \$2,300 (May 31, 2019 - \$27,000) change in the Company's consolidated net loss and comprehensive loss.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty raising liquid funds to meet commitments as they fall due. The Company manages liquidity risk by maintaining adequate cash balances and borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The following table gives the Company's financial liabilities and contractual maturities as follows:

		<i>&lt;1 year</i>	<i>1-2 years</i>	<i>&gt;3 years</i>	<i>Total</i>
Accounts payable and accrued liabilities	\$	712,859	-	-	\$ 712,859
Contract liabilities	\$	267,659	-	-	\$ 267,659
Bank debt	\$	206,649	-	-	\$ 206,649
Dividend payable	\$	69,479	-	-	\$ 69,479
Loans and capital leases	\$	29,863	\$ 87,368	\$ 8,191	\$ 125,422
Lease liability	\$	22,366	\$ 19,243	\$ 167,793	\$ 209,402

### *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 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.

#### *Financial instruments*

Financial assets and liabilities are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortized cost ("AMC"), based on the business model and its contractual cash flow characteristics.

#### *Adoption of IFRS 16 Leases*

Effective June 1, 2019 (hereafter referred to as the "date of initial application"), the Company adopted IFRS 16 Leases as issued by the IASB in January 2016. The standard sets out the principles for the recognition,

measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for prior year has not been restated. It remains as previously reported under IAS 17 and related interpretations. On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments. Right-of-use assets and lease obligations of \$262,770 were recorded as of June 1, 2019, with no net impact on deficit. When measuring lease liabilities, the Company discounted lease payments using an incremental borrowing rate of 10% for all leases. The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after June 1, 2019.

The Company's incremental borrowing rate is used to estimate the initial value of the lease liability and associated right of use asset. The Company's incremental borrowing rate is determined with reference to the borrowing rate for a similar asset within a country for a similar lease term.

## **Risks Related to Our Business and Industry**

### ***Uncertainty due to Covid-19***

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.

***If the Corporation fails to identify, recruit and contract with a sufficient number of qualified Consultants, our ability to increase revenues could be materially adversely affected.***

We may not be able to identify, recruit or contract with suitable Consultants in our target markets on a timely basis or at all. In addition, our Consultants may not ultimately be able to access the financial or management resources that they need to operate the business, or they may elect to cease business development for other reasons. If we are unable to recruit suitable Consultants or if our Consultants are unable or unwilling to continue to act as consultants, our growth may be slower than anticipated, or cease, which could materially adversely affect our ability to increase our revenue and materially adversely affect our business, financial condition and results of operations.

***New Consultants may not be profitable initially and may adversely impact our business.***

Historically, many of our new Consultants go through an initial ramp-up period typically lasting 6 to 12 months, during which time they generate sales and income below the levels at which we expect. This is in part due to the time it takes to build a customer base in a new area and other start-up inefficiencies that are typical of new businesses. It may also be difficult for us and our Consultants to attract a customer base, or otherwise overcome the higher costs associated with a new business. New Consultants may not have results similar to existing Consultants or may not be profitable. If new Consultants remain unprofitable for a prolonged period of time, we may jointly decide to terminate

the franchise relationship. The termination of a franchise agreement could have a negative impact on our business and operating results.

***The Corporation has a history of negative cash flow from operating activities.***

The Corporation had negative cash flow from operating activities in its financial year ended May 31, 2019 and may have negative cash flow from operating activities in the future. Some or all of the net proceeds of the Offerings may be used to fund any negative operating cash flow.

***Our expansion into new markets in the United States may present increased risks due to lower customer awareness of our brand, our unfamiliarity with those markets and other factors.***

While we intend to expand into the United States, our operating experience in Canada may not be relevant or necessarily translate into similar results in the U.S. market. We anticipate that our U.S. franchise partners will experience lower brand awareness, lower sales and/or transaction counts. As a result, new U.S. consultants may be less successful than their Canadian counterparts. Consultants in new markets may take longer to ramp up and reach expected sales and profit levels, or may never do so, thereby affecting our overall growth and profitability as a result of reduced royalty revenue. To build brand awareness in these new markets, we and our franchise partners may need to make greater investments in advertising and promotional activity than originally planned, which could negatively impact the profitability of our operations in those markets. We may also find it more difficult in these new markets to hire, motivate and keep qualified Consultants who can project our vision, passion and culture. The United States may also have regulatory differences with Canada, which we and our U.S. franchise partners may not be familiar with, or that subject us and our U.S. Consultants to significant additional expense or to which we and our U.S. Consultants are not able to successfully comply with, which may have a particularly adverse impact on their sales or profitability and could in turn adversely impact our revenue and results of operations. If we do not successfully execute our U.S. expansion plans, our business, financial condition and results of operations could be materially adversely affected.

