

Advent-AWI Holdings Inc. (formerly Advent Wireless Inc.)

In this Management Discussion and Analysis (“MD&A”), the terms “We,” “Us,” “Our,” “The Company” and “Advent” refer to Advent-AWI Holdings Inc. This MD&A of Advent-AWI Holdings Inc. should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the quarter ended September 30, 2018, and the notes contained therein. This MD&A is effective as at November 26, 2018. The financial information presented herein has been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All financial data is expressed in Canadian dollars unless otherwise stated. Additional information, including the Company’s Annual Information Form (“AIF”), can be obtained from the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com.

Forward-looking statements

Certain statements in the MD&A, other than statements of historical fact, are forward-looking in nature and involve various risks and uncertainties. These risks and uncertainties can include, without limitation, statements concerning possible or assumed future results of operations of the Company preceded by, followed by, or that include words and phrases such as “will,” “believes,” “plans,” “intends,” “expects,” “anticipates,” “estimates” or similar expressions. Forward-looking statements are not a guarantee of future performance. They involve risks, uncertainties, and assumptions related to all aspects of the wireless communications industry and the global economy. As a result, the Company’s actual results may differ materially from those anticipated in the forward-looking statements and there can be no assurance that such statements will prove to be accurate.

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Overview

Business nature:

The Company operates in two business segments:

- (1) Wireless through Am-Call Wireless Inc. (“AmCall”), a wholly owned subsidiary; and
- (2) Micro-financing through Adwell Financial Services Inc. (“Adwell”), a 70% owned subsidiary.

Wireless business

Am-Call is an authorized dealer of Rogers Communications Partnership (“Rogers”) and is an independent specialty retailer of personal wireless and wireline communication products and services under the Rogers and Fido brands. Fido is the discount brand and is a wholly owned subsidiary of Rogers. The Company carries the full line of Rogers and Fido products and services, including wireless voice and data, high-speed Internet, digital cable television, home phone, Smart Home Monitoring and Rogers Platinum MasterCard.

As at September 30, 2018, the Company had 11 stores in Ontario (six Rogers and five Fido), four less when compared with September 30, 2017.

Number of stores as at September 30, 2018 - 11 stores (six Rogers and five Fido, all in Ontario)
Number of stores as at September 30, 2017 - 15 stores (ten Rogers and five Fido, all in Ontario)

As discussed in our year-end 2017 MD&A, and in the Company’s Q1 and Q2 MD&A’s, the Company closed four Rogers stores on December 28, 2017, as part of the Company’s store optimization plan.

In our Q2 MD&A, we also informed readers about the status of the Company’s dealer agreement with Rogers and the impending winding down and sale of the Company’s wireless business. Even as we seek potential buyers for the business, the Company has not stopped exploring other options with Rogers.

We are pleased to report that instead of selling the entire wireless business, the Company was successful in obtaining a new dealer agreement with Rogers. This new agreement covers four of the Company’s current eleven locations (two Rogers and two Fido) and is for a two-year period ending September 30, 2020. As part of this arrangement, the Company agreed to close the remaining seven locations by December 31, 2018.

Economic dependence

For the three months ended September 30, 2018, approximately 77% (2017 – 79%) of the Company’s revenue was from Rogers Communications Inc., whereas the remaining approximately 23% (2017 – 21%) was generated through the Company’s 11 retail stores in Ontario (2017 – 15 stores in Ontario) on the wireless side and Adwell on the financing side.

Accounts receivable from Rogers – 82% as at September 30, 2018 (91% as at September 30, 2017).

(2) Micro financing business

In late 2015, the Company received approval from the TSXV (“Toronto Stock Exchange Venture”) to start a financial service subsidiary that would operate a consumer lending business in the Greater Vancouver area of British Columbia. This new subsidiary, Adwell Financial Services Inc. (“Adwell”) was incorporated on January 8, 2016. Adwell issued 1,000,000 shares at \$0.0001 per share. The Company subscribed to 70% of the shares issued, with the remaining 30% owned by two minority shareholders, Q&Y Holdings Inc. (15%) and Adwealth Capital Holdings Inc. (15%).

At the time of this MD&A, the Company had invested \$2,375,000 in Adwell, of which \$350,000 was funding for the ongoing operations of Adwell, while the remaining \$2,025,000 was funding for Adwell’s advances to customers.

