

LUMINE GROUP INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2023, which were prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Certain information included herein is forward looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars and all references to "\$" are to U.S. dollars. Due to rounding, certain totals and subtotals may not foot and certain percentages may not reconcile.

Additional information about Lumine Group Inc. (the "Company" or "Lumine") is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of Lumine or its industry to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this MD&A, May 15, 2023. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of Lumine believes are reasonable assumptions, Lumine cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and Lumine assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with Lumine's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Free cash flow available to shareholders. Free cash flow available to shareholders "FCFA2S" refers to net cash flows from operating activities less interest paid on lease obligations, interest paid on bank debt, transaction costs on bank debt, repayments of lease obligations, dividends paid to redeemable preferred and special securities holders, and property and equipment purchased, and includes interest and dividends received. We believe that FCFA2S is useful supplemental information as it provides an indication of the uncommitted cash flow that is available to shareholders if we do not make any acquisitions, or investments, and do not repay any debts. While we could use the FCFA2S to pay dividends or repurchase shares, our objective is to invest all of our FCFA2S in acquisitions which meet our hurdle rate.

FCFA2S is not a recognized measure under IFRS and may not be comparable to similar financial measures disclosed by other issuers. Accordingly, readers are cautioned that FCFA2S should not be construed as an alternative to net cash flows from operating activities. See "Results of Operations - Free cash flow available to shareholders" for a reconciliation of FCFA2S to net cash flows from operating activities.

Capital Reorganization and Acquisitions of Lumine Group (Holdings) Inc. and WideOrbit Inc.

Capital Reorganization

On February 21, 2023, the Company filed articles of amendment and reorganized its share capital. Subsequent to the reorganization, the Company is authorized to issue one super voting share (“Super Voting Share”), an unlimited number of subordinate voting shares (“Subordinate Voting Shares”), an unlimited number of preferred shares (“Preferred Shares”), and an unlimited number of special shares (“Special Shares”). The Preferred Shares are non-voting and are entitled to a cumulative dividend of 5% per annum and are convertible into Subordinate Voting Shares at a pre-determined ratio. The holders of the Preferred Shares are entitled to redeem some or all of their shares and receive an amount of cash equal to the initial equity value of the Preferred Shares. The Special Shares carry voting rights equivalent to Subordinate Voting Shares, with a cumulative dividend entitlement of 5% per annum and can be converted to Subordinate Voting Shares at a pre-determined ratio. The holders of the Special Shares are entitled to redeem some or all of their shares and receive an amount of cash equal to the initial equity value of the Special Shares, plus one Subordinate Voting Share for each Special Share redeemed.

Holders of Subordinate Voting Shares, the Super Voting Share and the Special Shares are entitled to attend and vote at meetings of the Company’s shareholders except meetings at which only holders of a particular class are entitled to vote. Holders of Subordinate Voting Shares and Special Shares are entitled to one vote per share, and the holder of the Super Voting Share is entitled to that number of votes that equals 50.1% of the aggregate number of votes attached to all of the outstanding Super Voting Shares, Subordinate Voting Shares and Special Shares at such time. Other than in respect of voting rights, the Subordinate Voting Shares and the Super Voting Share have the same rights, are equal in all respects and are treated as if they were one class of shares.

As a result of the share capital reorganization, the Company reclassified the one common share issued to Trapeze Software ULC (“Trapeze”), a wholly owned subsidiary of Volaris Group Inc. (“Volaris”), and an indirect subsidiary of Constellation Software Inc. (“CSI”, or collectively referred to as the “Parent”), into one Super Voting Share.

Acquisition of Lumine Group (Holdings) Inc.

On February 22, 2023, the Company acquired Lumine Group (Holdings) Inc. (“Lumine Holdings”), a global portfolio of communications and media software companies and a wholly owned subsidiary of the Parent. As consideration for the acquisition, the Company issued 63,582,712 Subordinate Voting Shares at a nominal value and 55,233,745 Preferred Shares at \$21.74 per share to the Parent. The total value of Preferred Shares of \$1,200.8 million was recorded as a reduction to the contributed surplus on the condensed consolidated interim statement of changes in equity as at March 31, 2023.

