

## **MANAGEMENT’S DISCUSSION AND ANALYSIS of Financial Position and Operating Results for the year ending May 31, 2020 – effective September 28, 2020**

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 years ended May 31, 2020 and 2019, 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.

The Company’s fiscal 2020 operations consisted of three main segments: Insurance Services, CarCostCanada (combining the former Retail, Dealer and Advertising divisions), and Information Technology (IT) Services.

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

The CarCostCanada 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); the reselling of new car pricing data to qualified third party vendors; through the sale of new vehicle customer leads derived from membership sales from Car Cost Canada, and the sale of online third party website advertising, consulting fees and other new car or car business related marketing activities. In previous years, these revenues were reported separately, but because these revenues are all earned directly or indirectly from the website [www.CarCostCanada.com](http://www.CarCostCanada.com), the three segments have been combined, and all previous periods’ comparative information has also been combined.

The Information Technology division supplies web and email hosting, technical support and network support services (for both internal and retail users) and the resale of hardware and software solutions. The division has vendor relationships with Microsoft, Barracuda, DropBox and Webroot.

### *Selected Annual Information*

Fiscal Year Ended	May 31, 2020	May 31, 2019	May 31, 2018	May 31, 2017
Total Revenue	\$3,280,998	\$2,884,628	\$2,951,844	\$2,391,186
Income (loss) before taxes	\$102,926	\$(22,774)	\$380,910	\$275,821
Income Taxes	\$52,801	14,680	\$108,595	\$79,957
Comprehensive (Loss) Income after Taxes	\$50,125	\$(37,454)	\$272,315	\$195,864
Comprehensive Income (Loss) per share	\$0.00	\$0.00	\$0.02	\$0.01
Total Assets	\$1,568,978	\$1,265,274	\$1,196,600	\$875,175
Total Liabilities	\$622,030	\$377,431	\$355,095	\$325,053
Shareholder's Equity, net of Non-controlling interests	\$946,948	\$887,843	\$841,505	\$550,122
Dividends	NIL	NIL	NIL	NIL

The Company's total revenue increased by 14% in 2020 to \$3,280,998 from \$2,884,628 in 2019.

*The Company reported comprehensive income of \$50,125, due to the following factors:*

- Total payroll costs, excluding management salaries, decreased by 2%, from \$1,429,143 in the year ended May 31, 2019 to \$1,404,361 in the year ended May 31, 2020. This is due to the Company receiving CEWS (COVID Employer Wage Subsidy) for the period of March 15 to April 11, 2020, and also due to reduced work hours attributed to COVID-19.
- Advertising expenditures increased to \$379,196 in 2020, compared to \$331,289 in 2019, or by 14%
- The COVID-19 pandemic resulted in the office closing and most staff working from home for the period of March 18 to July 31, 2020. As most Canadians were not driving during this period, insurance claims were close to non-existent, resulting in some staff layoffs in the Insurance Division, and a decrease in revenue during the fourth quarter of fiscal 2020. New car dealers across the country either closed their doors and worked remotely, or reduced their sales staff. Armada's CarCostCanada division suspended and/or discounted the billing for many of these dealer customers.

### *Selected Quarterly Information*

Fiscal Year	2020	2020	2020	2020	2019	2019	2019	2019
Quarter Ended	May-31 2020	Feb-29 2020	Nov-30 2019	Aug-31 2019	May-31 2019	Feb-28 2019	Nov-30 2018	Aug-31 2018
Total Revenue	609,210	922,113	974,475	775,200	713,646	718,174	704,521	748,287
Comprehensive (Loss) Income before taxes	(133,491)	56,904	81,648	97,865	(85,663)	1,617	(30,407)	91,679
Comprehensive Income per share	\$(0.01)	\$0.00	\$0.01	\$0.01	\$(0.01)	\$0.00	\$0.00	\$0.01

## **Operations**

The Insurance Services division realized an increase in revenue, from \$1,482,623 in 2019 to \$1,607,899 in 2020, or by 8%. The increase in revenue was the result of the concerted effort by the Insurance Division to process more claims faster, and the addition of a new insurance company customer.

The CarCostCanada division (combining the former Retail, Dealer and Advertising divisions) revenue was up 25% to \$1,437,435 from \$1,153,541. Free trial memberships resulted in a reduction in member revenue. Dealer revenue per lead has increased in 2020 over 2019, and the division signed up more new dealer customers, as well as implementing new revenue streams.

The Information Technology division revenue decreased 5% to \$235,664 in 2020, from \$248,464 in 2019. IT continues to offer technical support and web site hosting to hundreds of customers, and is developing new customer relationships on a regular basis, as well as offering new services for sale.

Armada's consolidated statement reflects income this year, before corporation income taxes, of \$102,926, compared to the loss before corporation income taxes of \$(22,774) in 2019. Corporation income tax expense is \$52,801 in 2020, compared to \$14,680 in 2019.