Overall performance

	Q3 2018	Q3 2017	+/-	%
Wireless income	2,302,319	3,078,578	-776,259	-25%
Financing income	208,011	122,438	85,573	70%
Combined revenue (excluding investment income)	2,510,330	3,201,016	-690,686	-22%

Third quarter combined revenue decreased by \$690,686 or 22% over the same quarter last year. This was made up of an increase in financing income of \$85,573 (+70%) and a decrease in wireless income of \$776,259 (-25%).

In Q3 2018, the financing business generated \$208,011 in financing income (Q3 2017 - \$122,438), an increase of 70%. Although still small, financing income now represents 8% of the combined revenue of the Company in Q3 2018 (Q3 2017 – 4%).

Wireless income, on the other hand, decreased by \$776,259, or 25% more than the same quarter last year. This decrease is a result of an across the board decrease in business transaction volume at both Rogers and Fido.

Subscriber Base: September 30, 2018 – 72,911 September 30, 2017 – 89,510 Decrease of 16,599 or 19%

The Company closed four locations in December 2017, and the corresponding residual payment on its subscriber base, which numbered 12,430 at the time of closure, ceased beginning in January 2018.

If we remove these 12,430 subscribers, the Q3 2017 to Q3 2018 net decrease would be 4,169 subscribers, or 5%.

The Company's share of Rogers' subscriber base has been on the decline for many years, with the market heavily saturated. This was further affected by the incumbent carriers' strategy of aiming at higher ARPU ("average revenue per user") customers, sometimes at the expense of volume.

For many years, the addition to the Company's subscriber base has always been from Fido, with the growth in the Fido subscriber base mitigating the decrease in the Rogers' subscriber base. However, this was not the case in Q3 2018, with both Rogers' and Fido's subscriber base decreasing by 3,479 (6%) and 690 (2%), respectively, resulting in a combined decrease of 4,169.

The Rogers side of the business has been under challenge for some time and to maintain the subscriber base the key is:

- Bundling – if the entire family is bundled into one plan, which can be shared among all users, the chance of customers leaving will be less. That is why Add-A-Line and Add-A-Tablet promotions are so front and centre now.
- Multi-products under one household – if a customer has multiple products (e.g. wireless, Internet, TV, Smart home monitoring and credit card) under one roof, the chance of that customer leaving will be less.
- Multi-brand availability – Rogers' third brand, Chatr, is now made available in both the Company's Rogers and Fido locations, to provide as wide a coverage as possible to prospective customers. The addition of this entry level brand means full coverage over the entire spectrum of customers and provides a path for upward migration in the future.

In order to maintain the customer base, the Company needs to keep adding new customers while at the same time trying to prevent them from leaving. The key is to give customers good reasons to sign up and stay with Rogers, instead of going to the competition. That is why the "why Rogers" and the Rogers "value propositions" are key messages now in all of our locations.

The decrease in the Fido subscriber base is a result of heavy competition from the other discount brands, which have been gaining market share by aggressive pricing in hardware and monthly service fees. The Company has been losing volume to competitors, perhaps more so than others as our business is focused in ethnic communities that are especially price sensitive.

It is important to maintain the customer base because the Company receives residual income on the subscriber base every month. This gives the Company a steady flow of income.

Summary of consolidated quarterly results

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Financing revenue	54,727	86,598	118,034	122,438	129,456	153,655	179,407	208,011
Wireless revenue	4,860,066	2,983,703	2,757,014	3,078,578	3,666,204	2,207,505	1,549,542	2,302,319
Gross margin	43%	47%	48%	48%	47%	39%	30%	49%
Net income (loss)	392,369	292,291	186,220	407,466	502,174	160,479	(331,517)	276,333
Basic and diluted earnings (loss) per share	0.033	0.026	0.016	0.034	0.040	0.013	(0.028)	0.023

On the Wireless side of the business, the general trend in retail sales in Canada is that Q1 is normally the lowest and then gradually moves up in Q2 and Q3, peaking in Q4.

For the Company in 2018, following a sizable drop in Q2, revenue regained its upward momentum in Q3, gaining 33% over Q2 and 4% over Q1. The back to school selling period is the number two selling period for the Company, second only to the Christmas holiday selling season.

However, many factors are still at play that can affect sales and revenue. Among them are:

- The focus on transaction ARPU and ARPA (“average revenue per account”) might have favoured some dealers but has not been favourable for the Company, which leans heavily toward the consumer segment of the market and is inherently price sensitive.
- Launch of new hardware – Marquee phones such as iPhone and Samsung models would definitely help generate more business, especially in customer upgrade activities. However, timing and availability of these products are outside the Company’s control and thus are difficult to predict. The launch of the new iPhone XS models this year did not happen until late September, so it had no impact on Q3 results.
- Carrier promotions directly affect the Company’s business. The Canadian telecommunications market is highly competitive, and all the carriers are working hard to maintain customers and attract switchers from their competitors, especially toward the end of each quarter.

