

Advent-AWI Holdings Inc. (formerly Advent Wireless Inc.)("the Company")

Management's discussion and analysis for the year ended December 31, 2019

Effective date of MD&A – April 22, 2020

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.

You should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement (and such risks, uncertainties and other factors) speaks only as of the date on which it was originally made, and the Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this document to reflect any change in expectations with regard to those statements or any other change in events, conditions or circumstances on which any such statement is based, except as required by law. New factors emerge from time to time, and it is not possible for the Company to predict which factors will arise or when. In addition, the Company cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Overview

The Company operates in two business segments:

- (1) Wireless through Am-Call Wireless Inc., a wholly owned subsidiary and
- (2) Micro finance through Adwell Financial Services Inc., a 70% owned subsidiary

(1) Wireless business

Products: wireless voice and data, high speed internet, digital cable television, home phone, Smart Home Monitoring and Rogers Bank MasterCard.

As at December 31, 2019, the Company had 4 stores in Ontario, same as that as at December 31, 2018.

Number of stores as at December 31, 2019 – 4 stores (2 Rogers & 2 Fido, all in Ontario)

Number of stores as at December 31, 2018 – 4 stores (2 Rogers & 2 Fido, all in Ontario)

After closure of seven stores at the end of 2018, the Company entered 2019 with four stores, two Rogers and two Fido in Ontario. The Company did not open nor close any store during 2019.

During Q4 2019, the Company's Dealer Agreement with Rogers, which has an original expiry date of September 30, 2020, was extended to a new expiry date of June 30, 2023.

Store retrofit

The Company did not retrofit any store during 2019.

Economic dependence

For the year ended December 31, 2019, approximately 84% (2018 – 85%) of the Company's revenue was from Rogers Communications Inc., whereas the remaining approximately 16% (2018 – 15%) was generated through the Company's 4 retail stores (2018 – 11) in Ontario.

Account receivable from Rogers – 86% as at December 31, 2019 (81% as at December 31, 2018)

(2) Micro Finance 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 a total of 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%). The two minority shareholders, both with

financial and lending experience, will assist in the start-up and continuing operations of the venture. Adwell commenced operations in Q1 2016.

The Company has committed to invest up to \$3,375,000 in Adwell, of which \$375,000 is a cash injection for ongoing operations and the remaining \$3,000,000, in the form of a line of credit, for advances to customers.

At the time of this MD&A, the Company had invested \$2,200,000 in Adwell, of which \$350,000 was funding for the ongoing operations of Adwell, while \$1,850,000 was funding for Adwell's advances to customers.

Declaration of dividend

On July 24, 2019, the Company announced that, considering its strong financial position, a special dividend of \$0.15 per common share would be paid on September 9, 2019, to all shareholders of record as at the close of business on August 16, 2019. This dividend payment was completed as announced.

Overall performance

	2019	2018	+/-	%
Wireless income	5,548,215	8,423,986	-2,875,771	-34%
Financing income	772,447	734,913	37,534	5%
Total revenue (excluding other & investment income)	6,320,662	9,158,899	-2,838,237	-31%

The Company's 2019 combined revenue decreased by \$2,838,237 or 31% compared to 2018. This was comprised of a decrease in wireless income of \$2,875,771 (-34%), mitigated by an increase in financing income of \$37,534 (+5%).

The \$2,875,771 or 34% decrease in wireless income was expected and is the result of the reduction in the number of stores from eleven in 2018 to four in 2019.

Financing income, on the other hand, increased by \$37,534 or 5% in 2019 compared to that of 2018. Due to the smaller size of the wireless business, financing income now represents 12% of the combined revenue of the Company in 2019 (2018 – 8%).

Subscriber base:

December 31, 2019 – 24,530
 December 31, 2018 – 24,465
 Increase of 65 or <1%

As at December 31, 2018, the Company had 24,465 subscribers, representing the subscriber base attached to the four locations (two Rogers and two Fido) the Company had entering 2019.

