

NERDS ON SITE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 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 January 27, 2021. 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 interim unaudited financial statements for the period ended November 30, 2020 and our audited 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 audited financial statements for the year ended May 31, 2020 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. The financial statements for the quarter ended November 30, 2020 are condensed financial statements.

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.

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.



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 for our Nerds and clients, including enhanced on-site service safety procedures. 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 on 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 are focused on provisioning the SME space with standard, secure and productive Remote Workplace station setups. We are developing strategies to provide our existing and new clients with opportunities to increase productivity with their distributed work-from-home team members. Another new offering is School Zone (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 three- month period ended November 30, 2020 was \$2,452,312 as compared to \$2,277,400 for the prior period ended November 30, 2019, an increase of \$174,912. Revenue for the six- month period ended November 30, 2020 was \$4,748,222 as compared to \$5,208,089 for the prior period ended November 30, 2019, a decrease of \$459,867. The primary reason for drop in revenue in current six- month period as compared to prior six- month period was the added revenue of approximately \$450,000 in prior period arising from a non repetitive cyber security project.
- **Gross profit** for the six- month period ended November 30, 2020 was \$1,370,999 as compared to \$1,256,255 for the prior six-month period ended November 30, 2019. Despite a drop in revenue, gross margin for the current six-month period as a percentage of revenue was 28.9% as compared to 24.1% in prior period.
- **Gross profit** for the three- month period ended November 30, 2020 was \$693,782 as compared to \$524,844 for the prior three-month period ended November 30, 2019. Gross margin for the current three-month period as a percentage of revenue was 28.3% as compared to 23.1% in prior period.
- **Selling, general and administrative expenses** for the six-month period ended November 30, 2020 were \$1,605,743 as compared to \$2,592,358 for prior six -month period ended November 30, 2019. The substantial reduction in expenses of \$986,615 or 38% is a result of the Company's general and administrative cost reduction strategies.
- **Selling, general and administrative expenses** for the three-month period ended November 30, 2020 were \$791,257 as compared to \$1,301,993 for prior three -month period ended November 30, 2019. The substantial reduction in expenses of \$510,736 or 39% is a result of the Company's general and administrative cost reduction strategies.
- **Cash used in operating activities** was (\$110,431) for the six-month period ended November 30, 2020, compared to (\$1,174,836) for the prior period ended November 30, 2019, reflecting an improvement in cash used in operations by \$1,064,405.
- **Net loss** for the six-month period ended November 30, 2020 was \$252,167 as compared to net loss of \$1,435,765 for the six-month prior period ended November 30, 2019, a substantial reduction in net loss by \$1,183,598 or 82%. This is in line with the Company's cost reduction strategy.
- **Net loss** for the three-month period ended November 30, 2020 was \$107,173 as compared to net loss of \$846,098 for the three-month prior period ended November 30, 2019, a substantial reduction in net loss by \$738,925 or 87%. This is in line with the Company's cost reduction strategy.
- **Loss per share-Basic and diluted** was (\$0.0029) for the six-month period ended November 30, 2020 as compared to (\$0.0167) for the six-month prior period ended November 30, 2019, a reduction in loss per share by 82%.
- **Loss per share-Basic and diluted** was (\$0.0012) for the three-month period ended November 30, 2020 as compared to (\$0.0098) for the three-month prior period ended November 30, 2019, a reduction in loss per share by 88%.

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.

