

## **MANAGEMENT'S DISCUSSION AND ANALYSIS of Financial Position and Operating Results for the year ending May 31, 2014**

The following management's discussion and analysis ("MD&A") should be read in conjunction with the Armada Data Corporation's audited consolidated financial statements for the year ended May 31, 2014 and accompanying notes. The results reported herein have been prepared in accordance with International Accounting Standards, using accounting policies consistent with International Financial Reporting Standards ("IFRS").

Additional information relating to Armada Data Corporation is filed on SEDAR, and can be viewed at [www.sedar.com](http://www.sedar.com)

### **Company Overview**

Armada Data Corporation ("Armada" or the "Company") is an Information Services Company providing accurate and real-time data, to institutional and retail customers, through developing, owning and operating automotive pricing related web sites and providing information technology and marketing services to its clients.

Armada is a publicly traded Canadian company with its shares listed on the TSX Venture Exchange under the trading symbol ARD. Armada currently has a total of 17,670,265 shares outstanding. The Company has been based in Mississauga, Ontario since its inception in July 1999.

On October 1, 2011, Armada acquired 90% the issued and outstanding shares of The Big & Easy Bottle Brewing Company Inc. ("TBE"). TBE owns 100% of all the issued and outstanding commons shares of Mister Beer Inc. ("MB"), a company which invented and has a patent pending on a unique "microbrewery in a bottle", allowing consumers to produce premium beer at roughly half the cost of regular beer. This adds a new dimension to Armada which management still believes has some opportunities to increase shareholder value and open doors into new markets for the Company.

The Company's operations consist of six main segments: Insurance Services, Retail Services, Dealer Services, Information Technology (IT) Services, Advertising/Marketing Services and Mister Beer Inc.

The Insurance Services division derives its revenue from the sale of total-loss replacement vehicle reports to major Canadian insurance companies.

The Retail Services division derives its revenue from the sale of new car pricing data to consumers primarily through the Company's flagship website [www.CarCostCanada.com](http://www.CarCostCanada.com) as well as the reselling of new car pricing data to qualified third party vendors, such as Consumers Union/Consumer Reports.

The Dealer Services division generates revenue through the sale of new vehicle customer leads derived from membership sales from Car Cost Canada.

The Information Technology division comprises web and email hosting, online marketing, search engine optimization, technical support and network support services (for both internal purposes resulting in saving the company from the costs associated with high price IT services and external sales/services purposes).

The Advertising/Marketing Services division is made up of the sale of online third party website advertising, consulting fees and other new car or car business related marketing activities.

Mister Beer Inc. derives its revenue from the retail sales of the Mister Beer Inc. beer-making kit and wholesale sales of unfermented beer.

### ***Selected Annual Information***

Fiscal Year Ended	May 31, 2014	May 31, 2013	May 31, 2012	May 31, 2011
Total Revenue	\$2,260,200	\$2,587,922	\$3,110,921	\$3,061,762
(Loss)Income before taxes	\$(137,853)	\$(424,721)	\$(621,774)	\$397,263
Income Taxes	\$102,289	\$122,504	\$14,906	\$126,321
Comprehensive (Loss) Income after Taxes	\$(240,142)	\$(547,225)	\$(636,680)	\$270,842
Comprehensive (Loss) Income per share	\$(0.01)	\$(0.03)	\$(0.04)	\$0.02
Total Assets	\$1,256,286	\$1,579,219	\$1,703,555	\$1,957,643
Total Liabilities	\$545,141	\$627,932	\$305,043	\$280,842
Shareholder's Equity, including Non-controlling interests	\$711,145	\$951,287	\$1,398,512	\$1,676,801
Dividends	NIL	NIL	\$81,796	\$70,679

The Company's total revenue decreased by 13% in 2014 from \$2,587,922 to \$2,260,200

*The Company reported a comprehensive loss of \$240,142, due to the following factors:*

- The ongoing monthly operating losses incurred by the Mister Beer division. The losses amounted to an annualized amount of \$542,834. Despite the significant monthly operating losses, the division made positive strides in the production facility by way of developing an all-new brewery team since the resignation of Brewmaster Stefan Riedelsheimer. Although the Management Salaries in this division were reduced, there were significant training costs to rebuild the production team.
- Management's decision to discontinue offering outside web development services, in order to concentrate fully on internal development.
- The Company decided to not offer third-party advertising on its web sites for security reasons.

