

Nerds on Site Inc.

Consolidated Financial Statements
May 31, 2021, 2020 and 2019

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Nerds on Site Inc.:

Opinion

We have audited the consolidated financial statements of Nerds on Site Inc. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at May 31, 2021 and May 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years ended May 31, 2021, May 31, 2020 and May 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at May 31, 2021 and May 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years ended May 31, 2021, May 31, 2020 and May 31, 2019, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended May 31, 2021, with an accumulated deficit to date. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion in the consolidated financial statements does not cover the other information we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Saad Shaikh.

Toronto, Ontario
September 27, 2021


Chartered Professional Accountants
Licensed Public Accountants

Nerds on Site Inc.

Consolidated Statements of Financial Position as at May 31, 2021 and 2020
(in Canadian dollars)

	May 31, 2021	May 31, 2020
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 390,655	\$ 316,793
Accounts receivable (net of expected credit losses) (Note 5)	132,454	144,335
Inventory (Note 6)	69,820	34,542
Prepaid expenses and other current assets	129,513	121,175
Current portion of due from related party (Note 11)	357,131	324,984
	<u>1,079,573</u>	<u>941,829</u>
NON-CURRENT		
Due from related parties (Note 11)	904,290	1,340,401
Intangible assets (Note 18)	-	65,225
Right-of-use assets (Note 19)	176,679	206,066
Property and equipment (Note 7)	175,950	284,136
	<u>1,256,919</u>	<u>1,895,828</u>
TOTAL ASSETS	\$ 2,336,492	\$ 2,837,657
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 17)	\$ 749,112	\$ 712,859
Contract liabilities	369,763	267,659
Bank debt (Note 8)	127,489	206,649
Preferred shares (Note 10)	100	100
Dividend payable (Note 10)	69,479	69,479
Current portion of lease liabilities (Note 20)	18,650	22,366
Current portion of loans payable (Note 9)	25,883	29,863
	<u>1,360,476</u>	<u>1,308,975</u>
NON-CURRENT		
Non-current portion of loans payable (Note 9)	29,687	55,559
CEBA loans (Note 9)	34,388	40,000
Non-current portion of lease liabilities (Note 20)	167,866	187,036
	<u>231,941</u>	<u>282,595</u>
TOTAL LIABILITIES	1,592,417	1,591,570
SHAREHOLDERS' EQUITY		
Common stock (Note 10)	6,293,608	5,802,564
Reserve for warrants (Note 16) (Note 23)	195,808	1,965,400
Reserve for options (Note 27)	422,008	231,434
Contributed surplus	2,380,081	406,351
Accumulated deficit	(8,547,430)	(7,159,662)
TOTAL SHAREHOLDERS' EQUITY	744,075	1,246,087
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,336,492	\$ 2,837,657

Basis of presentation and going concern (Note 2)

Approved on behalf of the Board

<Nicole Holden>

Signed: Director

<David Redekop>

Signed: Director

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

Nerds on Site Inc.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended May 31, 2021, 2020 and 2019
(in Canadian dollars)

	2021	2020	2019
Revenue (Notes 11, 13 and 22)	\$ 10,121,480	\$ 10,143,336	\$ 8,906,433
Cost of revenue (Note 6)	(7,493,526)	(7,503,926)	(6,640,911)
Gross Profit	2,627,954	2,639,410	2,265,522
Expenses			
Selling, general and administrative (Notes 11 and 16)	(3,906,074)	(4,470,336)	(5,272,185)
Depreciation of property and equipment (Note 7)	(117,102)	(24,466)	(26,272)
Loss on termination of leases (Note 19)	-	(51,895)	-
Amortization of right-of-use assets (Note 19)	(29,387)	(165,059)	-
Amortization of intangible assets	-	(8,153)	(8,153)
Total operating expenses	(4,052,563)	(4,719,909)	(5,306,610)
Operating profit (loss)	(1,424,609)	(2,080,499)	(3,041,088)
Interest expense (Note 24)	(20,239)	(23,033)	(190,843)
Interest income (Note 11)	141,729	106,609	16,104
Impairment of intangible asset (Note 18)	(65,225)	-	-
Accretion expense (Note 15)	-	-	(208,108)
Accretion on lease liabilities (Note 20)	(19,424)	(37,788)	-
Amortization of convertible debt financing costs (Note 15)	-	-	(94,548)
Change in fair value of derivative liability (Note 15)	-	-	104,225
Dividends (Note 10)	-	-	(9,063)
Loss before income taxes	(1,387,768)	(2,034,711)	(3,423,321)
Provision for income taxes (Note 12)	-	-	-
Net loss and comprehensive loss	\$ (1,387,768)	\$ (2,034,711)	(3,423,321)
Loss per share - Basic and Diluted	\$ (0.0161)	\$ (0.0236)	(0.0478)
Weighted average number of common shares outstanding - Basic and Diluted	86,402,581	86,213,056	71,670,458

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

Nerds on Site Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended May 31, 2021 and 2020

(in Canadian dollars)