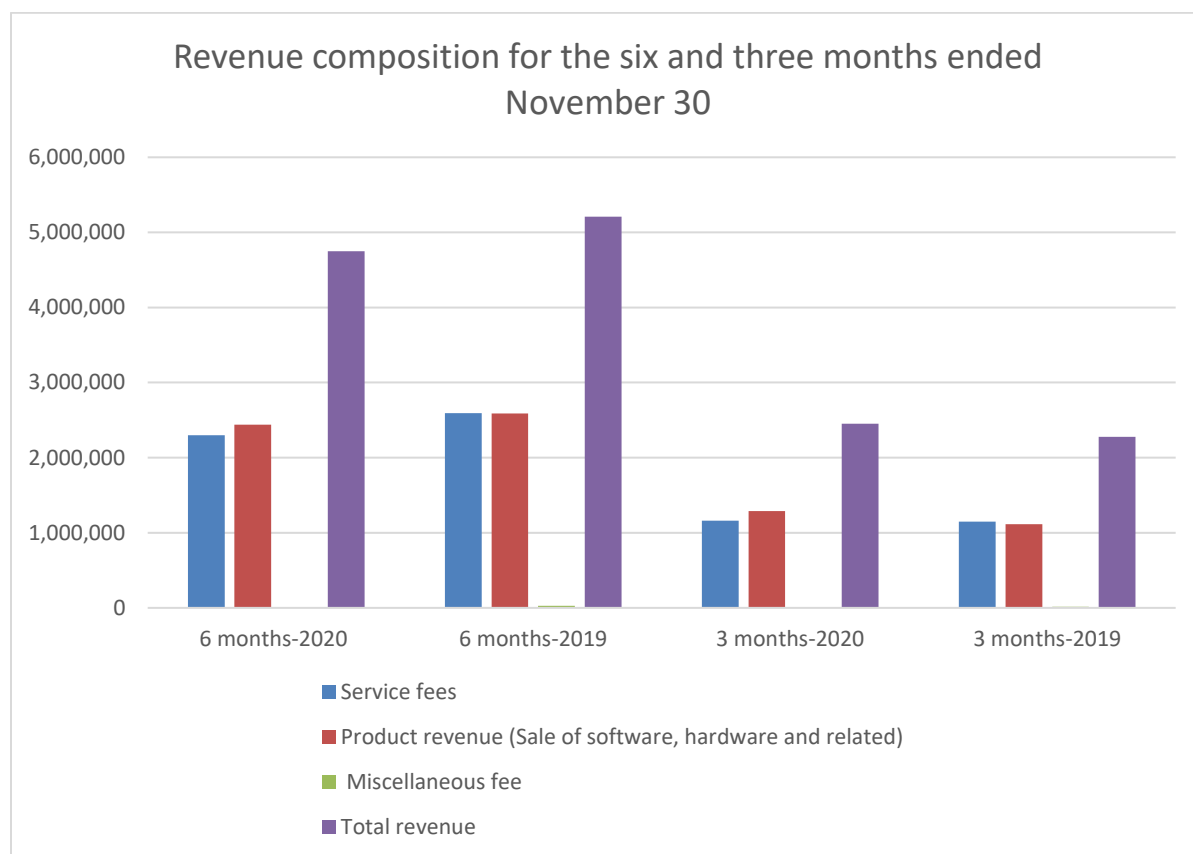
Results of Operations

	Three months ended		Six months ended	
	<u>November 30,</u>		<u>November 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Total Revenue	2,452,312	2,277,400	4,748,222	5,208,089
Gross Profit	693,782	524,844	1,370,999	1,256,255
Operating Expenses	826,471	1,371,176	1,676,167	2,700,007
Operating loss	(132,689)	(846,332)	(305,168)	(1,443,752)
Net loss	(107,173)	(846,098)	(252,167)	(1,435,765)
Loss per share	(0.0012)	(0.0098)	(0.0029)	(0.0167)
Cash flow used in operating activities			(110,431)	(1,174,836)
Cash flow from (used) in investing activities			(3,880)	1,136,762
Cash flow from financing activities			119,141	35,848

Discussion of Operations: Three- month and six-month periods ended November 30, 2020 and 2019