Immediately following the completion of the acquisition of Lumine Holdings, the Company amalgamated with Lumine Holdings, with the resulting entity being the Company (the “Amalgamation”).

The acquisition of Lumine Holdings is a business combination involving entities under common control in which all of the combining entities are ultimately controlled by CSI, both before and after the acquisition and Amalgamation transactions were completed. Business combinations involving entities under common control are outside the scope of IFRS 3 Business Combinations. The Company accounted for this common control transaction using book value accounting, based on the book values recognized in the financial statements of the underlying entities.

Acquisition of WideOrbit Inc.

On February 22, 2023, immediately following the Amalgamation, the Company completed the acquisition of 100% of the shares of WideOrbit Inc. (“WideOrbit”) for a purchase price of \$504.6 million which was funded through a combination of cash, repayment of WideOrbit debt, and the issuance of 10,204,294 Special Shares. The increase in the purchase price from \$490.0 million as disclosed in the Company’s annual financial statements for the year ended December 31, 2022 relates to the higher debt balance of WideOrbit as of February 22, 2023. WideOrbit is a software business that primarily operates in the advertising market for cable networks, local television stations and radio stations. The Company obtained the cash portion of the purchase price from the Parent, in exchange for issuing it a further 8,348,967 Preferred Shares.

Spinout of the Company

On February 23, 2023, Trapeze declared and paid a dividend-in-kind and distributed its 63,582,712 Subordinate Voting Shares of the Company to its parent, Volaris, who further distributed these shares to its ultimate parent CSI. CSI then distributed 63,582,706 Subordinate Voting Shares to its shareholders pursuant to a dividend-in-kind, resulting in the Company's Subordinate Voting Shares being issued to public shareholders of CSI.

Overview

We acquire, strengthen and grow vertical market software ("VMS") businesses in the Communications and Media industry, headquartered in Toronto, with businesses located worldwide. Generally, our businesses provide mission critical software solutions that address the specific needs of customers in particular segments of the Communications and Media industry. Our focus on acquiring businesses with growth potential, strengthening their core profitability, and then growing them, has allowed us to generate significant cash flow and revenue growth over the past several years. Our software solutions enable our customers to boost productivity and operate more cost effectively, innovate more rapidly to address rapidly changing market needs and opportunities, grow top-line sales, improve customer service, and reduce customer churn. Many of the VMS businesses that we acquire have the potential to be leaders within their particular market niches whether that be geography, tier of customer, type of customer, or other differentiated customer demographic. We target the VMS sector because of the attractive economics that it provides and our belief that our management teams have a deep understanding of those economics.

Our revenue consists primarily of software license fees, maintenance and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements. Maintenance and other recurring revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from software as a service, subscriptions, combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates "when and if available" and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs, and other general operating expenses.

Three Months Ended March 31, 2023 Compared to 2022

Results of Operations

The following table displays a summary of the results of operations of the Company for the three months ended March 31, 2023 and 2022.

Results of Operations

(In millions of dollars or shares, except percentages and per share amounts)

(Unaudited)	Three months ended March 31,		Period-Over-Period Change	
	2023	2022	\$	%
Revenue	95.4	60.2	35.2	59%
Expenses	73.7	43.4	30.3	70%
Amortization of intangible assets	14.8	6.7	8.1	121%
Redeemable Preferred and Special Securities expense	654.6	-	654.6	NM
Finance and other expense (income)	1.9	(0.4)	2.3	NM
Income before income taxes	(649.7)	10.4	(660.1)	NM
Income tax expense (recovery)				
Current income tax expense (recovery)	7.5	4.4	3.1	70%
Deferred income tax expense (recovery)	(5.7)	(1.9)	(3.8)	203%
Income tax expense (recovery)	1.8	2.5	(0.7)	-27%
Net income (loss)	(651.6)	7.9	(659.4)	NM
Net cash flows from operating activities	15.0	4.8	10.2	211%
Free cash flow available to shareholders	11.7	4.0	7.7	193%
Weighted average shares outstanding				
Basic	67.8	N/A	N/A	N/A
Diluted	236.7	N/A	N/A	N/A
Net income (loss) per share				
Basic and diluted	(9.61)	N/A	N/A	N/A
Net cash flows from operating activities per share				
Basic	0.22	N/A	N/A	N/A
Diluted	0.06	N/A	N/A	N/A
Free cash flow available to shareholders per share				
Basic	0.17	N/A	N/A	N/A
Diluted	0.05	N/A	N/A	N/A
Total assets	1,168.2	396.6	771.5	195%
Total long-term liabilities	374.6	60.8	313.8	516%