	Common stock						Total \$
	Shares #	Amount \$	Warrants reserve \$	Option reserve \$	Contributed surplus \$	Accumulated deficit \$	
Balance as at May 31, 2019	86,213,056	5,802,564	1,965,400	231,434	406,351	(5,124,951)	3,280,798
Net loss for the year	-	-	-	-	-	(2,034,711)	(2,034,711)
Balance as at May 31, 2020	86,213,056	5,802,564	1,965,400	231,434	406,351	(7,159,662)	1,246,087
Reclassification on expiry of warrants issued as part of IPO (Note 23)	-	-	(530,273)	-	530,273	-	-
Reclassification on expiry of warrants issued as part of convertible debentures (Note 23)	-	-	(1,090,162)	-	1,090,162	-	-
Reclassification on expiry of broker warrants (Note 23)	-	-	(121,861)	-	121,861	-	-
Exercise of warrants	400,000	127,296	(27,296)	-	-	-	100,000
Issue of options	-	-	-	422,008	-	-	422,008
Issue of shares as compensation	2,798,059	363,748	-	-	-	-	363,748
Expiry of options	-	-	-	(231,434)	231,434	-	-
Net loss for the year	-	-	-	-	-	(1,387,768)	(1,387,768)
Balance as at May 31, 2021	89,411,115	6,293,608	195,808	422,008	2,380,081	(8,547,430)	744,075

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

Nerds on Site Inc.

Consolidated Statements of Cash Flows For the years ended May 31, 2021, 2020 and 2019 (in Canadian dollars)

	2021	2020	2019
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss	\$ (1,387,768)	\$ (2,034,711)	\$ (3,423,321)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation on property and equipment (Note 7)	117,102	24,466	26,272
Amortization of right-of-use assets (Note 19)	29,390	165,059	-
Amortization of intangible assets (Note 18)	-	8,153	8,153
Impairment of intangible assets	65,225	-	-
Loss on termination of leases	-	51,895	-
Stock-based compensation	422,008	-	231,434
Accrued interest	2,900	-	147,057
Shares issued as compensation for services	363,748	-	-
Amortization of convertible debt financing costs	-	-	94,548
Interest receivable on short term investments	-	-	(16,104)
Accretion of lease liabilities (Note 20)	19,424	37,788	-
CEBA loan discounting (Note 9)	(28,512)	-	-
Accretion expense	-	-	208,108
Change in fair value of derivative liabilities	-	-	(104,225)
Changes in working capital:			
Accounts receivable	11,881	86,012	(104,365)
Inventory	(35,278)	(11,568)	49,461
Prepaid expenses and other current assets	(8,338)	178,086	(549,865)
Accounts payable and accrued liabilities	36,254	(10,483)	(292,546)
Contract liabilities	102,104	(100,025)	99,254
Dividend payable	-	-	9,062
Net cash from (used in) operating activities	(289,860)	(1,605,328)	(3,617,077)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Restricted cash	-	-	2,286
Changes in short-term investments	-	1,716,104	(1,700,000)
Sale proceeds of right-of-use assets (Note 19)	-	116,122	-
Proceeds from the sale of property and equipment (Note 7)	-	-	600
Payments for acquisition of property and equipment (Note 7)	(8,916)	(175,669)	(9,420)
Net cash flows from (used in) investing activities	(8,916)	1,656,557	(1,706,534)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments made on loans payable (Note 9)	(29,852)	(21,988)	(336,912)
(Repayments made on) advances from bank debt (Note 8)	(79,160)	(53,732)	(12,931)
Payments due from related parties (Note 11)	403,960	313,080	331,671
Repayment of lease liabilities (Note 20)	(42,310)	(129,033)	-
CEBA loan	20,000	-	-
Repayment of convertible debentures (Note 15)	-	-	(34,000)
Deferred financing costs	-	-	167,167
Proceeds from issuance of units, net of expenses (Note 10)	-	-	3,946,513
Proceeds from private placement of units, net of expenses (Note 10)	-	-	552,000
Proceeds from exercise of warrants (Note 23)	100,000	-	1,000
Redemption of Series A Preferred shares (Note 10)	-	-	(470,000)
Net cash flows from (used in) financing activities	372,638	108,327	4,144,508
NET INCREASE (DECREASE) IN CASH	73,862	159,556	(1,179,103)
Cash, beginning of year	316,793	157,237	1,336,340
Cash, end of year	\$ 390,655	316,793	157,237

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

Nerds on Site Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021, 2020 and 2019

(in Canadian Dollars)

1. Nature of operations

Nerds on Site Inc. (the “Company”) was incorporated on June 26, 1996 pursuant to the Ontario Business Corporations Act and is engaged in the business of providing information technology services, hardware, software and related support agreements. On December 7, 2018, the Company incorporated a subsidiary in the United States of America as Nerds on Site USA Inc. The Company’s head office is located at 4026 Meadowbrook Drive Unit 120-121, London, ON, N6L 1C7.

2. Basis of presentation and Going concern

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

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

The Company has not yet realized profitable operations and has incurred a net loss of \$1,387,768 during the year ended May 31, 2021, with a cumulative deficit of \$8,547,430 as at May 31, 2021 (2020 - \$7,159,662). The recoverability of the carrying value of the assets and the Company’s continued existence is dependent upon the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary. While management has been historically successful in raising the necessary capital, it cannot provide assurance that it will be able to execute on its business strategy or be successful in future financing activities. As at May 31, 2021, the Company had current assets of \$1,079,573 (2020 - \$941,829) to cover current liabilities of \$1,360,476 (2020 - \$1,308,975).

Since February 29, 2020, the outbreak of the novel strain of coronavirus, specifically 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 physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. 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 Company in future periods.

These consolidated financial statements were approved by the Company’s board of directors on September 27, 2021.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as otherwise noted.

Functional and presentation currencies

The Company's functional currency is Canadian dollars and the Company's presentation currency is also Canadian dollars. The subsidiary's functional currency is in U.S. Dollars.