Revenue

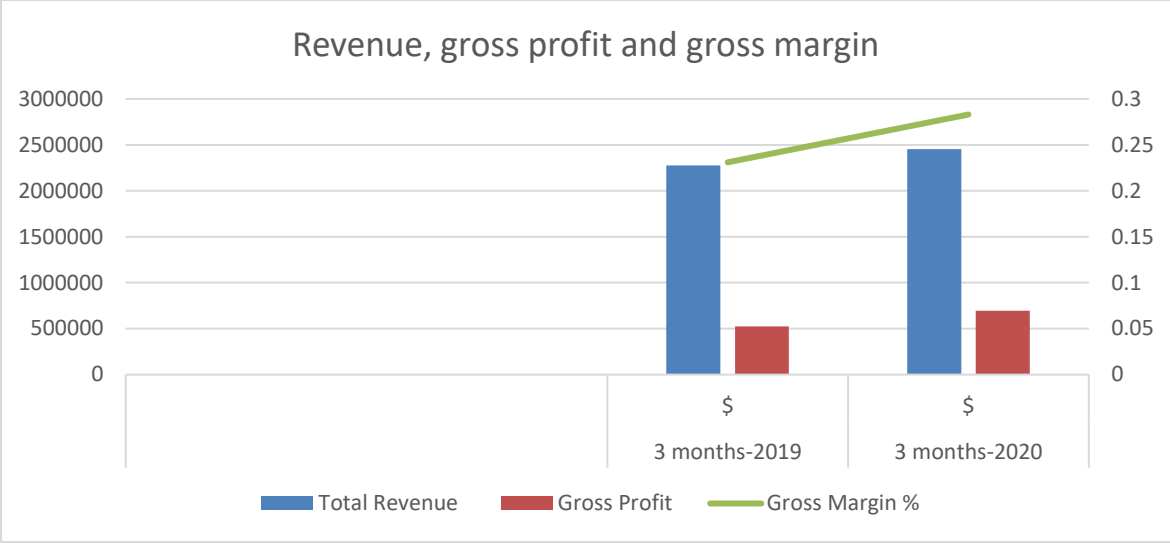
	6 months	6 months	3 months	3 months
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	\$	\$	\$	\$
Service fees	2,297,055	2,591,505	1,162,717	1,147,630
Product sales (Sale of software, hardware and related)	2,441,018	2,586,906	1,287,513	1,114,030
Miscellaneous fee	10,149	29,678	2,082	15,740
Total	<u>4,748,222</u>	<u>5,208,089</u>	<u>2,452,312</u>	<u>2,277,400</u>



The Company has a single reportable segment for managed IT consulting services. The Company recorded total revenue of \$4,748,222 during the six months ended November 30, 2020 as compared to total revenue of \$5,208,089 during the six months ended November 30, 2019, a decrease of \$459,867. The primary reason for drop in revenue in current six-month period as compared to prior six-month period was the additional revenue of approximately \$450,000 in prior period arising from a one-time non repetitive cyber security project