NM – Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Comparative financial information amended to reflect the acquisition of Lumine Holdings, an acquired entity under common control on January 1, 2022 and thereafter. During 2022, the Lumine Holdings is presented on a combined basis as there was no existing legal structure. Accordingly, the combined entities have no historical capital structure. Consequently, earnings per share as required by IAS 33 Earnings per share as well as other share-based figures have not been presented for 2022.

Comparison of the three months ended March 31, 2023 and 2022

Revenue

Total revenue for the three months ended March 31, 2023 was \$95.4 million, an increase of 59%, or \$35.2 million, compared to \$60.2 million for the comparable period in 2022. The increase for the three months compared to the same period in the prior year is attributable to revenues from new acquisitions, offset by negative organic growth of 3%. Organic growth is 1% for the three months ended March 31, 2023, after adjusting for the impact of changes in the valuation of the US dollar against most major currencies in which the Company transacts business. The negative organic growth is primarily a result of an acquisition completed in 2022 with known material attrition from customer notifications which were received prior to the Company's acquisition and one business unit that had one large attrition. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each business in the financial period following acquisition, compared to the estimated revenues they achieved in the corresponding financial period preceding the date of acquisition by the Company. Organic growth is not a standardized financial measure and might not be comparable to measures disclosed by other issuers.

The following table displays the breakdown of our revenue according to revenue type:

	Three months ended March 31,		Period-Over-Period Change		Q1-22 Pro	Organic Growth
	2023	2022	\$	%	Forma Adj. (Note 1)	%
	(\$ in millions, except percentages)					
Licenses	10.6	8.7	1.9	22%	2.3	-4%
Professional services	16.8	12.5	4.3	35%	6.2	-10%
Hardware and other	4.6	2.3	2.3	102%	1.4	25%
Maintenance and other recurring	63.3	36.6	26.7	73%	28.2	-2%
	95.4	60.2	35.2	59%	38.1	-3%

\$M - Millions of dollars

Due to rounding, certain totals may not foot and certain percentages may not reconcile.
Comparative financial information amended to reflect the results of Lumine Holdings.

Note 1: Estimated pre-acquisition revenues for the three months ended March 31, 2022 from companies acquired after December 31, 2021. (Obtained from unaudited vendor financial information.)

For comparative purposes the table below shows the quarterly organic growth as compared to the same period in the prior year by revenue type for the prior 8 quarters. Note that the estimated revenues achieved by acquired companies in the corresponding financial period preceding the date of acquisition by the Company may be updated in the quarter following the quarter they were acquired resulting in slight variances to previously reported figures.

	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31
	<u>2021</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2023</u>
Licenses	30%	50%	15%	-7%	6%	-26%	23%	-4%
Professional services	28%	24%	3%	2%	-17%	-23%	-25%	-10%
Hardware and other	-53%	197%	-7%	-23%	-5%	-55%	-12%	25%
Maintenance and other recurring	17%	9%	3%	0%	-4%	-11%	-9%	-2%
Revenue	16%	23%	4%	-2%	-6%	-18%	-9%	-3%

The following table shows the same information adjusting for the impact of foreign exchange movements.