- BYOD (“bring your own device”) has become more and more popular and continues to depress phone sales revenue. As discussed in previous MD&A’s, Canadian carriers now encourage customers to use their existing devices on sharing plans, which is an excellent tool to reduce churn, but at the same time no hardware revenue is generated. On the other hand, we observed consumers using their Smartphones for a longer period. This is because Smartphones are getting more expensive and there is an absence of any ground-breaking technology in new devices.
- Many Smartphone models cost more than \$1,000. Their purchase would alleviate the downward pressure on revenue caused by BYOD but, as explained in previous MD&As, it will not necessarily affect the bottom line. Rogers is trying to entice BYOD customers to change to a new phone by bringing in more affordable models to the hardware lineup.

The Company’s financing business represents a new revenue source and has shown rapid growth since inception in Q1 2016. Its revenue now represents 8% of the total revenue of the Company in Q3. The Company has committed additional funding to this new venture.

Results of operations – Wireless business

In Q3, the decrease in Wireless income was the result of an across the board decrease in business transaction volume, at both Rogers and Fido.

On the Rogers side of the business, the Company operated six stores in Q3 2018, four less than the ten stores a year earlier. The closing of four stores in December 2017 is the main reason why new voice activations, data activations, as well as customer upgrades dropped by 19%, 24% and 30%, respectively.

Another factor for the decrease in transaction volume is the incumbent carriers’ focus on higher ARPU customers, which did not help the Company gain volume. For the Company, which leans heavily on the more price sensitive consumer segment of the market, both new and upgrade transactions were adversely affected by the higher tier monthly service fee plans that customers had to sign up for in order to get their desired hardware. Many customers are also on a holding pattern, waiting to see if there are newer and perhaps better Smartphones from manufacturers such as Apple and Samsung, before making the move.

On the Fido side of the business, its main competitors, especially Freedom Mobile owned by Shaw Communications, mounted an aggressive counterattack during the Q3 back-to-school season, perhaps realizing it had lost ground to Fido in Q2. It began offering very attractive pricing on both hardware and monthly plans, with generous data buckets. This caused Fido’s new voice, data activations and hardware upgrades to decrease by 20%, 19% and 18%, respectively, over the same quarter last year.

Combining Rogers and Fido, total new voice, data activations and customer upgrades in this quarter were down 19%, 21% and 27%, respectively, over Q3 2017. This drop in transaction volume translated into a corresponding decrease in various income streams.

Phone hardware sales decreased by 25%, as the number of phones sold dropped by 27%, from 1,976 in Q3 2017 to 1,437 in Q3, 2018. The cost of Smartphones is much higher now at more than \$1,000 and a drop in the volume of hardware sales would have a higher impact on the Company's revenue. Adding to this is the high percentage of BYOD activations on the Fido side, which bring in no hardware revenue. Although this does not necessarily mean less profitability, it does depress hardware sales and hence overall revenue.

New activations commissions and customer upgrade commissions decreased by 40% and 15%, respectively. Residual commissions decreased by 17% over Q3 2017, caused by the decrease in the residual earning subscriber base after the Company closed four Rogers locations in December 2017.

Bonus commissions dropped by 26% in Q3 2018, when compared with Q3 2017. The Company achieved all bonus targets on the Fido side but not on the Rogers side, which explains the lesser payout.

Rogers and Fido Bank (MasterCard) commissions decreased by 79%. The Company has been focusing on non-wireless products such as Mastercard in order to mitigate the impact of the decrease in Wireless transaction volume. Unfortunately, in Q3 2018, Rogers Mastercard reduced its sign-up incentive, which caused a drop in volume. Having said that, Mastercard continues to be the focus of the Company in 2018.

Cable and other commissions also dropped by 23%, partly because Bell Canada had an aggressive Internet promotion in the market that the Company did not match due to a shortage of modems during the quarter. With the phasing out of legacy TV and the introduction of Internet TV and concepts such as Rogers' Ignite TV, which gives seamless integration with apps such as Netflix and YouTube, this sector is more than likely to improve in the future. In the same vein, the transition in wireless telecommunications infrastructure from 4G to 5G, as well as strength in demand for Advanced Mobility applications in the near future will definitely boost the Wireless side of the business.