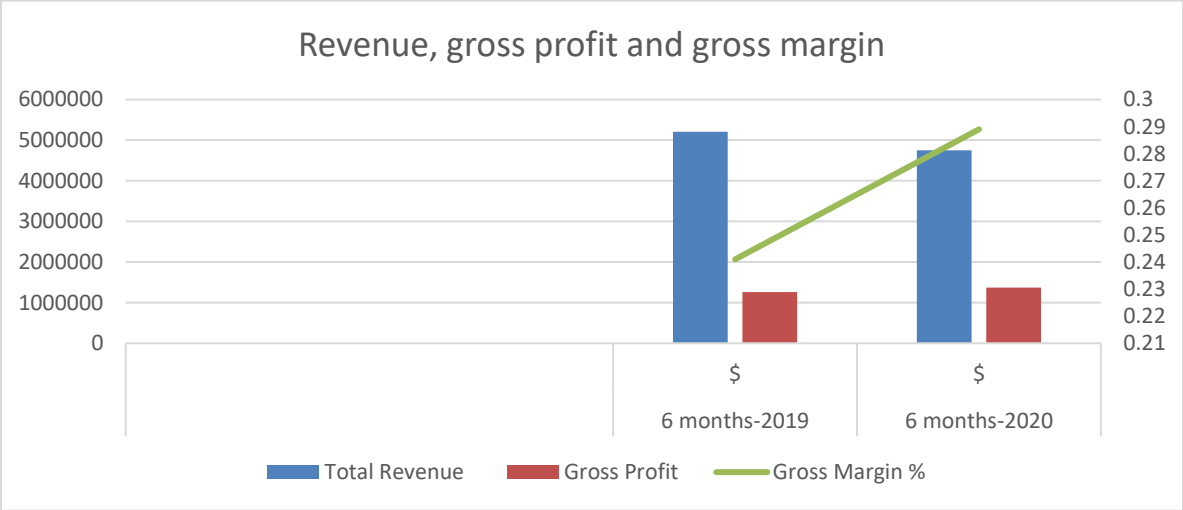
Gross profit (3 months ended November 30, 2020 and 2019)

	2020	2019
	\$	\$
Total Revenue	2,452,312	2,277,400
Gross Profit	693,782	524,844
Gross Margin %	28.3%	23.1%



Gross profit (6 months ended November 30, 2020 and 2019)

	2020	2019
	\$	\$
Total Revenue	4,748,222	5,208,089
Gross Profit	1,370,999	1,256,255
Gross Margin %	28.9%	24.1%



The Company recorded gross profit of 693,782 and \$524,844 during the three months ended November 30, 2020 and 2019 respectively. The gross margin improved to 28.3% from 23.1% during the current three- month period.

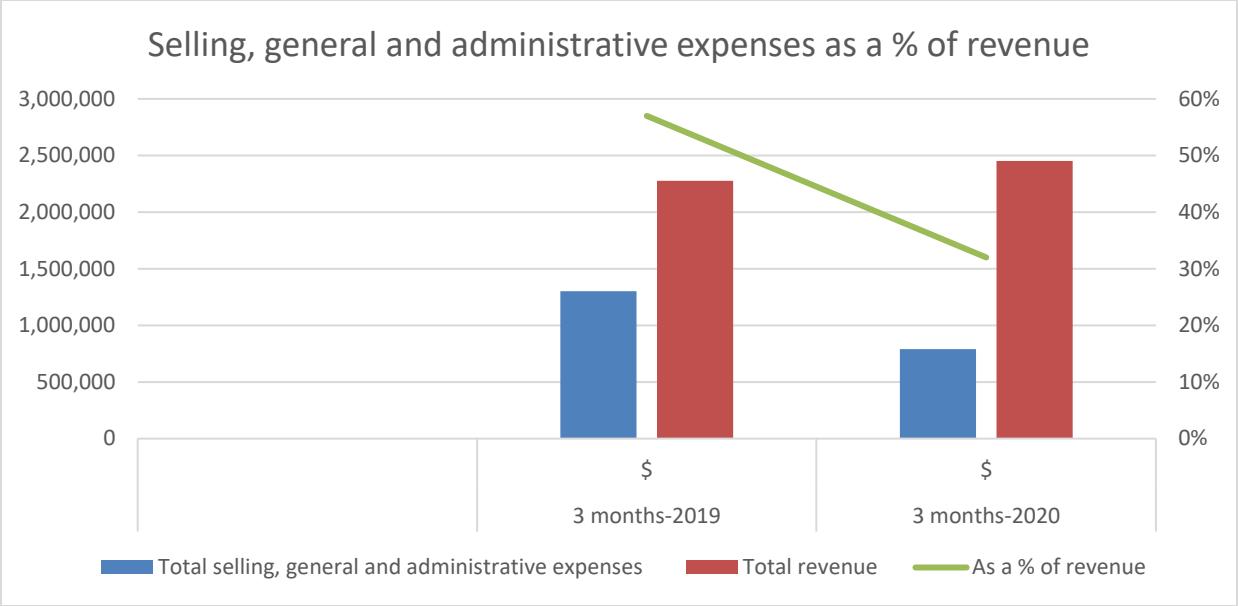
The Company recorded gross profit of 1,370,999 and \$1,256,255 during the six months ended November 30, 2020 and 2019 respectively. The gross margin improved to 28.9% from 24.1% during the current six- month period.