***Our proposed expansion into the United States may be scaled back or abandoned.***

While the Corporation intends to proceed with its expansion into the United States, the Corporation may scale back or abandon the U.S. expansion and reallocate its capital resources to its Canadian operations if the Corporation is unable to successfully establish itself in the U.S. market.

***Our business and results of operations depend in significant part on the future performance of our Consultants, and we are subject to a variety of additional risks associated with our Consultants.***

Our business and results of operations are significantly dependent upon the success of our franchise partners and Consultants. Our franchise partners and Consultants may be adversely affected by:

- declining economic conditions;
- increased competition in the IT services industry;
- changes in the IT services industry generally, including the way IT services are delivered to consumers;
- demographic trends;
- customers' budgeting constraints; and
- our reputation and consumer perception of our market position.

Our revenue comes from royalties generated by our franchise partners and Consultants. We anticipate that franchise royalties will represent a substantial part of our revenue in the future. Accordingly, we are heavily reliant on the performance of our franchise partners and Consultants in successfully operating their businesses and paying royalties to us on a timely basis. Our franchise system subjects us to a number of risks, any one of which may impact our ability to collect royalty payments from our franchise partners, may harm the goodwill associated with our franchise, and/or may materially adversely affect our business and results of operations.

***Failure to support our expanding Consultant network could have a material adverse effect on our business, financial condition and results of operations.***

Our growth strategy depends significantly on expanding our Consultant network, which will require the implementation of enhanced management information systems, financial controls and other systems and procedures as well as additional management, franchise support and financial resources. We may not be able to manage our expanding Consultant base effectively. Failure to provide our Consultants with adequate support and resources could materially adversely affect both our new and existing Consultants as well as cause disputes between us and our Consultants and potentially lead to material liabilities. This may also lead to fewer qualified persons seeking to become new Consultants. Any of the foregoing could materially adversely affect our business, financial condition and results of operations.

***We and our Consultants rely heavily on information technology, and any material failure, weakness, interruption or breach of our security systems could prevent us from effectively operating our business.***

Our operations depend upon our collective ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, expanding our systems as we grow or a breach in security of these systems could result in delays in customer service and reduce efficiency in our operations. Remediation of such problems could result in significant and unplanned capital investments.

***We have limited influence over the operations of our Consultants, and we require their cooperation.***

Our success relies in part on the financial success and cooperation of our Consultants, yet we have limited influence over their operations. Our Consultants manage their businesses independently. The revenues we realize from Consultants are largely dependent on the ability of our Consultants to grow their sales or maintain existing sales. Our Consultants may not experience sales growth or maintain existing sales, and our revenues and margins could be negatively affected as a result. If sales trends worsen for Consultants, their financial results may deteriorate, which could result in, among other things, delayed or reduced royalty payments to us.

Our success also depends on the willingness and ability of our Consultants to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, promotional and capital-intensive reinvestment plans. If Consultants do not successfully operate their business in a manner consistent with our required standards, the brand's image and reputation could be harmed, which in turn could hurt our business and results of operations.

#### ***Conflicts of Interest***

Certain of the directors and officers of the Corporation also serve as directors and/or officers of other companies involved in information technology. To the extent that such other companies may participate in ventures which the Corporation may participate there exists the possibility for such directors and officers to be in a position of conflict. Such directors and officers have duties and obligations under the laws of Canada to act honestly and in good faith with a view to the best interests of the Corporation and its Shareholders. Accordingly, such directors and officers will declare and abstain from voting on any matter in which such director and/or officer may have a conflict of interest.