Results of operations – Financing business

In Q3 2018, Adwell's revenue growth continued at a fast pace, with a revenue increase of 70% over Q3 2017.

	Q3 2018	Q3 2017	+/-	%
Financing revenue	208,011	122,438	85,573	70%

Revenue growth was 16% when compared with the preceding quarter, Q2 2018.

	Q3 2018	Q2 2018	+/-	%
Financing revenue	208,011	179,407	28,604	16%

At this stage, Adwell provides unsecured short-term interest bearing instalment loans in amounts ranging from \$1,500 to \$5,000, with nine to 36-month flexible repayment terms and no early repayment penalties, with a weighted average interest rate of 41% per annum. These loans are alternatives to the so-called payday loans, which are usually more expensive and stressful to individual consumers. With more flexible repayment terms and expertise in customer service, Adwell is aiming to reduce customers' stress and rebuild their financial wellness.

Adwell's main income is interest generated from these instalment loans that grow in line with the number of customers. In Q3 2018, Adwell advanced loans to 229 customers, 34 more than Q3 2017 and 49 less than Q2 2018. Adwell realizes it has to expand to different markets in order to sustain growth and therefore has expanded its service to both Ontario and Alberta.

Below is the income and expense breakdown of the Company's Financing business in Q3 2018 and Q3 2017:

Financing	Q3 2018	Q3 2017	+/-	%
Interest income	187,799	120,793	67,006	55%
Fee income	20,212	1,645	18,567	1,129%
Total income	208,011	122,438	85,573	70%
General and administration (including interest cost and provision for loan loss)	134,044	99,004	35,040	35%
Amortization of property, plant and equipment	4,954	4,742	212	4%
Income from operations	69,013	18,692	50,321	269%

In Q3 2018, Adwell recorded an income from operations of \$69,013, which is 269% more than the \$18,692 recorded in the same period last year.

As indicated earlier in this MD&A, the Company has increased its funding commitment to Adwell to \$3,000,000. This will allow Adwell to grow not only in the personal loan market, but in the following two markets as well:

- Secured loans – this product is similar to Adwell’s existing micro loan offering but will be secured by real property. This product particularly targets home owners who have a stable working income and need short-term financing.
- Syndication loans – these are generally bigger sized mortgage loans also secured by real properties. In undertaking such a project, Adwell will take the role as leader and select qualified participants to invest in the project. The arrangement will allow Adwell to venture into the mortgage loan market, while at the same time spreading out the risk.

In response to increasing customer requests, Adwell began offering money remittance service to the Philippines in 2017, providing a convenient, one-stop service solution to customers whose financing need is overseas. Adwell has formed an association with IREMIT Inc., the largest non-bank remittance company in the Philippines, as facilitator for these transactions. IREMIT Inc. has an international network of offices, including Canada, which they have been operating since 2001. This service also generates additional fee income for Adwell.

Adwell also began making provisions for loan loss on its books starting in 2017. Adwell’s policy is to maintain a provision for loan loss equal to 5% of its unsecured personal loan portfolio, which is in line with industry practice. Adwell did not need to record any provision for loan loss in Q3 2018 to maintain the 5% threshold. Adwell will review and make adjustments to this provision on a quarterly basis.

<p>Gross profit margin Q3 2018 – 49% Q3 2017 – 48%</p>
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Gross profit margin for the quarter is basically the same as last year at 49%.

Hardware revenue has been coming down in the past few years and as the Company is focusing more on non-margin-based products such as Cable and Mastercard, the following factors should have an impact on the profit margin:

- New activation commissions and upgrade commissions can be changed at short notice, depending on carrier priorities and focus. These commissions are based on MSF (‘monthly service fee’) multiples, rather than a fixed amount.
- Dealer bonus commission targets and achievement metrics vary from quarter to quarter, and may be favourable or unfavourable to the Company.
- Residual commissions are a steady source of income, but it is becoming more and more challenging to maintain customers amid heavy

competition and the government talking about opening the market to more competition in the future. The closure of the Company's four locations also resulted in lower residual income beginning in 2018.

- Cable commissions and MasterCard commissions are now important revenue sources, to make up for the loss in Wireless commissions because of volume loss.

In short, the Company must adapt and adjust quickly to the ever-changing environment in which it operates, in order to maximize opportunities for generating revenue.