Assets and liabilities of subsidiaries having a functional currency other than the Canadian dollar are translated at the rate of exchange at the reporting period date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in the accumulated other comprehensive income (loss) included in shareholders' equity (deficit). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the reporting period date. Gains and losses on translation of monetary items are recognized in the consolidated statement of loss and comprehensive loss.

Basis of consolidation

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

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

Property and equipment and intangible assets

Property and equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization and any accumulated impairment losses. Each component of an item of property and equipment and intangible assets 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 and intangible assets 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 and intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

Property and equipment and intangible assets (continued)

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

Computer hardware	3 - 5 years
Computer software	3 years
Furniture and fixtures	5 years
Vehicles	5 years
Websites	3 years
Development costs	10 years
Leasehold Improvement	10 years

Research and development

Research costs are charged to profit or loss in the period in which they are incurred, net of related tax credits. Development costs are charged to profit or loss in the year they are incurred, net of related tax credits, unless they meet the capitalization criteria listed below:

- the technical feasibility of completing the intangible asset so it will be available for use or sale;
- the Company's intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits and;
- the availability of resources to complete the asset; and
- the ability to measure reliably of the expenditure during development.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current tax

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit or loss, comprehensive income or loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Unrecognized deferred tax assets are reviewed at each reporting date and are recorded to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Inventory

Inventory is stated at the lower of cost or net realizable value and valued on a specific identification cost basis.

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 consolidated statements of loss and comprehensive loss as interest expense.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

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.

Financial instruments

(i) Accounting policy

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.

(ii) Financial instruments category under IFRS 9

The following table shows the classification categories under IFRS 9 for each class of the Company's financial assets and financial liabilities.

Financial assets and liabilities	IFRS 9
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Due from related parties	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Bank debt	Amortized cost
Loans payable	Amortized cost
CEBA loan payable	Amortized cost
Preferred shares	Amortized cost
Dividend payable	Amortized cost
Due to a related party	Amortized cost

Financial assets and liabilities at FVTPL

A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of loss and comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statement of loss and comprehensive loss within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the end of the reporting period, which are classified as non-current.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of loss and comprehensive loss.

Derecognition of financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are recognized in the consolidated statements of loss and comprehensive loss.

Derecognition of financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

Impairment of financial assets

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

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

Evidence of impairment may include:

- Indications that a debtor or a group of debtors is experiencing significant financial difficulty;
- A default or delinquency in payments;
- Probability that a debtor or a group of debtors will enter into bankruptcy or other financial reorganization; and
- Changes in arrears or economic conditions that correlate with defaults, where observable data indicates that there is a measurable decrease in the estimated future cash flows.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

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

- Impairment of cash and restricted cash are evaluated by reference to the credit quality of the underlying financial institution or investee. The Company applies the general approach to providing for expected credit losses. These instruments are low credit risk and no provision is considered for the current reporting period.
- There is no impact to the Company's consolidated financial statements for the adoption of IFRS 9

Foreign currency translation

Transactions in foreign currencies are initially translated into the functional currency using rates prevailing at the date of the transaction. Monetary assets and liabilities are translated using the exchange rates in effect at the end of the reporting period at May 31, 2021 and non-monetary assets and liabilities at historical exchange rates. Revenue and expense items are translated using quarterly exchange rate. Foreign exchange gains and losses are included in profit or loss.

Short-term investments

Short term investments with prices quoted in an active market are measured at fair value while those that are not quoted in an active market are measured at cost less impairment. Changes in fair value are recorded immediately in net loss.

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.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

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 are 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.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

Convertible debentures

The Company has issued convertible debentures which, on conversion, must be satisfied entirely in cash for an amount equal to the greater of the conversion value and the redemption value of the instrument.

The Company reviews the terms of its convertible debentures to determine whether there are embedded derivatives, including the embedded conversion option, that are required to be separated and accounted for as individual derivative financial instruments. In circumstances where the convertible debentures contain embedded derivatives that are to be separated from the debenture host contracts, the total proceeds received are first allocated to the fair value of the derivative financial instruments determined using the Black-Scholes model. The remaining proceeds, if any, are then allocated to the debenture host contracts, usually resulting in those instruments being recorded at a discount from their principal amount. This discount is accreted over the expected life of the instruments to profit (loss) using the effective interest method. The Company calculates the fair value of the conversion feature included in convertible debt using the fair value method, under which the fair value of the conversion feature at the issue date is calculated using the Black-Scholes Pricing Model.

Volatility is determined based on volatilities of comparable companies when the Company does not have its own sufficient trading history. The expected term, which represents the period of time that the convertible debentures issued are expected to be outstanding, is estimated based on an average of the term of the convertible debentures issued.

The risk-free rate assumed in valuing the conversion feature is based on the Canadian treasury yield curve in effect at the time of grant for the expected term of the convertible debentures issued. The expected dividend yield percentage at the date of issue is Nil as the Company is not expected to pay dividends in the foreseeable future.

The debenture host contracts are subsequently recorded at amortized cost at each reporting date, using the effective interest method. The embedded derivatives are subsequently recorded at fair value at each reporting date, with changes in fair value recognized in profit (loss).

The Company presents its embedded derivative liability and related debenture host contracts as separate instruments on the consolidated statement of financial position.

Stock-based compensation

Where equity instruments are issued and some or all of the goods or services received by the Company as consideration cannot be specifically identified, these non-identifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of stock options granted is estimated using the Black-Scholes option pricing model, taking into account amounts that are believed to approximate the expected volatility of the trading price of the Company's stock, the expected lives of the awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate, as determined at the grant date.