As at December 31, 2019, this number was 24,530, a slight increase of 65 subscribers compared to a year earlier. This is a net increase and is made up of a decrease in the Rogers subscriber base of 513 and an increase in the Fido subscriber base of 578. This is consistent with past years with Rogers being a premium brand and Fido being a value brand and a volume driver.

In order to maintain its subscriber base, the Company needs to keep adding new customers, while at the same time trying to prevent them from leaving. The key now is to give customers good reasons to sign up and stay with Rogers, instead of going to the competition. Given this, the “why Rogers” and the Rogers “value propositions” continue to remain front and centre in all the Company’s messages.

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

Selected annual consolidated financial information

	Dec-19	Dec-18	Dec-17
Revenue	6,320,662	9,158,899	12,942,025
Income before income taxes	1,006,508	3,076,043	1,878,840
Provision for income taxes	159,414	816,883	490,689
Net income	847,094	2,259,160	1,388,151
Assets	21,119,787	22,923,363	21,096,142
Liabilities	2,683,314	3,543,657	3,378,821
Basic & diluted earnings per share	0.069	0.188	0.116

Total revenue has been on the decline for the past three years; this is caused by:

- Decrease in total transaction volume, resulting from the closure of the Company’s four stores at the end of 2017 and the further closure of seven stores at the end of 2018, which led to a drop in both hardware revenue and commission revenue.
- Decrease in subscriber base, again resulting from the closure of the Company’s eleven stores (four in Q4 2017 and seven in Q4 2018), led to a drop in recurring residual revenue.

The addition of the micro finance business generates financing income and has contributed to overall revenue in the past three years, as its loan portfolio has been on an upward trend. However, after a year of rapid growth in 2018, during which financing income increased by 61% over 2017, the growth slowed to 5% in 2019, which is more in line with the Company’s expectation in 2020.

Since December 31, 2019, 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 social distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

Results of operations – Wireless business

On the Rogers side of the business, the Company operated two stores in 2019, four less than the six stores a year earlier. The closing of four stores in December 2018 is the main reason why new voice activations, data activations, as well as customer upgrades dropped by 41%, 42% and 55%, respectively.

Another factor for the decrease in transaction volume is the incumbent carriers’ focus on higher average revenue per user (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 in 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, the Company operated two stores in 2019, three less than the five stores a year earlier. This reduction was the main reason why new voice activations, data activations and customer upgrades decreased by 37%, 38%, and 44%, respectively.

New activations generally come from children coming of age, switchers from other service providers as well as newcomers (immigrants and students) to the country. The Company has an advantage in gaining new customers with its focus on the Asian ethnic market, which has new immigrants and students arriving throughout the year. The Company has been concentrating on building networks and connections in new immigrant support groups and student associations in order to capture this share of the new business.

Customers are holding on to their smartphones longer than before not only because of higher prices, but also because there has not been much of a

significant technological breakthrough in smartphones in recent years. Canadian carriers do not have exclusivity to new phone models and all major carriers have them in their lineup. Launch of new phones used to be a highly anticipated event among phone followers, and keeping the early adopters, who are usually your most loyal customers, is key. The part of the CRTC Wireless Code which came into effect in Q4 2017 mandated that Canadian carriers to sell hardware unlocked and also to unlock customers' phones upon request; both of these mandates further encourage customers to shop around when their existing contracts expire, instead of automatically rolling over their contracts and upgrade to new hardware with their existing carrier.

Combining Rogers and Fido, new voice, data activations and customer upgrades in the year went down by 39%, 40% and 52%, respectively, over 2018. This drop in transaction volume translated into a corresponding decrease in various income streams.

Phone hardware sales decreased by 38%, as the number of phones sold dropped by 27%, from 6,142 in 2018 to 4,476 in 2019. The cost of smartphones is much higher now (more than \$1,000 each) and consequently a drop in the volume of hardware sales has a higher impact on the Company's revenue. Compounding this is the high percentage of BYOD activations on the Fido side, which do not contribute any hardware revenue. Although this does not necessarily mean less profitability, it does depress hardware sales and hence overall wireless revenue.

New activation commissions and customer upgrade commissions decreased by 29% and 49%, respectively. Residual commissions decreased by 62% over 2018, caused by the decrease in subscriber base after the closure of seven stores in Q4 2018.