Q3 2018 General and administration expenses - \$906,864
Q3 2017 General and administration expenses - \$1,030,019
Decrease of \$123,155 or 12%

The decrease in General and administration expenses was caused by a decrease in payroll expenses such as commission and management bonus, professional expenses, as well as general office expenses such as telephone, rent and insurance.

Q3 2018 Advertisement and promotion expenses - \$17,246
Q3 2017 Advertisement and promotion expenses - \$5,522
Increase of \$11,724 or 212%

The Company has been doing less branding via advertisements on its own as carriers are now more inclined to centralize branding from their own marketing department. The Company plays heavily in the ethnic market and considers it important to maintain its own identity and presence in the communities it serves. It will continue to advertise and market in ethnic media channels whenever appropriate. The Company's advertising and promotion has always been more tactical in nature, so as to yield faster results.

Another tactic the Company is utilizing more and more often is to use promotion bill credits, which dealers can obtain at a discount, to reduce the price of the phone. This tactic can be very effective in the short term "hit and run" type promotions, as competitors would have difficulty matching them.

The increase in advertising and promotional expenses in the quarter was the result of increased promotional credits being employed during the quarter.

Besides receiving a co-op subsidy from Rogers on advertising and promotion activities, the Company also receives marketing funds from Rogers throughout the year, thus further reducing its overall sales and marketing costs. However,

the availability of these funds depends very much on Rogers' budget and timing of promotions and therefore may not be repeated in the future.

Q3 2018 Amortization of property and equipment - \$28,123
Q3 2017 Amortization of property and equipment - \$26,307
Increase of \$1,816 or 7%

Minimum change from Q3 2017.

Q3 2018 Amortization of investment properties - \$11,497
Q3 2017 Amortization of investment properties - \$11,497

There has been no change in investment properties since the reclassification of four properties as investment properties in 2014.

Q3 2018 Rental income - \$45,187
Q3 2017 Rental income - \$47,151
Increase of \$1,964 or 4%

Minimum change from Q3 2017.

Q3 2018 income before income taxes - \$366,393
Q3 2017 income before income taxes - \$553,216
Decrease of \$186,823 or 34%

Q3 2018 net income after income taxes - \$276,333
Q3 2017 net income after income taxes - \$407,466
Decrease of \$131,133 or 32%

Q3 2018 income attributable to non-controlling interests - \$13,588
Q3 2017 income attributable to non-controlling interests - \$2,457

Q3 2018 EPS - \$0.023
Q3 2017 EPS - \$0.034

Liquidity

Cash and cash equivalents and short-term investments as at September 30, 2018 - \$12,893,708

Cash and cash equivalents and short-term investments as at September 30, 2017 - \$13,652,585

Decrease of \$758,877 or 5.5%

Working capital as at September 30, 2018 - \$14,360,370

Working capital as at September 30, 2017 - \$14,344,407

Increase of \$15,963 or <1%

During the past year, the Company used its internally available funds to pay for both dividend payments and the investment and ongoing funding of Adwell. These payments did not have any major impact on the operating cash flow of the Company.

The liquidity of the Company has always been generated from the Company's operations. Bank credit facilities were not used and had no outstanding balance as at September 30, 2018.

Summary of contractual obligations

Wireless business

Number of leases at September 30, 2018 – 19 leases (September 30, 2017 – 12)

The Company terminated three leases in Q4 2017, when three stores were closed on December 28, 2017 (there were four store closures but the fourth store is self-owned and therefore no lease was involved).

Future minimum operating lease commitments are as follows:

2018 (remaining)	\$62,338
2019	\$149,979
2020	\$84,988
2021	\$20,332
2022	\$10,166
Total	\$327,803

Financing business

Adwell signed a lease in late 2017 for its new office in Toronto. This lease commenced on January 1, 2018, for a term of three years. Adwell now has two leases, one for its Vancouver service centre and the other one for its Toronto sales office. Their future minimum operating lease commitment is as follows:

2018 (remaining)	\$7,250
2019	\$28,109
2020	\$6,384
Total	\$41,743

In sum, the total future minimum operating lease commitment of the Company as at September 30, 2018 is as follows:

2018 (remaining)	\$69,588
2019	\$178,088
2020	\$91,372
2021	\$20,332
2022	\$10,166
Total	\$369,546

Capital resources

The Company has an operating line of credit of \$250,000, secured by mortgages and bearing interest at the prevailing prime rate plus 0.75%. There was no amount owing under this line of credit as at September 30, 2018.

Off-balance sheet arrangements

The Company is landlord to four properties, one in Ontario and three in B.C.