The fair value of the equity instruments granted is recognized as an expense over the estimated vesting period with a corresponding increase to contributed surplus.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

3. Significant accounting policies (continued)

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 2019 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.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a term of 12 months or less and leases of low-value assets.

The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

On initial recognition, the carrying value of the lease liability also includes the amounts expected to be payable under any residual value guarantee, the exercise price of any purchase option granted if it is reasonably certain to assess that option and any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021, 2020 and 2019

(in Canadian Dollars)

4. Critical accounting judgments and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical areas of estimation and judgements in applying accounting policies include the following:

Going concern

These consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. 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 (see note 2).

Useful lives of property and equipment and intangible assets

As described in Note 3, the Company reviews the estimated useful lives of property and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the years ended May 31, 2021 and 2020, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

Deferred income taxes

The calculation of deferred income taxes is based on assumptions which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools. By their nature, these estimates are subject to measurement uncertainty, and the effect on the consolidated financial statements from changes in such estimates in future period could be material. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets are reviewed at each statement of financial position date and adjusted to the extent that it is no longer probable that the related tax benefit will be realized.

Convertible debentures and broker warrants

Estimating the fair value of broker warrants and conversion feature derivative liability requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the issuance. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the warrants and conversion feature derivative liability, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value of warrants and conversion feature derivative liability are disclosed in Notes 15 and 23.

Share-based payments

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility, expected lives of the options, expected dividends to be paid by the Company and risk-free interest rates. Because changes in the input assumptions can materially affect the fair value estimate, such value is subject to measurement uncertainty. The effect on the consolidated financial statements from changes in such estimates in future years could be significant.

Leases

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment of the lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure its lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

5. Accounts receivable

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

Accounts receivables are stated net of allowance for expected credit losses of \$157,101 and \$136,994 for May 31, 2021 and 2020, respectively. Accounts receivable consist of amounts due from customers receiving IT consulting services and equipment.

	<u>May 31, 2021</u>	<u>May 31, 2020</u>
	\$	\$
Over 90 Days	197,892	196,962
61 to 90 Days	5,526	8,510
31 to 60 Days	16,933	12,650
0 to 30 Days	69,204	63,207
Allowance for expected credit losses	(157,101)	(136,994)
	<u>132,454</u>	<u>144,335</u>

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

6. Inventory

The Company had \$69,820 and \$34,542 of finished goods inventory purchased for resale as at May 31, 2021 and May 31, 2020, respectively. The value of the inventory is equivalent to lower of cost or market value as of the reporting dates above. During the year ended May 31, 2021, the Company had finished goods recognized as cost of revenue of \$4,268,565 (2020: \$4,201,689).

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

7. Property and equipment

The following is a roll-forward of property and equipment as at May 31, 2021 and 2020:

	Computer Hardware	Computer Software	Furniture and Fixtures	Vehicles	Websites	Leasehold Improvement	Total
Cost							
Balance as at May 31, 2019	\$ 71,741	15,684	15,000	337,197	1,250	-	440,872
Additions	32,533	-	-	238,729*	-	47,471	318,733
Balance as at May 31, 2020	104,274	15,684	15,000	575,926	1,250	47,471	759,605
Additions	8,666	-	-	-	-	250	8,916
Balance as at May 31, 2021	\$ 112,940	\$ 15,684	\$ 15,000	\$ 575,926	\$ 1,250	\$ 47,721	\$ 768,521
Accumulated Depreciation							
Balance as at May 31, 2019	\$ 64,292	15,684	15,000	313,712	1,250	-	409,938
Addition	-	-	-	41,065*	-	-	41,065
Depreciation	7,527	-	-	14,496	-	2,443	24,466
Balance as at May 31, 2020	71,819	15,684	15,000	369,273	1,250	2,443	475,469
Depreciation	9,549	-	-	88,564	-	18,989	117,102
Balance as May 31, 2021	\$ 81,368	\$ 15,684	\$ 15,000	\$ 457,837	\$ 1,250	\$ 21,432	\$ 592,571
Net Carrying Amounts							
As at May 31, 2020	\$ 32,455	\$ -	\$ -	\$ 206,653	\$ -	\$ 42,584	\$ 284,136
As at May 31, 2021	\$ 31,572	\$ -	\$ -	\$ 118,089	\$ -	\$ 26,289	\$ 175,950

*Reflects vehicles acquired from right- of- use asset on early payment of lease

8. Bank debt

The Company has a revolving line of credit from Toronto-Dominion Bank ("TD Bank") available for up to \$175,000 in order to fund working capital. Interest is charged at TD Bank Prime rate plus 2.25% (4.70% at May 31, 2021) and repayment is due on demand. In 2021, total interest expense recorded under selling, general and administrative expenses was \$ 4,525 (2020: \$9,602; 2019: \$9,028). 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 \$127,489 and \$206,649 at May 31, 2021 and May 31, 2020, respectively, and is presented as a current liability in the consolidated statements of financial position.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

9. Loan payable

The carrying values of loans leases payable were as follows:

	<u>May 31, 2021</u>	<u>May 31, 2020</u>
<i>Current portion</i>		
BDC Loans	\$ 19,920	\$ 19,920
Vehicle loans	5,963	9,943
	<u>25,883</u>	<u>29,863</u>
<i>Non-current portion</i>		
BDC Loans	16,600	36,520
Vehicle loans	13,087	19,039
CEBA loan	34,388	40,000
	<u>64,075</u>	<u>95,559</u>
	<u>\$ 89,958</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 2021 and 2020, 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.