	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31
	<u>2021</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2023</u>

Licenses	23%	47%	15%	-5%	12%	-20%	28%	0%
Professional services	16%	18%	3%	6%	-9%	-16%	-18%	-5%
Hardware and other	-58%	176%	-8%	-21%	5%	-47%	-1%	33%
Maintenance and other recurring	7%	6%	3%	3%	3%	-4%	-3%	1%
Revenue	7%	19%	4%	1%	1%	-11%	-2%	1%

Expenses

The following table displays the breakdown of our expenses:

	Three months ended March 31,		Period-Over-Period Change	
	<u>2023</u>	<u>2022</u>	\$	%
	(\$ in millions, except percentages)			
Expenses				
Staff	48.6	31.9	16.7	53%
Hardware	3.3	1.3	2.0	146%
Third party license, maintenance and professional services	4.7	2.4	2.3	95%
Occupancy	0.8	0.4	0.4	88%
Travel, Telecommunications, Supplies & Software and equipment	4.7	2.3	2.4	106%
Professional fees	7.3	0.8	6.5	804%
Other, net	2.8	3.1	(0.3)	-10%
Depreciation	1.5	1.2	0.3	25%
	73.7	43.4	30.3	70%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Comparative financial information amended to reflect the results of Lumine Holdings.

Overall expenses for the three months ended March 31, 2023 increased 70%, or \$30.3 million to \$73.7 million, compared to \$43.4 million during the same period in 2022. As a percentage of total revenue, expenses equalled 77% for the three months ended March 31, 2023 and 72% for the same period in 2022.

Staff expense – Staff expenses increased 53% or \$16.7 million for the three months ended March 31, 2023 over the same period in 2022. Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Included within staff expenses for each of the above five departments are personnel and related costs associated with providing the necessary services. The table below compares the period over period variances.

	Three months ended March 31,		Period-Over-Period Change	
	<u>2023</u>	<u>2022</u>	\$	%
	(\$ in millions, except percentages)			
Professional services	9.3	6.5	2.9	45%
Maintenance	8.4	5.5	2.9	53%
Research and development	13.0	7.7	5.3	69%
Sales and marketing	7.7	5.2	2.4	46%
General and administrative	10.2	7.0	3.2	46%
	48.6	31.9	16.7	53%

Due to rounding, certain totals may not foot and certain percentages may not reconcile.

Comparative financial information amended to reflect the results of Lumine Holdings.

The increase in staff expenses for the three months ended March 31, 2023 was primarily due to the growth in the number of employees compared to the same periods in 2022 primarily due to new acquisitions made in Q1 2023 and the preceding 3 quarters.

Hardware expenses – Hardware expenses increased 146% or \$2.0 million for the three months ended March 31, 2023 over the same period in 2022 as compared with the 102% increase in hardware and other revenue for the three months ended March 31, 2023 over the comparable period in 2022. Hardware margins for the three months ended March 31, 2023 were 28% as compared to 41% for the comparable period in 2022. Hardware sales typically consist of the resale of third party hardware as part of the sale of customized solutions to our customers and margins are affected by macroeconomic environment and vary period to period based on the nature, geographical location, and type of hardware required of solutions provided.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses increased 95% or \$2.3 million for the three months ended March 31, 2023 over the same period in 2022. The increase is primarily due to third party license, maintenance and professional services expenses of acquired businesses.

Occupancy expenses – Occupancy expenses increased 88% or \$0.4 million for the three months ended March 31, 2023 over the same period in 2022. The increase is primarily due to increased operating expenses associated with business units that had new office leases and acquisitions in Q1 2023 and the preceding 3 quarters.

Travel, Telecommunications, Supplies & Software and equipment expenses – Travel, Telecommunications, Supplies & Software and equipment expenses increased 106% or \$2.4 million for the three months ended March 31, 2023 over the same period in 2022. The increase in these expenses is primarily due to expenses incurred by acquired businesses. In addition, employee travel is gradually increasing as restrictions imposed as a result of COVID-19 are getting lifted.

Professional fees – Professional fees increased 804% or \$6.5 million for the three months ended March 31, 2023 over the same period in 2022. The increase is primarily due to non-recurring professional fees incurred related to the acquisition of Lumine Holdings, Amalgamation, acquisition of WideOrbit, and spin-out of the Company during the period.

Other, net – Other expenses decreased 10% or \$0.3 million for the three months ended March 31, 2023 over the same period in 2022. The following table provides a further breakdown of expenses within this category.