NOTE: Armada Data Corporation's core "data" business earned a before tax profit of \$404,983, which was allocated to absorb the ongoing operating losses sustained by Mister Beer Inc.

### **Selected Quarterly Information**

Fiscal Year	2014	2014	2014	2014	2013	2013	2013	2013
Quarter Ended	May-31 2014	Feb-28 2014	Nov-30 2013	Aug-31 2013	May-31 2013	Feb-28 2013	Nov-30 2012	Aug-31 2012
<b>Total Revenue</b>	437,930	501,013	618,715	702,542	622,611	612,237	675,288	677,786
<b>Comprehensive (Loss) Income</b>	(277,109)	(58,352)	(5,338)	154,941	(519,430)	26,633	(31,503)	28,754
<b>Comprehensive (Loss) Income per share</b>	\$(0.02)	\$(0.01)	\$0.00	\$0.01	\$(0.03)	\$0.01	\$(0.01)	\$0.01

The prior periods' comparative figures have been reclassified, where necessary, to conform to the current year's presentation.

### **Operations**

The Insurance Services division experienced an increase in revenue, from \$833,259 in 2013 to \$983,405 in 2013, or by 18%. The increase in revenue was the result of unusual flooding in Alberta and Ontario the summer of 2013.

The Retail Services division revenue was down 6% to \$437,734 from \$467,197. The updated CarCostCanada.com website, as well as the new Partners and Discounts program clearly helped the CarCostCanada.com membership program maintain a strong presence in the marketplace, despite increasing competition. Management believes these improvements have assisted in slowing the downward trend that the membership sales have been on, and have formulated a plan to realize sustained growth, increased market share and new partnerships. These improvements should start to be realized in fiscal 2015, and the Company will keep building on these strategies in future years.

The Dealer Services division revenue decreased by 18%, from \$828,228 in 2013 to \$676,995 in 2014, due to the past decreases in membership sales, which drive the dealer lead generation program, but also due to some manufacturer intervention on the part of an automaker that discourages their dealer-body from participating in any type of third-party lead generation program. This division's dealer development team has a plan to service the customers who find themselves without a dealer referral, although full implementation of this program will not be complete immediately. The division also suffered from a technical problem that prevented timely delivery of some leads to our dealer customers, the problem was discovered and rectified, but not without some loss of revenue in this division.

The Advertising/Marketing Services division, which derives its revenue from the sale of online third party advertising on CarCostCanada.com and TheCarMagazine.com decreased from \$67,004 to \$8,336, or 88%. This reduction was due to CarCostCanada's decision to further secure the websites from ecommerce fraud, site hacking and online intruders; management continues to look into technology that will allow us to provide customers with a fully secure website while we deliver third party advertisements.

The Information Technology division revenue decreased 55% to \$104,654, down from \$235,168. This reduction is solely due to management's decision to devote its resources to internal web development only. IT continues to offer technical support and web site hosting to hundreds of customers, and develop new customer relationships on a regular basis.

The Mister Beer division's revenues are down from \$515,093 to \$344,496 or 33%. Direct product costs and labour decreased by 18%, from \$358,297 to \$295,420. The net revenue for Mister Beer Inc. went from \$156,796 in 2013 to \$49,076 in 2014, a decrease of 69%. Mister Beer Inc decided not to support the bulk wort sales to independent brew-your-own businesses due to licensee discontent, collection problems and delivery challenges. RJ Spagnols decided to discontinue their exclusive line of bottle-brew product to their winemaking stores, for reasons that were not disclosed to management. The resignation of the brewmaster partway through fiscal 2014 caused some initial quality issues on production line; as a result, the sales department was compelled to temporarily reduce sales and distribution efforts until the problems were remedied. The Mister Beer division is now a listed vendor with Home Hardware, and is now undergoing a test opportunity with Canadian Tire convenience stores in Ontario.

Armada's consolidated statement reflects a loss, before corporation income taxes, of \$(137,853); this is a decrease compared to the loss of \$(424,721) in 2013. This loss is the result of the Mister Beer operating loss of \$542,834. Corporation income taxes are \$102,289 in 2014, compared to \$122,504 in 2013.