In connection to the outbreak of COVID-19, the Company received \$60,000 in Canada Emergency Business Account ("CEBA") loans from the government of Canada. These CEBA loans are non-interest bearing and mature on December 31, 2022. The loan can be extended to December 31, 2025 and 25% will be forgiven if the principal is repaid before the initial maturity date. The Company has recognized the forgiveness in the year ended May 31, 2021 as the Company intends, with reasonable assurance, to repay the CEBA loans prior to the initial maturity date. As at May 31, 2021, the Company has not made a payment on the CEBA loans. The CEBA loans have been discounted using an incremental borrowing rate of 10%. The expense recovery from discounting the CEBA loans was recorded against payroll and related costs under selling, general and administrative.

The reconciliation of the CEBA loans is as follows:

Loan funds	\$	60,000
Discounting		(28,512)
Accrued finance expense		2,900
Balance, May 31, 2021	\$	<u>34,388</u>

Interest expense incurred for the years ended May 31, 2021, 2020 and 2019 were \$4,525, \$9,602 and \$35,400 respectively. The aggregate amount of principal payments required in each of the next 5 years to meet the retirement provisions of loans and capital leases payable excluding CEBA loans are as follows:

Fiscal year	Principal
2022	25,883
2023	22,021
2024	5,693
2025	1,973
	<u>\$ 55,570</u>

Nerds on Site Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021, 2020 and 2019

(in Canadian Dollars)

10. Preferred shares liability and common stock

The Company is authorized an unlimited number of Class A preferred shares, non-voting, redeemable, with cumulative dividends and Class B preferred shares, voting, redeemable, with non-cumulative dividends Common 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 assets rights in the event of a liquidation of the Company.

On January 27, 2015, the Company issued 1,000,000 Class A Preferred shares and 1,000,000 Common shares to a certain investor in exchange for \$1,000,000. Effective with stock split on October 3, 2017, these 1,000,000 common shares outstanding are adjusted to 5,000,000 common shares outstanding. The Class A shares are non-voting and entitle the holder to cumulative dividends at a rate of 7.25% per year, paid quarterly, beginning June 30, 2016 and are redeemable upon given notice at any time, the whole or from time to time any part of the outstanding shares, by the Company from the date of issuance in cash for \$1 per share together with an amount equal to all dividends accrued and remaining unpaid. As at May 31, 2021, \$69,479 of dividends remain unpaid (May 31, 2020: \$69,479). The shares are redeemable any time by the shareholder, with 30 days-notice, starting from June 30, 2016. The Class A Preferred shares are not convertible but do have priority in event of liquidation. Preferred shares do not meet the criteria for equity classification due to the cash redemption feature and have therefore been recorded as a liability.

In March 2021, the Company received cash for \$100,000 for the exercise of 400,000 warrants at \$0.25 per share. Accordingly, \$27,296 was transferred from warrant reserve to share capital.

In March 2021, the Company issued 2,798,059 shares valued at \$0.13 per share as compensation for services. The shares are issued at market price.

As at May 31, 2021 and 2020, the Company had the following number of shares outstanding:

Description	May 31, 2021	May 31, 2020
Common A Shares	89,411,115	86,213,056
Class A Preferred Shares	-	-
Class B Preferred Shares	1,000,000	1,000,000

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

11. Related party balances and transactions

Amounts due from related parties as at May 31, 2021 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 during the year ended May 31, 2019, 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:

	May 31, 2021	May 31, 2020
<i>Current portion</i>		
Ready Aim Fire Enterprising Inc. (a) and (b)	\$ 111,457	98,830
Nerds On-Site South Africa (b)	30,484	27,455
Adam Networks Inc. (a) and (b)	215,190	198,699
	\$ 357,131	324,984
<i>Non-current portion</i>		
Ready Aim Fire Enterprising Inc. (a) and (b)	\$ 380,107	481,724
Nerds On-Site South Africa (b)	105,365	135,581
Adam Networks Inc. (a) and (b)	443,524	676,475
Other related parties (b)	(24,705)	46,621
	\$ 904,290	1,340,401

(a) via same key management personnel

(b) by virtue of common control

The Company recorded revenue from the following related parties during the years ended May 31, 2021, 2020 and 2019:

	Ready Aim Fire Enterprising Inc. (\$)(a)	Adam Networks Inc (\$)(b)	Nerds On Site South Africa (\$)(c)	Total (\$)
Year ended May 31, 2021	94,602	59,566	38,703	192,871
Year ended May 31, 2020	86,006	74,794	26,262	187,062
Year ended May 31, 2019	89,339	29,844	-	119,183

(a) includes interest on receivables for \$52,366, \$4,792 and \$nil for the years ended May 31, 2021, 2020 and 2019 respectively

(b) includes interest on receivables for \$59,566, \$74,794 and \$nil for the years ended May 31, 2021, 2020 and 2019 respectively

(c) includes interest on receivables for \$14,472, \$2,666 and \$nil for the years ended May 31, 2021, 2020 and 2019 respectively

Nerds on Site Inc.

Notes to the Consolidated Financial Statements

For the years ended May 31, 2021, 2020 and 2019

(in Canadian Dollars)

11. Related party balances and transactions (continued)

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

	2021*	2020	2019**
	\$	\$	\$
Salaries and benefits, including bonuses	360,360	284,400	281,606
Shares issued as compensation for services	177,458	-	-
Directors' fees	129,515	147,809	107,614
Stock-based compensation	422,008	-	231,434
	1,089,341	432,209	620,654

*On May 20, 2021, the Company issued 4,000,000 options to directors and officers. The Black-Scholes option pricing model was used to determine the fair value of these options valued at \$422,008 using the following assumptions: Expected dividend yield of 0%; risk free interest rate of 0.94%; expected volatility of 120%; expected life of 5 years; and share price of \$0.13.