Bonus commissions increased slightly by 5% in 2019, when compared with 2018. Bonus payout is based on an array of targets and the Company achieved most of the bonus targets in 2019 as compared to 2018.

Rogers and Fido Bank (Mastercard) commissions decreased by 30%. 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. Credit cards are a highly competitive product and sign up incentives are paramount in attracting new customers. Rogers' sign up incentive, however, was not attractive in the first half of 2019 in comparison to the same period of 2018, nor to other credit card sign up incentives. In spite of this, the Company recovered some ground during the last two quarters of the year. Having said that, Mastercard continues to be the focus of the Company in 2020.

Cable and other commissions decreased by 55% over 2018. With the phasing out of legacy TV and the introduction of Internet TV and concepts such as

Rogers' Ignite TV, which offers seamless integration with apps such as Netflix and YouTube, this sector is more than likely to improve in the future. Similarly, the transition in wireless telecommunications infrastructure from 4G to 5G, as well as strength in demand for Advanced Mobility applications is projected to boost the Wireless side of the business in the near future.

Although there is an across the board sizable decrease in business transaction volume in 2019, caused primarily by the reduction in Company stores from eleven to four, it should be pointed out that if we isolate the remaining four stores and compare their business transaction volume to one year ago, these four stores combined actually recorded an increase in new voice and data activations and customer upgrades of 45%, 203% and 8%, respectively.

Management believes that this latest restructuring allows the Company to more efficiently manage its remaining stores and harness their potential. The Company has also been successful in reconnecting customers of closed locations to the remaining locations. Management remains optimistic that its Wireless business will achieve steady growth in 2020 and beyond.

The arrival of 5G may well change the telecommunication landscape of Canada. 5G networks offer faster downloads, lower latency and better performance on more devices including smart cars and Internet of Things (IoT). Major Canadian carriers are all developing their own 5G networks. At the time of this MD&A, Rogers has already rolled out its 5G network in Toronto, Vancouver, Montreal and Ottawa, and other Canadian carriers are expected to follow within the year. The Company looks forward to bringing this transformative technology, with its potential to change every aspect of daily lives, to its customers.

Results of operations – Micro Financing business

In 2019, Adwell's revenue recorded an increase of \$37,534, or 5% over 2018.

	2019	2018	+/-	%
Financing revenue	772,447	734,913	37,534	5%

Throughout the year, Adwell's main business continued to be unsecured personal short-term instalment loans in amounts ranging from \$1,000 to \$7,500, with 9 to 36-month flexible repayment terms and no early repayment penalties to individuals. These loans are alternatives to payday loans, which are usually more expensive and stressful to individual consumers. With more flexible repayment terms and its expertise in customer service, Adwell aims to reduce customers' stress and help rebuild their financial wellness.

Adwell's main income is interest that is generated from these instalment loans. In 2019, Adwell advanced loans to 934 customers vs 1,015 in 2018, an 8% decrease.

Although there was a decrease in the number of unsecured personal loans in 2019, Adwell has focused more on the following loan products throughout 2019:

- Secured loans - this product is similar to Adwell's existing micro loan offering but is secured by real property. This product particularly targets homeowners who have a stable working income and need short-term financing.
- Syndication loans - these are generally larger mortgage loans that are also secured by real properties. In undertaking such projects, Adwell intends to act as syndication leader and select qualified participants to invest in the project. This arrangement will allow Adwell to enter the mortgage loan market, while spreading its default risk.
- Pay-day loan - Adwell began offering this product in Q4 2018 in order to widen its product line-up in the highly competitive consumer lending market.
- Mortgage brokerage - Adwell does not intend to be the lender but instead will sell mortgage products on behalf of financial institutions in return for service fees. Adwell successfully obtained a mortgage brokerage licence in Q3 2019 and has directed additional resources into this business segment.

These loan products generate both interest and handling fees and is the reason why financing revenue increased in 2019.