Total expenses before amortization decreased to \$2,222,133 compared to \$2,539,630, a 13% decrease over last year. Management engaged in many cost-cutting measures to reduce expenses in 2014, including reductions in advertising, salaries and wages, computer consulting and selling fees.

The bank indebtedness increased slightly from \$(200,008) at May 31, 2013 to \$(200,946) at May 31, 2014, attributed to subsidizing the monthly operating losses incurred by the Mister Beer division.

Accounts receivable increased to \$244,777 as at May 31, 2014 from \$398,540 last year. Related party accounts receivable increased from \$3,277 to \$5,255.

Accounts payable decreased to \$191,823 as at May 31, 2014 from \$311,291 a year earlier. Related parties accounts payable increased to \$45,771 as at May 31, 2014, from \$7,983 last year. Corporation income taxes payables are \$106,601 as at May 31, 2014 compared to \$108,650 as at May 31, 2013.

As a result of the loss reported by the Company in 2014, the Company's retained earnings decreased to a deficit of \$(1,194,382) as at May 31, 2014 compared to a deficit of \$(954,240) last year.

No dividends were paid out to shareholders in fiscal 2014 or fiscal 2013. Management does not plan on issuing any dividends until further notice.

#### **4th Quarter Results**

The quarter ending May 31, 2014 finished with the Company recording revenue of \$437,930 versus \$622,611 last year, a decrease of 30%. Loss before taxes for the 4th quarter 2014 decreased to \$(277,109) compared to \$(519,430) in 2013.

#### **Segmented Annual Information**

Revenues earned by divisions were as follows:

	2014	%	2013	%
Insurance Services	\$ 983,405	44	\$ 833,529	32
Retail Services	437,734	19	467,197	18
Dealer Services	676,995	30	828,228	32
IT Services	104,654	5	235,168	9
Advertising/Marketing Services	8,336	-	67,004	3
Total Revenue – Armada Data Corporation	\$2,211,124	98	\$2,431,126	94
Revenue – Mister Beer Inc.	344,496	-	515,093	-
Less: Direct product cost and wages	(295,420)	-	(358,297)	-
Total Revenue - Mister Beer Inc.	49,076	2	156,796	6
Total Consolidated Revenue	\$ 2,260,200	100	\$ 2,587,922	100

### Related Party Transactions

Salaries and expenses are paid to an officer of the Company, who is also 25% shareholder of Lease Busters Inc. Legal fees are paid to a law firm, of which a partner is a (non-remunerated) director of the Company. A firm controlled by a (non-remunerated) director of the company had been retained for sales consulting for the Mister Beer Inc. division of the company, up to November 30, 2013. All of the actual costs noted in this section are paid at fair market value in the normal course of business.

### Liquidity

Based on a year-end bank overdraft position of \$(200,946) and accounts receivable of \$244,777, management believes that the company will remain in a debt position utilizing the current bank facility to assist in the ongoing operations of the Company. The bank financing has enabled Armada to continue to support the Mister Beer division and although the division did not perform as expected due to the reasons described, management expects there to be positive changes in the division and the eventual pay down of the debt. The other divisions of Armada are poised for revenue gains this fiscal year as a result of new project and feature launches as well as more than one significant partnership that the Insurance and Retail Service teams are working on. Management believes that the data divisions will not only remain very stable and profitable but begin to make significant inroads in new verticals that will result from our partnerships, project releases and new revenue streams.

The CarCostCanada.com division (Retail and Dealer services) will not be void of the competition that has made significant advancements over the past two years however, the division has now learned how to deal with our competition and overcome many of their tactics. The Retail and Dealer services division were competition-free for many years and had to re-group and re-strategize in order to prevent further erosion caused by an overly aggressive new competitor. Management expects CarCostCanada.com to start realizing market gains this fiscal year and with the overall new car market remaining poised for more growth nationally (and more specifically in the web-rich Canadian urban centres), the division plans to earn more members to enhance the new car buying process for the Canadian new car buying marketplace.

### Risk Management

Armada Data Corporation is subject to the risk generally associated with the operation of income-producing websites, production of a beer-based product/kit and normal course business risk. These risks include fluctuations in site traffic, sales, operating expenses, and the risk of unavailability of further equity financing and/or funding. Other associated risks may include competition, technical constraints in further business development, and possible service interruptions.