*On May 20, 2021, the Company issued a total of 2,798,059 compensation shares for services which included 1,341,241 shares fair valued at \$174,361 to the CEO and 23,819 shares fair valued at \$3,097 to a director.

**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 using the following assumptions: Expected dividend yield of 0%; risk free interest rate of 1.550%; expected volatility of 100%; expected life of 2 years; and share price of \$0.25.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

12. Income taxes

The Company primarily has operations in Canada. As at May 31, 2020 and 2019, there was no deferred tax asset or liability recognized.

The Company's income tax (recovery) expense is determined as follows:

	2021	2020	2019
Statutory income tax rate	26.30%	26.38%	26.67%
Loss before income taxes	\$ (1,387,768)	\$ (2,034,711)	\$ (3,423,321)
Loss before income taxes at statutory income tax rate	\$ (364,983)	\$ (536,760)	\$ (912,783)
Decrease in income taxes:			
Non-deductible expenses	119,113	7,709	119,926
Change in statutory tax rates	-	26,969	-
Difference due to foreign tax rates	-	15,703	-
Others	-	18,386	2,077
Share issuance cost	-	-	(215,126)
Change in tax benefits not recognized	245,870	467,993	1,005,906
Income tax (recovery) expense	\$ -	\$ -	\$ -

Deferred income taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The following deferred tax assets and liabilities have been recognized for accounting purposes:

	2021	2020	2019
Deferred tax asset	\$ 46,270	\$ 62,898	\$ -
Deferred tax liability	(46,270)	(62,898)	-
Net deferred tax asset (liability)	\$ -	\$ -	\$ -

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

12. Income taxes (continued)

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax assets and liabilities, which have been recognized during the year, are as follows:

	May 31, 2020	Recognized in profit and loss	Recognized in equity	May 31, 2021
Deferred tax asset				
Loss carry forwards				-
	9,060	(9,060)		
IFRS 16 lease obligation	53,838	(7,568)		46,270
	62,898	(16,628)	-	46,270
Deferred tax liability				
Property, plant & equipment	(9,060)	9,060	-	-
IFRS 16 assets	(53,838)	7,568	-	(46,270)
	(62,898)	16,628	-	(46,270)
Net deferred tax asset/(liability)				
	-	-	-	-

The temporary differences and loss carryforwards that give rise to significant portions of the deferred tax assets, which have not been recognized, are as follows:

	2021	2020	2019
Non-capital losses carried-forward	\$ 8,169,871	\$ 7,019,493	\$ 4,812,412
Share issuance cost	425,159	688,955	952,751
Property and equipment with computer software	71,262	-	16,109
Capital Lease Obligation	9,837	3,334	-
Net deferred tax asset (liability)	\$ 8,676,129	\$ 7,711,782	\$ 5,781,272

The deferred tax asset has not been recognized in respect of these items because it is more likely than not that future taxable profit will not be available against which the Company can utilize benefits.

As at May 31, 2021, the Company's Canadian and US non-capital losses of \$8,169,871 will expire as follows:

Canada:

2035	309,559
2036	220,912
2038	1,072,119
2039	3,209,823
2040	1,443,038
2041	937,906
Total	7,193,357

United States:

Indefinite	976,514
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Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

13. 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 year ended May 31, 2021, the Company's revenue comprises 95% sales in Canada and 5% sales within USA. (May 31, 2020: 97% sales in Canada and 3% sales within USA).

As of May 31, 2021, all assets of the business are located in Canada except for cash of \$43,736 (May 31, 2020: \$35,704), accounts receivable of \$50,997 (May 31, 2020: \$13,639), prepaid expenses of nil (May 31, 2020: \$25,066) and vehicles of \$118,087 (May 31, 2020: \$197,664) which are located in USA.

14. Financial instruments and risk management

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, due from related parties, accounts payable and accrued liabilities, preferred shares, dividends payable, bank debt, loans payable and due to related parties.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Cash is measured at Level 1 inputs. There have been no transfers between fair value levels during the year.

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, preferred shares, dividends payable, bank debt and current portion of loans payable approximate their fair values due to their relatively short periods to maturity. The fair value of the due from related parties and the carrying value of long-term loans payable approximates fair value due to a market rate of interest being charged.

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.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

14. Financial instruments and risk management (continued)

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 maximum credit exposure at May 31, 2021 is the carrying amount of cash, accounts receivable and due from related parties.

The following default rates are used to calculate the ECLs on billed receivables as at May 31, 2021:

	Total	Current	Over 30 days	Over 60 days	Over 90 days
Default rates (%)		0.52%	9.81%	24.53%	30.46%
Trade receivables (\$)	289,555	69,204	16,933	5,526	197,892
Provision for ECL (\$)	63,653	360	1,661	1,356	60,276

Provision for expected credit losses, as above	\$	63,653
Add: additional specific identification		93,448
Total expected credit losses	\$	157,101

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
Provision for ECL (\$)	83,647	291	1,188	2,221	79,947

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

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

14. Financial instruments and risk management (continued)

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, 2021 and 2020, 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, 2021	May 31, 2020
Cash	\$ 43,736	\$ 35,704
Accounts receivable	12,366	13,639
Inventory	6,369	39
Prepaid expenses	38,630	20,457
Accounts payable and accrued liabilities	(34,295)	(45,902)
Net financial assets	\$ 66,806	\$ 23,937