After a few years of rapid expansion, Adwell has created a stable customer base and development channel. In the next two years, Adwell's strategy is to focus on telephone and online marketing as well as participation and sponsorships in local community events and functions in order to maintain and further develop its customer base. During the year, it became clear that the existence of a Toronto office as a physical location no longer fits in with Adwell's future e-business strategy. Consequently, Adwell terminated the operation of its Toronto office in December 2019.

The table below shows the income and expenses breakdown of the Company's financing business in 2019 and 2018:

	2019	2018	+/-	%
Interest income	694,179	684,526	9,653	1%
Fee income/Other income	78,268	50,387	27,881	55%
Interest cost	89,493	83,779	5,714	7%
General & administration	527,297	499,640	27,657	6%
Advertising & promotion	1,950	6,773	-4,823	-71%
Amortization of property, plant & equipment	17,057	20,049	-2,992	-15%
Provision for loan loss	45,386	45,115	271	1%
Income from operations	91,264	79,557	11,707	15%
Gain (loss) on sale of assets	-3,424	-	-3,424	n/a
Income before income taxes	87,840	79,557	8,283	10%

In 2019, Adwell recorded an income from operations (before income taxes) of \$91,264, a 15% increase over income of \$79,557 a year earlier. The closure of Adwell's Toronto office resulted in a loss on sale of assets of \$3,424, and income before income taxes of \$87,840, which is an \$8,283 or 10% increase over 2018.

Adwell began making a provision 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 personal loan portfolio, which is in line with industry practice. The provision for loan loss recorded in 2019 was \$45,386 (2018—\$45,115). This provision will be reviewed and adjusted on a quarterly basis.

Gross profit margin

2019 – 47%
2018 – 41%

Gross profit margin for the year is 47%, compared to 41% in 2018.

Hardware revenue has been trending downwards in the past few years as the Company has focused more on non margin-based products such as cable (internet/TV), Mastercard and phone hardware insurance.

The following factors could have an impact on profit margins:

- New activation commission and upgrade commission can be changed at short notice, depending on carrier priorities and focus.
- Dealer bonus commission targets and achievement metrics vary quarter to quarter and may be favourable or unfavourable to the Company.
- Residual commission is a steady source of income, but it is becoming more and more challenging to retain customers amid heavy competition and the government's objective of increasing competition in the future. The closure of the Company's seven locations also resulted in lower residual income beginning in 2019.
- Commissions generated from Cable, Rogers Mastercard and hardware device insurance are now important revenue sources to make up the loss in wireless commission due to loss of volume.

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

2019 General and administration expenses—\$3,171,960
2018 General and administration expenses—\$4,959,451

Decrease of \$1,787,491, or -36%

A majority of the decrease is made up of reduced payroll expenses including salaries, commission and performance-based compensation in 2019. Other reductions are also directly related to the decrease in the number of stores from seven to four, such as rent, property taxes, telephone, insurance and general office expenses.

2019 Advertisement and promotion expenses—\$56,433

2018 Advertisement and promotion expenses—\$40,974

Increase of \$15,459, or 38%

The Company has been doing less branding advertisement on its own as carriers are now more inclined to centralize branding within their own marketing departments. The Company is very active 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 promote in ethnic media channels as appropriate. The Company's advertising and promotion is tactical in nature and will hopefully yield faster results.

Another tactic the Company has increasingly deployed is to use promotion bill credits, which dealers can obtain at a discount to reduce the overall cost for customers. This tactic can be very effective for short term "hit & run" promotions to close transactions because competitors will have difficulty matching it.

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 the timing of promotions and these reductions may therefore not be repeated in the future.

The Company does not anticipate Adwell to be a heavy user of advertisement and promotion as customers are mostly attracted to Adwell via referrals and "word of mouth".

The increase in advertisement and promotion expenses in 2019 was the result of additional promotional credits and community event sponsorships during the year.

2019 Depreciation—Right-of-use assets—\$134,523

2018 Depreciation—Right-of-use assets—\$nil

Commencing January 1, 2019, as a result of the Company adopting *International Financial Reporting Standard 16, Leases*, certain leases that used to be operating leases are now capitalized as right-of-use-assets, which are

depreciated over their respective terms. The Company has six leases under this classification, with expiry dates ranging from 2020 to 2023.