Selling, general and administrative

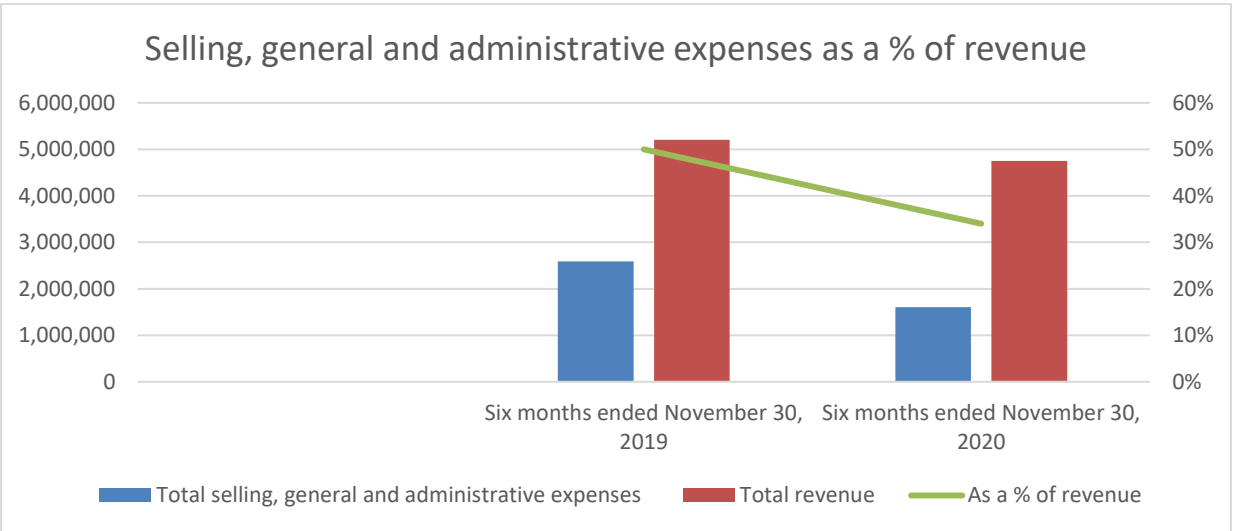
The Company has the following breakdown of selling, general and administrative expenses for the three and six months ended November 30, 2020 and 2019:

	6 months 2020	6 months 2019	3 months 2020	3 months 2019
	\$	\$	\$	\$
Programming and related costs	388,704	458,255	215,173	252,359
Management remuneration	246,926	253,409	123,232	117,781
Office and administrative expenses	208,086	584,437	57,053	319,847
Payroll and related costs	155,319	159,644	74,493	75,861
Legal and professional	73,846	82,478	44,820	26,988
Advertising and promotion	72,245	382,855	26,296	143,090
Bank and interest charges	107,814	98,169	54,553	51,412
Business development	202,949	346,219	111,426	191,588
Communication	118,314	123,903	61,951	54,626
Automobile expenses	31,540	102,989	22,260	68,441
Total	1,605,743	2,592,358	791,257	1,301,993

Selling, general and administrative expenses	Three months ended November 30,	Three months ended November 30,
	2020	2019
	\$	\$
Total selling, general and administrative expenses	791,257	1,301,993
Total revenue	2,452,312	2,277,400
As a % of revenue	32%	57%



Selling, general and administrative expenses	Six months ended November 30, 2020	Six months ended November 30, 2019
	\$	\$
Total selling, general and administrative expenses	1,605,743	2,592,358
Total revenue	4,748,222	5,208,089
As a % of revenue	34%	50%



Selling, general and administrative expenses have seen a substantial decline during the three and six months ended November 30, 2020 as compared to 2019. There has been reduction in every selling, general and administrative expenses category during the three- month and six-month periods ended November 30, 2020 as compared to the prior period, except for a marginal increase in bank and interest charges. This is in line with the Company's expense reduction strategy.