Total expenses increased to \$3,178,072 in 2020, compared to \$2,907,402, a 9% increase over last year. After the many cost-cutting measures to reduce expenses in previous years, the largest increases are in advertising and selling fees. Advertising expense has increased 14% from 2019 to 2020, due to expenses related to attendance at two automobile trade shows, which were cut short and cancelled due to COVID-19, but the promotional expenses had already been incurred. Selling fees increased 74%, from \$199,329 in 2019 to \$347,391 in 2020. The Company retained an outside firm to provide CarCostCanada members, which is attributable to a portion of the increase in Dealer revenue.

Accounts receivable increased 45% to \$621,182 as at May 31, 2020, compared to \$427,786 last year. This upward swing is attributed to insurance company accounts receivable, the result of COVID-19 and remote offices during the last three months of 2020. The May 31, 2020 accounts receivable includes COVID Employer Wage Subsidy of \$66,153. Related party accounts receivable increased from \$8,741 to \$14,070.

Accounts payable decreased 2%, to \$342,322 as at May 31, 2020 from \$350,669 a year earlier. Related parties accounts payable increased to \$31,944 as at May 31, 2020, from \$21,762 last year. Corporation income taxes receivable was \$94,815 as at May 31, 2019, compared to \$12,563 as at May 31, 2020, and deferred taxes of \$46,312 as at May 31, 2020 (nil as at May 31, 2019).

As a result of the income reported by the Company in 2020, the Company's deficit decreased to \$(920,729) as at May 31, 2020 compared to \$(970,854) the prior year. Earnings per share at May 31, 2020 are \$0.00 versus \$0.00 per share at May 31, 2019.

In July 2018, the Company signed a contract with a mobile app development company for the creation of an all new mobile app for the Company's ecommerce website, CarCostCanada.com, which was completed in fiscal 2020. This is presented as an intangible asset at May 31, 2020 of \$89,600, which is comprised of the total cost of \$107,520 less \$17,920 accumulated amortization.

The Company adopted IFRS 16 *Leases* effective June 1, 2019. IFRS 16 removes the distinction between finance and operating leases and requires lessees to recognize a right of use asset and lease liability for all leases, subject to certain optional exemptions. On the initial application of the standard, the Company elected to exempt lease contracts for which the lease ends within 12 months of the date of initial application. In addition,

the Company adopted an accounting policy to exclude short term leases that have an initial lease term of 12 months or less and lease contracts for which the underlying asset is of low value from application of the standard. The lease payments related to these leases are recognized as an expense on a straight line basis over the lease term.

The Company recognized a lease liability of \$328,504 on June 1, 2019, measured as the present value of the future lease payments discounted using an estimate incremental borrowing rate of 4.0% at June 1, 2019. The Company elected to initially measure the right of use assets at an amount equal to the lease liability. Therefore, there was no net impact on retained earnings on adoption of the new standard. This liability was paid down during fiscal 2020 to leave a balance of \$201,452 at May 31, 2020.

No dividends were paid out to shareholders in fiscal 2020 or fiscal 2019. Management does not plan on issuing any dividends until further notice.

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

The quarter ending May 31, 2020 finished with the Company recording revenue of \$609,210 versus \$713,646 last year, a decrease of 8%. Loss before taxes for the 4th quarter of 2020 is \$(133,491), compared to \$(85,663) for the same period the previous year.

#### **Stock Options**

On April 10, 2018, the company granted options for the purchase of 1,200,000 common shares of the company, expiring 2 years from the date of grant and with an exercise price of \$0.11 per share. The options vested 1/3 every six months beginning six months from the grant date. The Company had no options outstanding prior to April 10, 2018. As of May 31, 2020, nil were exercisable (\$800,000 at May 31, 2019). All options granted expired April 10, 2020, and none of the 1,200,000 options were exercised during the two year period.

#### **Segmented Annual Information**

Revenues earned by divisions were as follows:

	<b>2020</b>	2019
Insurance Services	<b>\$1,607,899</b>	\$ 1,482,623
CarCostCanada	<b>1,437,435</b>	1,153,541
IT Services	<b>235,664</b>	228,464
Total Revenue	<b><u>\$ 3,280,998</u></b>	<u>\$2,884,628</u>

### **Related Party Transactions**

The following transactions with related parties were in the normal course of operations and are measured at their exchange amounts:

- a) The Company recognized IT revenue of \$22,582 (2019 - \$41,941) from a company significantly influenced by one of the Company's directors. At May 31, 2020 there was an account receivable of \$13,746 (2019 - \$8,576) due from this related party and accounts receivable of \$324 (2019 - \$165) due from other related parties.
- b) The following compensation was paid to key management, which comprises the Chief Executive Officer, Chief Financial Officer, Chief Technical Officer, and the Board of Directors, during the current and prior years:

	<u>2020</u>	<u>2019</u>
Management salaries	\$ 300,000	\$ 307,118
Fair value of stock-based compensation expense	7,483	69,827
Automobile and travel allowances	<u>14,400</u>	<u>14,202</u>
	<u>\$ 321,883</u>	<u>\$ 391,147</u>

- c) Professional fees of \$67,085 (2019 - \$19,145) were recognized for services provided by a law firm in which a director of the Company is a partner.
- d) During the year, the Company incurred rent expense of \$NIL (2019 - \$3,000) with a company significantly influenced by one of the Company's directors.
- e) During the year, the Company incurred advertising and computer consulting expenses of \$25,123 (2019- \$16,575) with an entity controlled by the spouse of a director of the Company.
- f) Related parties accounts payable of \$31,944 (2019 - \$1,762) are due to directors or persons and entities related to directors of the Company.

### **Liquidity**

Based on a year-end cash position of \$350,603, accounts receivable of \$621,182, and accounts payable of \$342,322, the company is in a positive cash position. The Company hired some key management and support personnel in prior years to assist in achieving revenue that should surpass 2020 levels. Management believes that the investment in these ventures and action plans will demonstrate significant returns for the Company in both revenue growth and corporate goodwill.

CarCostCanada revenues are primarily derived from the sale of new-car buyer members to our network of new car dealerships that will aim to sell the CarCostCanada member a new car. It is the mandate of management to monetize each CarCostCanada member by way of this lead-generation sale to new car dealers. The Vice President and General Manager (retained in 2018), and the dealer development team he has built and continues to build, has increased the revenues of the CarCostCanada division, and fortified the relationships with this dealer network during fiscal 2020. A third-party consultant has been retained to increase the CarCostCanada membership base, which in turn increases dealer revenue as well.

## **Risk Management**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

### **Credit Risk**

The Company is exposed to credit risk due to its accounts receivable, which are stated net of an allowance for doubtful accounts. Cash is held at a major Canadian bank and is not considered to be subject to significant credit risk. Credit risk is the risk that a customer will be unable to pay amounts owed causing the Company to suffer a financial loss. The Company's two largest customers account for 36.7% (2019 – 31.9%) of consolidated revenue, or 75% (2019 – 62%) of Insurance Services segment revenue. These customers are two of Canada's largest insurance companies and are considered by management to be of negligible credit risk. The Company's remaining consolidated revenue is derived from a large number of relatively small customers and therefore are not subject to any concentrations of credit risk. Furthermore, individual revenue transactions are of nominal value.

A significant portion of the Company's sales are by credit card or with large insurance companies. Management reduces credit risk by carefully monitoring the amounts owed by customers on a regular basis, performing regular credit reviews of any customer that is approaching their credit limit or does not keep to their normal payment pattern. While the Company has credit controls and processes for the purpose of mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective, or that the Company's low credit loss experience will continue. In the opinion of management, the credit risk is low due to the controls in place and the lack of concentration amongst customers. Credit risk is unchanged from prior years except for an increase in aging of receivable balances, which management attributes to COVID-19. Management expects no further credit losses due to the factors described.

### **Liquidity Risk**

The Company is exposed to liquidity risk due to its accounts payable and accrued liabilities, related parties accounts payable and the current portion of lease liability. Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. In the opinion of management, the liquidity risk is low and is managed through continuous cash flow management. This risk is unchanged from the prior year.

### **Market Risks**

The Company is not exposed to significant foreign currency, interest rate or other price risks.

### **Controls and Procedures**

Disclosure Controls and Procedures - As at May 31, 2020, 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, 2020 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 CarCostCanada division, and continue to grow and expand the Insurance and IT divisions..

## **Outlook**

COVID-19 emerged in December 2019 and subsequently spread worldwide, leading to the World Health Organization's declaration of a COVID-19 pandemic on March 11, 2020. To date, Canadian federal and provincial governments and businesses have mandated various measures, including: travel restrictions, restrictions on public gatherings, stay-at-home orders and advisories, and the quarantine of people who may have been exposed to the virus. The Company has and will continue to follow all federal and provincial guidelines mandated to combat this pandemic.

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

1. Develop a new, targeted CarCostCanada digital, video and traditional marketing campaign to enhance product and brand awareness to more Canadian new car buyers.
2. Forge new CarCostCanada marketing partnerships that focus specifically on Canadian new car buyers and convert these buyers to CarCostCanada members.
3. Continue to build out the CarCostCanada new car dealership network and strive to monetize over 80% of our members and introduce additional product offerings to our member-base.
4. Maintain and 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 client base.
5. Sign on one or two additional Canadian insurance companies to become Armada Insurance Services clients.
6. Introduce a new CarCostCanada Member Services product that caters specifically to our insurance company clients.

On behalf of the Board of Directors

*"R. James Matthews"*

R. James Matthews  
Chief Executive Officer