2019 Amortization of property and equipment—\$64,858
2018 Amortization of property and equipment—\$121,418

Decrease of \$56,560, or -47%

This decrease is the result of leasehold improvement and signage being written off from the leases which were terminated when the stores closed at the end of 2018.

2019 Amortization of investment properties—\$45,986
2018 Amortization of investment properties—\$45,987

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

2019 Other income—\$nil
2018 Other income—\$4,080,465

The 2018 other income was a onetime payment from Rogers associated with the closure of the Company's seven stores in 2018, which was not repeated in 2019.

2019 Rental income—\$189,589
2018 Rental income—\$187,929

Increase of \$1,660, or <1%

The increase was due to normal rent increments on existing investment properties in 2019. There has been no change in the number of investment properties.

2019 Gain on sale of assets—\$1,029,022
2018 Gain on sale of assets—\$nil

As mentioned in our 2019 quarterly MD&As, the Company decided to sell four commercial units in Ontario that used to be self-occupied stores in the wireless business, following their closure at the end of 2018, instead of turning them into investment properties. The Company sold one of them in Q1, the second and third in Q2 and the fourth in Q3, generating a total gain on sale of assets of \$1,029,022.

2019 income before income taxes—\$1,006,508
2018 income before income taxes—\$3,076,043
Decrease of \$2,069,535, or -67%

2019 net income after taxes—\$847,094
 2018 net income after taxes—\$2,259,160
 Decrease of \$1,412,066, or -63%

2019 income attributable to non-controlling interest—\$19,070
 2018 income attributable to non-controlling interest—\$18,000

2019 EPS—\$0.069
 2018 EPS—\$0.188

Summary of consolidated quarterly results

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Wireless income	2,207,505	1,549,542	2,302,319	2,364,620	1,124,034	1,178,469	1,527,606	1,718,106
Financing income	153,655	179,407	208,011	193,840	181,114	190,896	199,909	200,528
Gross margin	39%	30%	49%	41%	46%	53%	51%	40%
Net income (loss) before income taxes	217,379	(448,216)	366,393	2,940,487	(160,710)	942,338	277,106	(52,226)
Basic and diluted earnings (loss) per share	0.013	(0.028)	0.023	0.180	(0.010)	0.062	0.012	(0.024)

Quarterly wireless revenue was lower in 2019 compared to 2018, reflecting the decrease in revenue from closure of seven locations at year end 2018. The general trend in retail sales in Canada is that Q1 revenue is normally the lowest, then gradually moving up in Q2 and Q3, and finally peaking in Q4. We see the Company in general followed this trend in 2018 and 2019.

Financing revenue, on the other hand, was pretty steady over the past eight quarters.

However, many factors that can adversely affect sales and revenue are still at play, including:

The focus on transactions ARPU and ARPA that might have favoured some dealers, has not been favourable for the Company's business, which leans heavily towards the consumer segment of the market and is inherently price sensitive. Management has seen Rogers discounting more heavily during the end of each quarter when volume targets have to be met.

Launch of new hardware - marquee phones such as iPhone, Samsung, Google and Huawei models will help generate more business, especially in customer upgrades. However, the timing and availability of these products are outside the Company's control, and thus difficult to predict.

Carrier promotions directly affect the Company's business. The Canadian telecommunications market is highly competitive, and all carriers are fighting hard to retain customers and to attract customers from competitors, especially towards 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&As, Rogers encourages customers to utilize their existing devices on sharing plans. While this is an excellent tactic to reduce churn, no hardware revenue is generated. Additionally, we have observed that with this tactic consumers use their smartphones for longer periods. This is due to smartphones getting more expensive while not offering any ground-breaking technology in the new devices.

Smartphones are becoming more and more expensive with many models costing over \$1,000. This would normally alleviate the downward pressure on revenue caused by BYOD (bring your own device) but, as explained in previous MD&As, will not necessarily affect the bottom line in the Company's business as the margin on hardware revenue is nominal. Rogers is trying to entice BYOD customers to convert to a new phone by introducing more affordable models in its hardware lineup. Starting in Q3 2019, Rogers also rolled out device financing options allowing customers to pay off their new devices over 24 months. This will help in generating more hardware revenue.