Based upon the above net exposure as at May 31, 2021, an 8% depreciation or appreciation of the US dollar relative to the Canadian dollar would result in approximately \$5,400 (May 31, 2020 - \$2,300) 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 (see note 2). 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:

	<1 year	1-2 years	>3 years	Total
Accounts payable and accrued liabilities	\$ 749,112	-	-	\$ 749,112
Bank debt	127,489	-	-	127,489
Dividend payable	69,479	-	-	69,479
Loans	25,883	56,408	7,667	89,958
Lease liability	18,650	15,106	152,760	186,516

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

15. Convertible debentures

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

The holder of the debenture may elect to convert, in whole or in part, the principal amount of the debenture together with any accrued but unpaid interest accumulated thereon as of the date of such conversion into units of the Company (the “Units”) at a deemed conversion price (the Conversion Price) equal to the lesser of: (i) \$0.25 per Unit; or (ii) the initial public offering price of a common share in the capital of the Corporation (each a Common Share) on the Canadian Securities Exchange (or any other Canadian exchange on which the Common Shares may be listed).

Each Unit consisted of one (1) Common Share and one (1) common share purchase warrant of the Company (each a Warrant). Each Warrant entitles the holder thereof to acquire one (1) Common Share for an exercise price of \$0.30 per Common Share for a period of two (2) years following the Closing Date (the Warrant Exercise Period).

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

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

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

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

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

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

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

15. Convertible debentures (continued)

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

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

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

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

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

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

In November and December of 2018, convertible debentures with a face value of \$2,826,500 plus interest accrued for \$147,057 was converted into 11,894,226 units at \$0.25 per unit. Each Unit consists of one (1) Common Share and one (1) Common Share purchase warrant of the Company (each a Warrant). Each Warrant entitles the holder thereof to acquire one (1) Common Share for an exercise price of \$0.30 per Common Share for a period of two years following the Closing Date.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

15. Convertible debentures (continued)

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

Convertible debenture

	27-Oct-17	20-Nov-17	Total
Value of host debt instrument upon issuance	1,773,887	596,682	2,370,569
Less: Deferred financing costs	(161,041)	(60,779)	(221,820)
Debt instrument, net of deferred financing costs	1,612,846	535,903	2,148,749
Accretion expense	216,955	64,868	281,823
Amortization of deferred financing costs	95,301	31,971	127,272
Balance, May 31, 2018	1,925,102	632,742	2,557,844
Accretion expense	149,658	58,450	208,108
Amortization of deferred financing costs	65,740	28,808	94,548
Balance, before conversion	2,140,500	720,000	2,860,500
Accrued interest, May 31, 2018	126,671	37,874	164,545
Accrued interest prior to conversion	101,492	36,416	137,908
Total interest accrued	228,163	74,290	302,453
Total convertible debenture at conversion	2,368,663	794,290	3,162,953
Paid in cash	(144,190)	(45,206)	(189,396)
Balance before conversion	2,224,473	749,084	2,973,557
Reclassification to equity upon conversion	(2,224,473)	(749,084)	(2,973,557)
Convertible debenture as at May 31, 2020 and 2021	-	-	-

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

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

Derivative liability

	27-Oct-17	20-Nov-17	Total
Value of derivative liability at issuance	366,613	123,318	489,931
Change in fair value of derivative liability	(77,178)	(22,434)	(99,612)
Value of conversion feature as at May 31, 2018	289,435	100,884	390,319
Change in fair value of derivative liability	(75,352)	(28,873)	(104,225)
Value of derivative liability as at conversion	214,083	72,011	286,094
Reclassification to equity upon conversion	(214,083)	(72,011)	(286,094)
Value of conversion feature as at May 31, 2019 and 2020	-	-	-

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

15. Convertible debentures (continued)

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

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

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

16. Selling, general and administrative expenses

The Company has the following breakdown of selling, general and administrative expenses for the years ended May 31, 2021, 2020, 2019:

	2021	2020	2019
	\$	\$	\$
Programming and related costs	806,589	878,144	974,271
Office and administrative expenses	499,184	744,766	740,018
Business development	366,337	679,895	732,966
Advertising and promotion	132,368	511,909	652,073
Management remuneration	1,089,341	432,209	642,177
Legal and professional	178,169	223,114	579,605
Payroll and related costs	283,629	387,881	320,144
Communication	250,501	233,496	279,750
Bank and interest charges	230,116	211,156	185,447
Automobile expenses	69,840	167,766	110,145
	3,906,074	4,470,336	5,272,185

17. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities as of May 31, 2021 and May 31, 2020 constitutes the following:

	2021	2020
	\$	\$
Accounts payable	346,095	336,390
Accrued liabilities	335,275	308,365
Wages payable	15,216	13,253
Subcontractor payable	26,666	33,994
Others	25,860	20,856
	749,112	712,859

18. Intangible assets

The Company had capitalized development costs under IAS 38 relating to the costs incurred to become certified by Apple Canada to be able to service Apple products. The capitalized costs of \$65,225 as at May 31, 2020 was impaired as of May 31, 2021.

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

19. Right-of-use Asset

The following shows the movement of the Company's right-of-use asset.