The Ontario property (Horizon Centre) has been leased since 2009. This commercial condominium unit was originally intended for another store, but it was decided that the location was not suitable for selling wireless products at that time. This lease was extended for another three years when it expired on December 31, 2014, under the same terms and conditions. The Company has no intention to open a store at that location in the immediate future, and is keeping it as an investment property.

Two of the three B.C. properties are previously self-occupied stores of the Company's B.C. wireless operations. When the B.C. wireless business was sold in 2014, the two properties were leased to the purchaser, beginning on May 1, 2014.

One store in Burnaby, B.C. (Crystal Mall) is still occupied by the purchaser (tenant) at time of this MD&A, with the current lease expiring on April 30, 2019.

The other store in Richmond B.C. (Continental Centre) was leased to another tenant for six years starting from August 1, 2015 to November 30, 2021, when the purchaser moved out in Q3 2015.

Beginning December 1, 2014, the Company leased one of its two units at Aberdeen Square, in Vancouver, B.C. The original intention for the purchase of Aberdeen Square was for the Company's B.C. wireless business but since that business was sold they were turned into investment properties. The current lease term is for four years and will expire on November 30, 2018. On January 1, 2017, the Company also leased out the second unit at Aberdeen Square for five years, expiring on December 31, 2021.

These properties have been classified on the balance sheet as investment properties. Total rent received was \$45,187 in Q3 2018 (Q3 2017 - \$47,151). The market value of these properties combined is estimated to be \$3,044,000 as at September 30, 2018 (September 30, 2017 - \$2,754,000). The rental income on these investment properties has been presented as rental income on the consolidated statement of income and comprehensive income.

The Company intends to continue leasing these properties at a reasonable return, but will evaluate other options, such as taking them back for Company business purposes or selling them at a price that would generate a reasonable return in the eyes of management.

Transactions with related parties

Salaries and fees paid to the Company's directors and executive officers in Q3 2018 was \$135,215 (Q3 2017 – \$238,115).

Proposed transactions

Other than the ongoing investment in Adwell, there are no other contemplated transactions to report.

Outstanding share data

There were 11,935,513 common shares issued and outstanding as at September 30, 2018 (September 30, 2017 – 11,935,513 shares). The number of common shares remains unchanged as at the date of this MD&A.

The Company did not issue any stock options during Q3 2018 and there were no stock options outstanding as at September 30, 2018.

Changes in accounting policies

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments. The first quarter 2018 condensed interim consolidated financial statements are the first financial statements issued in accordance with IFRS 9. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through the statement of income and comprehensive income. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in the Company's own credit risk in OCI for liabilities designated at fair value. The adoption of IFRS 9 did not have any impact on the reported results.

Effective January 1, 2018, the Company adopted IFRS 15, Revenue from Contracts with Customers. The first quarter 2018 condensed interim consolidated financial statements are the first financial statements issued in accordance with IFRS 15. IFRS 15 supersedes the current accounting standard for revenues, IAS 18, Revenue. IFRS 15 introduces a single model for recognizing revenue from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

- 1) identify the contract with a customer;
- 2) identify the performance obligations in the contract;
- 3) determine the transaction price;
- 4) allocate the transaction price to the performance obligations in the contract;
- 5) recognize revenue when (or as) the entity satisfies a performance obligation.

The application of this new standard did not have any impact on the reported results, as the performance obligations of the Company's revenue streams are satisfied at either the point of sale, or when the transaction price is received, consistent with Note 3 revenue recognition accounting policies. The application

of IFRS 15 does not affect the cash flows from operations or the methods and underlying economics through which the Company transacts with its customers.

IFRS 16, Leases, was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17, Leases, and instead introduces a single lessee accounting model. Lessees will be required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the condensed interim consolidated statement of income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company is currently evaluating the impact of these future amendments and has not yet determined the impact to the condensed interim consolidated financial statements.

Critical accounting estimates

The preparation of the consolidated financial statements requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Management's estimates and underlying assumptions are based on historical experience and are reviewed on an ongoing basis.

The estimates and assumptions that could result in a material effect in the next financial year on the carrying amounts of assets and liabilities are outlined below:

Impairment of non-financial assets

The determination of long-lived asset impairment requires significant estimates and assumptions to determine the recoverable amount of a cash generating unit ("CGU"), the recoverable amount is the higher of fair value less costs to sell and value in use. The value in use method involves estimating the net present value of future cash flows derived from the use of the CGU, discounted at an appropriate rate.