The Company's micro financing business represents a new revenue source and has shown steady quarter to quarter growth since its inception. Its revenue represented 12% of the total revenue of the Company in 2019 (8% in 2018). As mentioned earlier in this MD&A, the Company has committed up to \$3,000,000 to finance this venture.

Fourth Quarter discussion

In Q4 2019, total transaction volumes on both Rogers and Fido decreased as the number of stores operating in the quarter dropped from eleven in 2018 to four in 2019. This result followed the trend set during the first three quarters of 2019. As a result, overall, voice, data activation and customer upgrade activities decreased by 44%, 30% and 38%, respectively.

However, if we compare the remaining four stores' transaction volumes to the same stores a year earlier, we see an overall increase in new voice and data activations and upgrade activities of 2%, 320% and 3%, respectively. This is consistent with all other quarters throughout 2019 and reflects the Company's ability to more efficiently manage its remaining stores and harness their potential. The Company has also been successful in reconnecting customers of closed locations to the remaining locations.

The business focus of Q4 2019 has been on internet and tablet bundles, with promotions like free tablets if customers signed up on combo internet and tablet data plans. Bundling has been a key strategy of all carriers as studies have shown that there is less churn if a customer bundles products. This promotion

strategy is the main reason for the 320% increase in data activations during the quarter.

The new iPhone 11 models launched last September had some impact on upgrade activities in Q4 with the “must have” customers. But the new smartphones from major manufacturers like Apple, Samsung and Google now cost well over \$1,000 and have a much narrower customer base. The good news is that with the launch of the new iPhone 11, all the major carriers dropped their price on older iPhone models such as the iPhone XR during Q4’s holiday selling period. The XR turned out to be the volume driver instead of the iPhone 11 and helped the Company to regain some sales volume in the four stores compared to Q4 2018.

To summarize, Q4 total wireless revenue dropped by 27% over the same quarter last year. New activation and customer upgrade commission also dropped by 27% and 31% as transaction volume decreased. This affected bonus commissions, which dropped by 70% over Q4 last year. Residual commission, on the other hand, had an increase of 37% as the quarter to quarter comparison was on the same number of stores for both quarters (residual commission ceased on the seven closed stores beginning on October 1, 2018).

Rogers and Fido Bank (Mastercard) commissions increased by 41%, the result of a successful sales campaign in the quarter. The Company has focused on non-wireless products such as Mastercard in order to mitigate the impact of the decrease in Wireless transaction volume. This is even more true now with the reduced number of stores and Mastercard will continue to be the focus of the Company in 2020.

In Q4, Adwell generated \$175,697 in interest income, which is a 3% decrease over Q4 2018. After a few years of rapid growth, Adwell’s personal instalment loan portfolio stabilized somewhat in 2019. To grow the business, Adwell expanded its loan product offerings to include mortgage loans and pay day loans. These loans generated a higher fee income of \$24,831 in the quarter, compared to \$13,541 in Q4 2018, an increase of 83%.

During Q4, Adwell decided to close its Toronto office and instead support its Ontario customers from B.C. through online and telephone support. The termination of the Toronto lease and the loss from sale of assets resulted in a loss from operations of \$7,518, compared to income of \$15,630 a year earlier.

Financing	Q4 2019	Q4 2018	+/-	%
Interest income	175,697	180,299	-4,602	-3%
Fee income	24,831	13,541	11,290	83%
Total income	200,528	193,840	6,688	3%
General & administration (including interest cost & provision for loan loss)	199,654	173,218	26,436	15%
Advertising and promotion	1,950	-	1,950	n/a
Amortization of property, plant & equipment	3,018	4,992	-1,974	-40%
Loss on sale of assets	3,424	-	3,424	n/a
Income (loss) from operations	-7,518	15,630	-23,148	-148%

Liquidity

Cash and cash equivalents & short-term investments as at December 31, 2019—
\$14,643,313

Cash and cash equivalents & short-term investments as at December 31, 2018—
\$15,775,648

Decrease of \$1,132,335 or 7%

Working capital as at December 31, 2019—\$15,584,002

Working capital as at December 31, 2018—\$15,626,912

Decrease of \$42,910 or <1%

During the past year, the Company used its internally available funds to pay for both dividend payment and the investment in and ongoing funding of Adwell. These payments did not have any major impact on the operating cash flows 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 December 31, 2019.