IFRS 16-right-of-use asset recognition as of June 1, 2019	\$262,770
Opening right -of-use asset relating to vehicle leases	262,770
Transfer from prepaid expenses	122,700
Addition to vehicle leases during the year	488,943
Addition to office lease during the year	197,776
Early termination of vehicle leases	(503,400)
Early repayment of vehicle leases	(197,664)
Amortization during the year	(165,059)
Balance, May 31, 2020	206,066
Amortization during the year	(29,387)
Balance, May 31, 2021	176,679

Right-of-use asset includes prepayments and leases for vehicles and office space amortized over their period of lease. The Company expensed a net loss of \$nil (year ended May 31, 2020: \$51,895) on early termination of vehicle leases.

20. Lease Liability

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

Balance June 1, 2019	\$262,770
Addition	468,924
Accretion on lease obligation	37,788
Lease payments made during the period	(129,033)
Early termination of vehicle leases	(310,848)
Early repayment of vehicle leases	(120,199)
Balance May 31, 2020	\$209,402
Accretion on lease obligation	19,424
Lease payments made during the period	(42,310)
Balance May 31, 2021	186,516
Less than one year	18,650
Greater than one year	167,866
Total lease obligation	186,516

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

21. Fair value measurement

The following table provides the fair value measurement hierarchy of the company's assets and liabilities valued as at May 31, 2021:

<i>Assets measured at fair value:</i>	Fair value measurement using			
	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Cash	390,655	390,655	-	-

The following table provides the fair value measurement hierarchy of the company's assets and liabilities valued as at May 31, 2020:

<i>Assets measured at fair value:</i>	Fair value measurement using			
	Total	Level 1	Level 2	Level 3
	\$	\$	\$	\$
Cash	316,793	316,793	-	-

There were no transfers between level 1 and 2 during the years ended May 31, 2021 and 2020.

22. Revenue

	2021	2020	2019
	\$	\$	\$
Service fees	4,750,883	4,971,575	4,296,638
Product sales (Sale of software, hardware and related)	5,356,216	5,151,552	4,561,923
Miscellaneous fee	14,381	20,209	47,872
	10,121,480	10,143,336	8,906,433

23. Warrants

The following table reflects the continuity of warrants for the years ended May 31, 2021 and 2020:

	Number of warrants outstanding and exercisable	Weighted average exercise prices	Weighted average remaining contractual life
	#	\$	Years
Balance at May 31, 2019 & May 31, 2020	22,971,727	0.41	0.69
Expired warrants	(6,759,915)	0.70	-
Expired warrants	(1,081,586)	0.35	-
Expired warrants	(11,894,226)	0.30	-
Exercised warrants (Note 10)	(400,000)	0.25	-
Balance at May 31, 2021	2,836,000	0.25	0.76

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

24. Interest expense

	2021	2020	2019
	\$	\$	\$
Interest on loans payable (Note 9)	20,238	23,033	52,935
Interest on convertible debt (Note 15)	-	-	137,908
	20,238	23,033	190,843

25. Supplementary disclosure with respect to cash flows

The Company had the following non-cash transactions affecting cash flows from financing activities during the years ended May 31, 2021 and 2020:

- a) In May 2021, the Company issued 2,798,059 common shares valued at \$363,748 for services.

26. Short-term investments

The Company holds short-term investments that include \$262,792 (2020: \$211,201) in term deposits. The short-term investments are maturing within the next 12 months and have been reclassified to cash and equivalents. The principal accrues interest at 0.3% per annum and matured on July 2, 2021.

27. Share-based compensation

During the year ended May 31, 2019, the Company adopted a stock option plan.

During the year ended May 31, 2021, the Company issued 4,000,000 stock options (May 31, 2020: nil options). Each option entitles the holder to purchase one common stock of the Company. None of the options issued have been exercised.

The continuity of stock options are as follows:

	Number of Options	Weighted Avg Exercise Price (CDN\$)
Balance at May 31, 2019 and May 31, 2020	2,450,000	0.42
Stock options issued during the year	4,000,000	0.15
Stock options exercised during the year	-	-
Stock options expired during the year	(2,450,000)	0.42
Balance at May 31, 2021	4,000,000	0.15

Nerds on Site Inc.

Notes to the Consolidated Financial Statements
For the years ended May 31, 2021, 2020 and 2019
(in Canadian Dollars)

27. Share-based compensation (Continued)

As at May 31, 2021, details of the issued and outstanding stock options are as follows:

<u>Grant date</u>	<u>Exercise price (CDN\$)</u>	<u>Number of options issued and outstanding</u>	<u>Number of vested options outstanding</u>	<u>Weighted Avg Remaining Life (years)</u>
May 20, 2021	\$ 0.15	4,000,000	4,000,000	4.95

The Company granted 4,000,000 stock options during the year ended May 31, 2021, and recorded stock-based compensation expense for \$422,008 for the vesting of all options granted. The fair value of options granted during the year ended May 31, 2021 was estimated using the Black-Scholes option pricing model to determine the fair value of options granted using the following assumptions:

	<u>May 20, 2021</u>
Volatility	120%
Risk-free interest rate	0.94%
Expected life	5 year
Dividend yield	0%
Common stock price	\$0.13
Strike price	\$0.15
Forfeiture rate	nil

Volatility is determined based on volatilities of comparable companies when the Company does not have its own sufficient trading history. The expected term, which represents the period of time that options granted are expected to be outstanding, is estimated based on an average of the term of the options.

The risk-free rate assumed in valuing the options is based on the Canadian treasury yield curve in effect at the time of grant for the expected term of the option. The expected dividend yield percentage at the date of grant is nil as the Company is not expected to pay dividends in the foreseeable future. The Company has estimated its stock option forfeitures to be nil for the year ended May 31, 2021.