***If the Corporation is not able to continue to innovate or if the Corporation fails to adapt to changes in the IT services industry, the Corporation's business, financial condition and results of operations would be materially and adversely affected.***

The IT services industry is characterized by rapidly changing technology, evolving industry standards, new service and product introductions and changing customer demands. Furthermore, the Corporation's competitors are constantly developing innovations to service options. The Corporation's failure to innovate and adapt to these changes would have a material adverse effect on the Corporation's business, financial condition and results of operations.

***Security breaches and attacks against the Corporation's systems and network, and any potentially resulting breach or failure to otherwise protect confidential and proprietary information could damage the Corporation's***

***reputation and negatively impact the Corporation's business, as well as materially and adversely affect the Corporation's financial condition and results of operations.***

Although the Corporation intends to employ significant resources to develop the Corporation's security measures against breaches, the Corporation's cybersecurity measures may be unable to detect or prevent all attempts to compromise the Corporation's systems, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in and transmitted by the Corporation's systems or that the Corporation otherwise maintains. Breaches of the Corporation's cybersecurity measures could result in unauthorized access to the Corporation's systems, misappropriation of information or data, deletion or modification of user information, or a denial-of-service or other interruption to the Corporation's business operations. As techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against the Corporation, the Corporation may be unable to anticipate, or implement adequate measures to protect against, these attacks.

***The Corporation may be subject to material litigation.***

In connection with the Corporation's planned U.S. expansion, it may face an increasing number of claims, including those involving higher amounts of damages. The outcome of any claims, investigations and proceedings is inherently uncertain, and in any event defending against these claims could be both costly and time consuming and could significantly divert the efforts and resources of the Corporation's management and other personnel. An adverse determination in any such litigation or proceedings could cause the Corporation to pay damages as well as legal and other costs, limit the Corporation's ability to conduct business and change the manner in which the Corporation operates.

***The Corporation may need additional capital but may not be able to obtain it on favorable terms or at all.***

The Corporation may require additional cash resources due to future growth and development of the Corporation's business, including any investments or acquisitions the Corporation may decide to pursue. If the Corporation's cash resources are insufficient to satisfy the Corporation's cash requirements, the Corporation may seek to issue additional equity or debt securities or obtain new or expanded credit facilities. The Corporation's ability to obtain external financing in the future is subject to a variety of uncertainties, including the Corporation's future financial condition, results of operations, cash flows and share price performance. In addition, incurring indebtedness would subject the Corporation to increased debt service obligations and could result in operating and financing covenants that would restrict the Corporation's operations. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to it, or at all. Any failure to raise needed funds on terms favorable to the Corporation, or at all, could severely restrict the Corporation's liquidity as well as have a material adverse effect on the Corporation's business, financial condition and results of operations. Moreover, any issuance of equity or equity-linked securities could result in significant dilution to the Corporation's existing shareholders.

***Our dual class share structure has the effect of concentrating voting control and the ability to influence corporate matters with Nerds On Site Holdings Ltd., a corporation controlled by Charles Regan, John Harbarenko and David Redekop.***

Our Class B special shares have 10 votes per share and our Subordinate Voting Shares have one vote per share. Nerds On Site Holdings Ltd., the corporation controlled by our Chief Executive Officer and our founders, will hold all of our Class B special shares and will hold approximately 65% of the voting power of our outstanding voting shares following the Offering (assuming the maximum Offering, but no exercise of the Over-Allotment Option) and will therefore have significant influence over our management and affairs and over all matters requiring shareholder approval, including election of directors and significant corporate transactions. The concentrated voting control of Nerds On Site Holdings Ltd. will limit the ability of the holders of our Subordinate Voting Shares to influence corporate matters for the foreseeable future, including the election of directors as well as with respect to decisions regarding amendments of our share capital, creating and issuing additional classes of shares, making significant



acquisitions, selling significant assets or parts of our business, merging with other companies and undertaking other significant transactions.

Each of our directors and officers owes a fiduciary duty to the Corporation and must act honestly and in good faith with a view to the best interests of the Corporation. However, any director and/or officer that is a shareholder, even a controlling shareholder, is entitled to vote its shares in its own interests, which may not always be in the interests of our shareholders generally. The concentration of voting power in Nerds On Site Holdings Ltd. may also have an adverse effect on the price of our Subordinate Voting Shares. Nerds On Site Holdings Ltd. may take actions that our other shareholders do not view as beneficial, which may adversely affect our results of operations and financial condition and cause the value of your investment to decline.