Summary of contractual obligations

Wireless business

Number of leases at December 31, 2019—5 (December 31, 2018—5)

The number of leases remains at five at yearend 2019, same as 2018. During the year, the Company renewed two store leases through 2023, which is in line with the Company's Dealer Agreement expiry date with Rogers.

Future minimum operating lease commitments are as follows:

YEAR	
2020	\$130,086
2021	\$65,240
2022	\$65,240
2023	\$40,493
Total	\$301,059

Financing business

Adwell has one lease remaining after closing and terminating the lease of its Toronto office lease at the end of 2019. Its future minimum operating lease commitment is as follows:

YEAR	
2020	\$26,169
2021	\$24,984
2022	-
2023	-
Total	\$51,153

In sum, total future minimum operating lease commitments of the Company as at December 31, 2019 are as follows:

YEAR	
2020	\$156,255
2021	\$90,224
2022	\$65,240
2023	\$40,493
Total	\$352,212

Capital resources

The Company has an operating line of credit of \$250,000, secured by a mortgage and bearing interest at the prevailing prime rate plus 0.75%. There was no amount owing under this line of credit as at December 31, 2019, consistent with the year ending December 31, 2018. The line of credit was cancelled in January 2020 when the company sold the property used to secure it.

Off balance sheet arrangements

As at December 31, 2019, the Company had four investment 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. At the last renewal, this lease was extended for another three years to expire on December 31, 2020. The Company has no intention to open a store at that location in the immediate future and will keep the asset as an investment property.

Two of the three B.C. properties, one in Burnaby (Crystal Mall) and the other in Richmond (Continental Centre), were 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.

During Q4 2019 the Company decided to put these two properties up for sale. The Vancouver commercial real estate market expects an increase in commercial strata unit supply in the next few years and it seemed the right time to sell when the supply was still relatively low.

Both units were sold at a gain posted after yearend 2019, one in January and the other in February 2020, respectively. The gain will be reflected in the Company's Q1 2020 financial statements.

The third B.C. property (Aberdeen Square) was also originally intended for the Company's B.C. wireless business but since that business was sold it was turned into an investment property. This property has two units, both leased with expiry dates of December 15, 2021 and December 31, 2021, respectively.

As at December 31, 2019, these four properties were classified on the consolidated statement of financial position as investment properties. Total rent received was \$189,589 in 2019 (2018—\$187,929). The combined market value of these properties is estimated to be \$3,681,000 as at December 31, 2019 (December 31, 2018—\$3,183,000). The rental income on these investment properties has been presented as rental income on the consolidated statement of income and comprehensive income.

There are two investment properties remaining at time of this MD&A, one in Ontario and the other in B.C., both generating rental income. It is the Company's intention to sell them at a reasonable return as and when decided by management.

Transaction with related parties

Salaries and fees paid to the Company's directors and executive offices in 2019 were \$741,000 (2018—\$1,269,000).

Proposed transactions

The Company's ongoing investment in Adwell continues in 2020.

As reported earlier, two of the four investment properties were sold in January and February 2020, respectively. The financials will be reported in the Company's Q1 2020 financial statements.

In addition to its wireless and financing business, the Company is also looking at identifying successor businesses that would make good use of its accumulated cash reserve to create value and return for shareholders, while at the same time also evaluating its dividend payout to provide a reasonable return to its shareholders. No decision has been made as at the date of this MD&A. Management will keep shareholders informed of any new developments in this regard.

Outstanding share data

There were 11,935,513 common shares issued and outstanding as at December 31, 2019 (December 31, 2018 – 11,935,513 shares). The number of common shares remains unchanged as at the date of this MD&A.