In the event an impairment analysis is required, the key assumptions that would be utilized in the determination of future cash flows would represent management's best estimate of the range of economic conditions relating to the CGU, and would be based on historical experience, economic trends, and communication with other key stakeholders of the Company. These key assumptions would include the revenue growth rate, margin as a percentage of revenues, capital expenditures, the inflation growth rate and the discount rate. Significant changes in the key assumptions used in the determination of future cash flows could result in an impairment loss or reversal of a previously recognized impairment loss.

Estimated useful lives of non-financial assets

Judgment is used to estimate each component of an asset's useful life and is based on an analysis of factors including, but not limited to, the expected use of the asset. If the estimated useful lives change, this could result in an increase or decrease in the annual amortization expense and future impairment charges.

Income taxes

Deferred income tax assets and liabilities are due to temporary differences between the carrying amount for accounting purposes and the tax basis of certain assets and liabilities, as well as undeducted tax losses. Estimation is required for the timing of the reversal of these temporary differences and the tax rate applied. The carrying amounts of assets and liabilities are based on amounts recorded in the condensed interim consolidated financial statements and are subject to the accounting estimates inherent in those balances. The tax basis of assets and liabilities and the amount of undeducted tax losses are based on the applicable income tax legislation, regulations and interpretations.

The timing of the reversal of the temporary differences and the timing of deduction of tax losses are based on estimations of the Company's future financial results.

Changes in the expected operating results, enacted tax rates, legislation or regulations, and the Company's interpretations of income tax legislation, will result in adjustments to the expectations of future timing difference reversals, and may require material deferred tax adjustments.

Significant judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements is set out below.

Gross versus net revenue recognition

The Company follows the guidance set out in IAS 18, Revenue, in determining the presentation of revenue and cost of sales. The guidance requires the Company to assess whether it acts as a principal in a transaction or as an agent acting on behalf of others. To the extent that revenue is earned through the sale of hardware and accessories to customers, the Company has determined that these amounts should be reported on a gross basis in the condensed interim consolidated statement of income and comprehensive income as the Company is exposed to the risks and rewards before and after the associated transaction.

The preparation of condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Disclosure controls and procedures and internal controls over financial reporting

On November 23, 2007, the British Columbia Securities Commission and the securities commissions in the other jurisdictions in which the Company is registered, exempted venture issuers from certifying disclosure controls and procedures as well as internal controls over financial reporting as at December 31, 2007, and thereafter. Since the Company is a venture issuer it is now required to file basic certificates, which it has done for the year ended December 31, 2017. The Company makes no assessment relating to the establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at September 30, 2018.

Financial instruments

The Company did not use derivative financial instruments such as swaps, futures or hedging contracts in Q3 2018. The Company has no plans to use any of these in the foreseeable future.

Risk factors

A credit risk arose since 2014 from the \$800,000 note receivable given by the purchaser of the discontinued operations in B.C. The Company was able to minimize exposure by obtaining a mortgage on two commercial strata units as collateral. The market value of the collateral is estimated to be \$432,000 as at September 30, 2018 (September 30, 2017 - \$358,000).

The credit risk of the receivable note is reducing over time as it is being paid down by 60 monthly instalments. At the time of this MD&A, the Company had

received payments on time and a balance of \$88,395 remains outstanding as at September 30, 2018. The purchaser is an experienced operator in the B.C. market, which further mitigates credit risk.

The wireless communications industry is affected by economic conditions and consumer confidence and spending. Phenomena such as recessions, a drop in economic activity and a feeling of economic uncertainty in the populace can erode consumer and business confidence and reduce discretionary spending. Even though wireless cell phones are becoming more and more of a necessity, they are still considered discretionary among a section of the population. Our operating results also are subject to seasonal fluctuations that materially impact quarter-to-quarter operating results, and thus one quarter's operating results are not necessarily indicative of a subsequent quarter's operating results.

The Company's economic dependence on Rogers is one of the risk factors. Advent is in an industry in which the carrier pays the dealer commissions to bring in new customers and service existing ones. It is also part of an industry in which hardware (mainly wireless handsets) is heavily subsidized by the carrier – phones are sold to consumers at a hefty discount and the dealer recovers the cost of hardware through a back-end hardware subsidy from the carrier. A good example is the Apple iPhone and other Android Smartphones, where the phone could sell for as little \$499 on a two-year contract or \$1,000+ dollars without a contract.