Our operating loss was \$132,689 for the three months ended November 30, 2020 as compared to operating loss of \$846,332 for the three months ended November 30, 2019. Beyond the impact of selling, general and general expenses reductions as noted above, the other major drivers for our operating losses in 2020 and 2019 is the amortization of right-of-use assets for \$7,350 and \$61,997 for the three months in 2020 and 2019 respectively arising on the adoption of IFRS 16. The lower amortization of right-to use asset in 2020 is a result of the early termination of vehicle leases during the last quarter of year ended May 31, 2020. In addition, the company amortized intangible assets by \$16,306 in the three months of 2020 as compared to \$2,038 in 2019. The excess amortization in 2020 is the result of the Company decision to amortize the intangible asset completely over the current year ending May 31, 2021.

Key balance sheet items		
	November 30, 2020	May 31, 2020
	\$	\$
Total Assets	2,552,088	2,837,657
Total Liabilities	1,558,168	1,591,570
Cash dividends declared for common shares	\$nil	\$nil

During the six -month period ended November 30, 2020, the Company did not raise any cash from private placements and focussed on 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.

Trade and other receivables		
	November 30, 2020	May 31, 2020
	\$	\$
Accounts receivables (net)	198,248	144,335

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

Accounts payable and accrued liabilities		
	November 30, 2020	May 31, 2020
	\$	\$
Accounts payable	349,493	336,390
Accrued liabilities	206,536	308,365
Wages payable	15,094	13,253
Subcontractor payable	34,909	33,994
Others	27,153	20,856
Total	633,185	712,859

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.

Contract liabilities		
	November 30, 2020	May 31, 2020
	\$	\$
Contract liabilities	398,181	267,659

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>		
	November 30, 2020	May 31, 2020
	\$	\$
Cash	321,623	316,793

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 periods as indicated:

Cash-Flow	Six- month period	Six- month period
	November 30, 2020	November 30, 2019
	\$	\$
Operating activities	(110,431)	(1,174,836)
Investing activities	(3,880)	1,136,762
Financing activities	119,141	35,848
Increase (decrease) in cash	4,830	(2,226)
Cash beginning of period	316,793	157,237
Cash end of period	321,623	155,011

Net cash from (used in) operating activities

Cash flow used in operations, which is generally the net income or loss adjusted for non-cash items, such as depreciation and changes in non-cash working capital items, was outflow of \$(110,431) for six-months ended November 30, 2020, as compared to outflow of \$(1,174,836) for the six-months ended November 30, 2019.

The main factors which contributed to decrease in cash outflow from operations were:

- a) The Company had a net loss of \$(252,167) in 2020 as compared to a net loss of \$(1,435,765) in 2019. The improvement in performance for 2020 was primarily a result of decrease in selling, general and administrative expenses.
- b) The timing of receipts and payments, including increase in contract liabilities by \$130,522 in 2020 as compared to a decrease of \$(36,691) in 2019.

Net cash from (used) in investing activities

Cash from (used in) investing activities was \$(3,880) in 2020 as compared to inflow of \$1,136,762 in 2019. During 2020, the outflow of cash was for acquisition of property and equipment for \$(3,880). In 2019, the inflow of cash of \$1,136,762 was primarily the reduction in short term investments by \$1,153,729.