The Company issued no stock option during 2019 and there was no stock option outstanding as at December 31, 2019

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 International Accounting Standard (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.

Effective January 1, 2019, the Company adopted the new accounting standard IFRS 16— Leases (IFRS 16), using the modified retrospective approach, and comparative figures have not been restated. The new set of standards set 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. 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.

Lease liabilities are recorded on the present value of the non-cancellable lease payments over the lease term and discounted at the Company's incremental borrowing rate. Lease payments include fixed payments only. The right-of-use

assets are measured initially at cost and subsequently at amortized cost. The assets are depreciated over the term of the lease using the straight-line method. Extension and termination options exist for a number of the leases, and the Company has assessed all facts and circumstances available in determining the probability of exercising available extension and termination options. The Company includes the extension option in calculating the lease term when it determines that is reasonably certain that the Company will exercise the available extension option. The Company reassesses whether an extension option is included in the lease term when there is a change in events and circumstances that affects that decision, and re-measures the lease liability upon change in assessment

On adoption, the Company chose the practical expedient to grandfather any contracts that were previously considered to be leases. As part of the initial application of IFRS 16, the Company chose, on a lease-by-lease basis, to measure the right-of-use asset at an amount equal to the lease liability at adoption date.

The impact of first-time adoption of IFRS 16 is presented in note 2 of the notes to consolidated financial statements for the year ended December 31, 2019.

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 IFRS 15, Revenue from Contracts with Customers, 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, 2019. 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 December 31, 2019.

Financial instruments

The Company did not use derivative financial instruments such as swaps, futures or hedging contracts in 2019. The Company has no plans to use any of these in the foreseeable future.

Risk factors

The five-year \$800,000 note receivable given by the purchaser of the discontinued operations in B.C. was fully paid off during Q2 2019.

The wireless communications industry is affected by economic conditions, consumer confidence and spending. Phenomena such as recessions, reduced economic activity and a feeling of economic uncertainty due to natural events such as pandemics can erode consumer and business confidence and reduce discretionary spending. Even though wireless cell phones have rapidly become

necessities, they are still considered discretionary among a section of the population.

The Company's 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 the Company's future performance.

Economic dependence on Rogers is one of the risk factors. The Company is in an industry in which carriers pays the dealer commissions to bring in new customers and service existing customers. 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 sizeable discount and dealers recover 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 may sell for as little \$499 on a two-year contract or \$1,000+ dollars without a contract.

For the year ended December 31, 2019, approximately 84% (2018–85%) of the Company's revenue was from Rogers Communications Inc., whereas the remaining approximately 16% (2018–15%) was generated through the Company's 4 retail stores (the Company operated with 11 stores during 2018, but at yearend only 4 remained) in Ontario.

Account receivable from Rogers–86% as at December 31, 2019 (81% as at December 31, 2018)

Management has decided that no provision for bad debt is required on Rogers' receivables due to past collection experience and Rogers' good credit quality. Absent a change in the Canadian model of financing or subsidizing hardware, this economic dependence on Rogers is going to continue in the future, albeit diminished as a result of the drop in the number of stores.

Canadian wireless companies could face increased competitive pressure because of recent legal changes to foreign ownership of telecommunications companies 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 Canadian companies such as Rogers.

A new risk factor emerged when the previous federal government decided to further open up the Canadian telecommunication 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' three main rivals, Bell Canada, TELUS and Shaw, 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 change driven product obsolescence, intense competition in the wireless telecommunications industry and changes in the regulatory environment.

Management is aware of new risks that have become evident in the last 1-2 years. These include the Cloud, which offers new opportunities but also a heightened level of risk. Cyber intrusions have begun to enter the wireless domain presenting another spectrum of threats. On the opportunity side, the Internet of Things (IoT) in which the Internet will be used to get information and to control, for example, household items such as refrigerators, burglar alarms and home climate controls through wireless handsets, will open up additional risks.

Management reviews all these risk factors regularly and discusses strategies to deal with them as they 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 continuously innovating to stay ahead of its competition.