For the three months ended September 30, 2018, approximately 77% (2017 – 79%) of the Company's revenue was from Rogers Communications Inc., whereas the remaining approximately 23% (2017 – 21%) was generated through the Company's 11 retail stores in Ontario (2017- 15 stores in Ontario) on the Wireless side and Adwell on the Financing side.

Accounts receivable from Rogers – 82% as at September 30, 2018 (91% as at September 30, 2017).

Management has decided that no provision for bad debt is required on the Rogers' receivables as past collection experience and the credit quality of Rogers are good. Unless there is a change in the Canadian model of subsidizing hardware, this economic dependence on Rogers is going to be the same in the future, although highly diminished as a result of the drop in the number of stores. The same diminished danger on the Wireless side also applies in the case of other risks that might develop in the near future.

Canadian wireless companies could face increased competitive pressure because of recent legal changes to foreign ownership of telcos and control of the wireless licences. In other words, giants such as Verizon in the U.S. and others could enter the Canadian market either by acquiring wireless licences or smaller companies that hold such licences. Foreign carriers could also acquire smaller

Canadian companies with less than 10% of the spectrum and thereby gain this spectrum and launch fierce competition against companies such as Rogers.

A risk factor that became more tangible was when the previous federal government decided to further open up the Canadian telecom services industry to foreign investors by easing foreign ownership rules. Whether and by how much all this will change under the Liberal government of Prime Minister Justin Trudeau remains to be seen at the time of this MD&A.

Spectrum fees (to cover the government's costs of processing applications and regulating use of the spectrum) may increase with the renewal of cellular and PCS spectrum licences, although the timing of fee increases (if any) is unknown.

The media has been headlining reports based on studies that claim alleged links between radio frequency emissions from wireless handsets and health issues; continued media reporting may discourage the use of wireless handsets. Alternatively, authorities could impose more restrictive standards on radio frequency emissions from low powered devices, such as wireless handsets.

A continuing risk factor is the increasing competitiveness of Rogers' two main rivals, Bell Canada and TELUS, who have their own networks. They continue to mount an aggressive marketing campaign. Concurrently, new and smaller entrants continue to increase their share of the market in both the voice and data markets. Risk factors also include technological changes causing product obsolescence, intense competition in the wireless telecommunications industry and changes in the regulatory environment. Management reviews all these risk factors regularly and discusses strategies to deal with them if they happen to arise. The Company depends heavily on its service provider, Rogers, to provide innovative and competitive products and services to the marketplace. Indications are that Rogers is not only aware of this but is taking active steps to manage this issue.

Micro-financing business

Credit risk is the risk of loss that arises when a customer fails to pay an amount owing to Adwell. Credit quality of the customer is assessed based on a number of proprietary credit models and individual credit limits are defined in accordance with this assessment and other factors including the ability of the customer to comfortably afford the periodic loan payments. The linear approval flows will ensure a high quality loan application process. After evaluating the client's information, Adwell will decide the loan terms for each applicant such as the maximum of loan principal.

Adwell will continue to develop underwriting models based on the historical performance of groups of customer loans, which guide its lending decisions. As Adwell continues to grow, management has decided to begin recording a

provision for loan loss equal to 5% of its personal loan portfolio on its books beginning in Q1 2017, which is in line with general industry practice. Adwell has been reviewing and adjusting this provision every quarter.

Adwell takes reasonable measures to ensure compliance with governing statutes, regulations and regulatory policies. A failure to comply with such statutes, regulations or regulatory policies could result in sanctions, fines or other settlements that could adversely affect both its earnings and reputation. Changes to laws, statutes, regulations or regulatory policies could also change the economics of Adwell's merchandise leasing and consumer lending businesses. Numerous consumer protection laws and related regulations impose substantial requirements on lenders involved in consumer finance, including leasing and lending. Also, federal and provincial laws impose restrictions on consumer transactions and require contract disclosures relating to the cost of borrowing and other matters. These requirements impose specific statutory liabilities on creditors who fail to comply with their provisions. The Criminal Code of Canada, however, imposes a restriction on the cost of borrowing in any lending transaction to 60% per year. The application of capital requirements or a reduction in the maximum cost of borrowing could have a material adverse effect on Adwell's financial condition, liquidity and results of operations.

Adwell is subject to various privacy, information security and data protection laws and takes reasonable measures to ensure compliance with all requirements. Legislators and regulators are increasingly adopting new privacy information security and data protection laws, which may increase Adwell's cost of compliance. While Adwell has taken reasonable steps to protect its data and that of its customers, a breach in Adwell's information security may adversely affect its reputation and also result in fines or penalties being levied by government agencies.