Net cash from (used) in financing activities

Cash provided by financing activities was \$119,141 in 2020 as compared to \$35,848 in 2019. In 2020, the Company collected \$213,213 receivable from related parties as compared to \$161,099 in 2019. In addition, during 2020 the Company incurred \$(21,155) being repayment of lease liabilities as compared to \$(70,849) in 2019. The decrease in payment in 2020 was due to the cancellation of vehicle leases during the last quarter of prior year ended May 31, 2020.

As of November 30, 2020, the Company has a working capital deficiency of \$353,047.

As of May 31, 2020, the Company has a working capital deficiency of \$367,146.

The following constitutes the current assets and current liabilities as of November 30, 2020:

ASSETS	
CURRENT	
Cash	\$ 321,623
Accounts receivable (net)	198,248
Inventory	54,537
Prepaid expenses and other current assets	36,625
Current portion of due from related party	334,921
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	945,954
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LIABILITIES	
CURRENT	
Accounts payable and accrued liabilities	\$ 633,185
Contract liabilities	398,181
Bank debt	148,803
Preferred shares	100
Dividend payable	69,479
Current portion of lease liabilities	22,406
Current portion of loans payable	26,847
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	1,299,001
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The following constitutes the current assets and current liabilities as of May 31, 2020:

ASSETS	
CURRENT	
Cash	\$ 316,793
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
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	941,829
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LIABILITIES	
CURRENT	
Accounts payable and accrued liabilities	\$ 712,859
Contract liabilities	267,659
Bank debt	206,649
Preferred shares	100
Dividend payable	69,479
Current portion of lease liabilities	22,366
Current portion of loans payable	29,863
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	1,308,975
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Contractual Obligations

The carrying values of loans payable were as follows:

	<u>November 30, 2020</u>	<u>May 31, 2020</u>
<i>Current portion</i>		
BDC Loans	\$ 19,920	\$ 19,920
Vehicle loans	6,927	9,943
	<u>26,847</u>	<u>29,863</u>
<i>Non-current portion</i>		
BDC Loans	26,556	36,520
CERB loan	40,000	40,000
Vehicle loans	16,948	19,039
	<u>83,504</u>	<u>95,559</u>
	<u>\$ 110,351</u>	<u>\$ 125,422</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.

Interest expense incurred for the six- month periods ended November 30, 2020 was \$2,567 (November 30, 2019: \$5,680)

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. During the six months ended November 30, 2020, total interest expense recorded under selling, general and administrative expenses was \$3,564 (2019: \$ 4,640). The operating line is secured by a general security agreement, assignment of insurance, unlimited guarantee advances executed by the Company and postponement of assignments of creditors' claims.

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

The balance outstanding was \$148,803 and \$206,649 at November 30, 2020 and May 31, 2020, respectively, and is presented as a current liability in the consolidated statements of financial position.

Contractual Obligations	Payments Due by Period				
	Total (thousands of dollars)	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Obligations	Total	Year	Years	Years	5 Years
Loans Obligation	110,351	29,194	81,157	nil	nil
Purchase Obligations	nil	nil	nil	nil	nil

Transactions with related parties

Amounts due from related parties as at November 30, 2020 and May 31, 2020 included the following. The origin of these related party receivables was 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 in monthly installments 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 ended May 31, 2020, with a receivable from related party. The carrying values of the related party balances were as follows:

	November 30, 2020	May 31, 2020
<i>Current portion</i>		
		\$
Ready Aim Fire Enterprising Inc. (a) and (b)	\$ 103,770	98,830
Nerds On-Site South Africa (b)	28,451	27,455
Adam Networks Inc. (a) and (b)*	202,700	198,699
	<u>\$ 334,921</u>	<u>\$ 324,984</u>
<i>Non-current portion</i>		
Ready Aim Fire Enterprising Inc. (a) and (b)	\$ 439,664	\$ 481,724
Nerds On-Site South Africa (b)	121,733	135,581
Adam Networks Inc. (a) and (b)*	557,344	676,475
Other related parties (b)	(1,490)	46,621
	<u>\$ 1,117,251</u>	<u>\$ 1,340,401</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 three and six months ended November 30, 2020 and 2019:

	Ready Aim Fire Enterprising Inc. (\$)	Adam Networks Inc (\$)	Nerds On Site South Africa (\$)	Total (\$)
Three months ended November 30, 2020	26,290 (a)	15,396 (b)	9,689 (c)	51,375
Three months ended November 30, 2019	23,967	19,165	7,264	50,396
Six months ended November 30, 2020	53,220 (d)	31,763 (e)	19,094 (f)	104,077
Six months ended November 30, 2019	47,274	39,225	14,165	100,664

(a) includes interest on receivables for \$13,400 (3 months ended November 30, 2019: \$nil)

(b) includes interest on receivables for \$ 15,396 (3 months ended November 30, 2019: \$19,165)

(c) includes interest on receivables for \$3,703 (3 months ended November 30, 2019: \$nil)

(d) includes interest on receivables for \$27,390 (6 months ended November 30, 2019: \$nil)

(e) includes interest on receivables for \$31,763 (6 months ended November 30, 2019: \$39,225)

(f) includes interest on receivables for \$7,569 (6 months ended November 30, 2019: \$nil)

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

	For the three month period ended November 30, 2020		For the three month period ended November 30, 2019		For the six month period ended November 30, 2019			
Salaries and benefits, including bonuses	\$	90,090	\$	85,800	\$	180,180	\$	171,600
Directors fees	\$	33,142	\$	31,981	\$	66,746	\$	81,809
Total	\$	123,232	\$	117,781	\$	246,926	\$	253,409

Off-balance sheet arrangement

The Company has no off-balance sheet arrangement as of November 30, 2020 and May 31, 2020.

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 November 30, 2020 and May 31, 2020, the Company had the following number of shares outstanding post-split adjustment:

Description	November 30, 2020	May 31, 2020
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.

Currency risk

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

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company.

As of November 30, 2020, the Company had cash of \$321,623, and current liabilities for \$1,299,001. Appropriate going concern disclosures have been made in Notes to the financial statements.

Capital Management

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

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.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Maintenance and repair expenditures that do not improve or extend the life are expensed in the period incurred.

Depreciation is recognized to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Estimated useful lives for the principal asset categories are as follows:

Computer hardware	3 - 5 years
Computer software	3 years
Furniture and fixtures	3 - 5 years
Vehicles	3 - 5 years
Websites	3 years

Preferred shares

Preferred shares with mandatory redemption on a specific date are classified as liabilities. The dividends on these preferred shares are recognized in the statements of (loss) and comprehensive (loss) as interest expense.

Loss per share

Basic and diluted loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The treasury stock method is used to calculate diluted Income (loss) per common share amounts. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of the diluted per common share amount assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year. The Company has securities outstanding which could potentially dilute basic earnings per share in the future but were excluded from the computation of diluted loss per share in the year presented, as their effect would have been anti-dilutive.

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 November 30, 2020, the Company's revenue comprises 95% sales in Canada and 5% sales within USA. (November 30, 2019: 98% sales in Canada and 2% sales within USA).

For the six months ended November 30, 2020, the Company's revenue comprises 96% sales in Canada and 4% sales within USA. (November 30, 2019: 98% sales in Canada and 2% sales within USA).

As of November 30, 2020, all assets of the business are located in Canada except for cash and cash equivalent for \$28,076 (May 31, 2020: \$35,704), accounts receivable for \$9,649 (May 31, 2020: \$13,639), vehicles for \$197,663 (May 31, 2020: \$197,664), inventory for \$535 (May 31, 2020: \$nil) and prepaid expenses for \$nil (May 31, 2020: \$25,066) which are located in USA.

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 for the period ended November 30, 2020 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.