#### **Accounting changes – International Financial Reporting Standards (“IFRS”)**

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional year. In February, 2010, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 required the restatement for comparative purposes of amounts reported by the Company for the year ended May 31, 2011.

#### **Controls and Procedures**

Disclosure Controls and Procedures - As at May 31, 2014, the Company’s senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures and concluded that they were effective.

Internal Control Over Financial Reporting - There have been no changes in the Company’s internal control over financial reporting during the year ended May 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management believes that Armada Data Corporation is taking all the measures necessary to rebound our growth trends in the “data” division and begin to realize a return on investment in the Mister Beer Inc. division as a result of a new production facility, packaging improvements, marketing and branding efforts and the opening of sales and distribution channels throughout the major markets in Canada.

It is expected that Management can meet these objectives in the “data” divisions. However, the Mister Beer Inc. division does not have enough sales history and contracts to accurately report optimistic results; the Mister Beer Inc. bottle-brew product is a unique beverage/kit within its category and has no known competition and has a current customer base to build upon in the coming months and years. A robust or downward trending economy will have some impact on the future growth expectations however, “data” has historically benefited in either economic trends and historical evidence supports increases in beer type beverages during economic downturns.

#### **Acquisition of The Big & Easy Bottle Brewing Company Inc. and Mister Beer Inc.**

On October 1st, 2011 the Company acquired 90% of the issued and outstanding shares of The Big & Easy Bottle Brewing Company Inc. (“TBE”). TBE is the holder of all of the shares of Mister Beer Inc., a company which

invented and has a pending patent on a unique 'microbrewery in a bottle', allowing consumers to easily produce premium beer at roughly half the cost of regular beer.

The aggregate purchase price for the 90% of the shares of TBE acquired by Armada was \$500,000, paid as follows : (i) a convertible promissory note in the amount of \$100,000; and (ii) \$400,000 worth of Armada common shares issued at closing at an issue price of \$0.20, such that 2,000,000 share of Armada were issued. The Note was payable in monthly non-interest bearing installments of \$4,167 over a 24 month term.

Armada committed to financing capital investments for the Mister Beer business of \$700,000 over a 36 month period and contributing \$100,000 towards marketing and business development costs for the Mister Beer business. All of these commitments were fulfilled in fiscal 2014 as the new Mississauga production facility was commissioned and is now producing the bottle brew product. The new MB brewery can produce 10 times more product in a single shift than the original Woodbridge, Ontario facility and management is prepared to add additional shifts when the demand for the product increases.

Although the Mister Beer acquisition still has many benefits and the potential to provide an addition revenue base for the Company, management is disappointed and discouraged with the outcome to date, and the financial drain on the other divisions. As a result, management is spending more time and effort to correct this, as the losses are increasing and cannot continue indefinitely. Management is working with several distribution organizations and submitting tenders for contracts in co-packing arrangements, as well as new distribution opportunities for the bottle-brew product. By having stable production and sales teams in place, management feels the Mister Beer Inc division losses will decrease thorough fiscal 2015.

The Armada Board of Directors approved this transaction and the transaction qualified as an expedited transaction pursuant to TSX-V policies, and did not therefore require shareholder approval.

## **Outlook**

The Company's outlook is to continue to increase sales, update and improve our data services products and services, and deliver significantly better results to our shareholders by way of the following:

1. Build on the historical success of the Company's ongoing sales and marketing efforts focused on increasing sales at Retail Services, Dealer Services and Insurance Services.
2. Exploit market awareness and demand for new vehicle pricing information and dealer referrals that result from the additional competition within that market space; by putting more emphasis on outside partners, data outsourcing and our underutilized online magazine TheCarMagazine.com
3. Continue to improve our relationships with some of the largest insurance companies in Canada and partner with some of these organizations to produce new products and services for their vast client base.
4. Maintain operating expenses and achieve the economies of scales of an Internet based business.
5. Expand third-party fee-based online advertising, by developing improved and more secure advertising methods.

On behalf of the Board of Directors

*"R. James Matthews"*

R. James Matthews  
Chief Executive Officer