	Three months ended March 31,		Period-Over-Period Change	
	<u>2023</u>	<u>2022</u>	<u>\$</u>	<u>%</u>
	(\$ in millions, except percentages)			
Advertising and promotion	0.8	0.4	0.4	105%
Recruitment and training	0.5	0.3	0.2	75%
R&D tax credits	(0.3)	(0.3)	0.1	-18%
Contingent consideration	0.7	1.1	(0.5)	-42%
Other expense, net	1.2	1.6	(0.5)	-29%
	2.8	3.1	(0.3)	-10%

NM – Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile.
Comparative financial information amended to reflect the results of Lumine Holdings.

Advertising and promotion expense increased 105% or \$0.4 million for the three months ended March 31, 2023 over the same period in 2022. The increase is mainly attributable to increased spending across the businesses in order to expand sales pipelines and a gradual return to pre-COVID levels of spending on trade shows and other marketing activities.

R&D tax credits stayed relatively flat for the three months ended March 31, 2023 over the same period in 2022.

The contingent consideration expense amounts recorded for the periods above relate to an increase (decrease) in anticipated acquisition earnout payment accruals primarily as a result of new acquisitions and increases (decreases) to revenue forecasts for the associated acquisitions. Revenue forecasts are updated on a quarterly basis and the related anticipated acquisition earnout payment accruals are updated accordingly. Contingent consideration expense decreased 42% or \$0.5 million for the three months ended March 31, 2023 over the same period in 2022.

Other expense, net includes bad debt expense, bank fees, withholding taxes, as well as management fees paid to the Parent, which reimburse the Parent for services and resources they provided to the Company (see “Related Parties” below for a discussion of the nature of these charges). The decrease in other expense is mainly due to the bad debt expense recorded in the prior year related to the termination of contracts with customers in Russia.

There are no individually material reasons contributing to the remaining variances.

Depreciation – Depreciation of property and equipment increased 25% or \$0.3 million for the three months ended March 31, 2023 as compared to the same period in 2022. The increase in depreciation expense from acquired businesses was partially offset by decreases in depreciation expense at various existing business units as assets reached the end of their useful lives for the three-month period ended March 31, 2023.

Other Income and Expenses

The following table displays the breakdown of our other income and expenses:

	Three months ended March 31,		Period-Over-Period Change	
	<u>2023</u>	<u>2022</u>	\$	%
	(\$ in millions, except percentages)			
Amortization of intangible assets	14.8	6.7	8.1	121%
Foreign exchange (gain) loss	0.4	(0.6)	1.1	NM
Redeemable Preferred and Special Securities expense	654.6	-	654.6	NM
Finance and other expense (income)	1.5	0.3	1.2	499%
Income tax expense (recovery)	1.8	2.5	(0.7)	-27%
	673.2	8.9	664.3	NM

NM – Not meaningful

Due to rounding, certain totals may not foot and certain percentages may not reconcile. Comparative financial information amended to reflect the results of Lumine Holdings.

Amortization of intangible assets – Amortization of intangible assets increased 121% or \$8.1 million for the three months ended March 31, 2023 over the same period in 2022. The increase in amortization is primarily attributable to an increase in the carrying amount of our intangible asset balance over the three-month period ended March 31, 2023 as a result of acquisitions completed during this period and the preceding 3 quarters.

Foreign exchange (gain) loss – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the three months ended March 31, 2023, we recorded a foreign exchange loss of \$0.4 million compared to a gain of \$0.6 million for the same period in 2022. The year-over-year fluctuations in foreign exchange (gain) loss relate to movement in foreign currency exchange rates.

Redeemable Preferred and Special Securities expense – On February 22, 2023, the Company completed the acquisition of Lumine Holdings (see “Capital Reorganization and Acquisitions of Lumine Group (Holdings) Inc. and WideOrbit Inc.”). In connection with this acquisition, the Company issued 55,233,745 Preferred Shares to the Parent and, and in connection with the acquisition of WideOrbit, the Company issued 10,204,294 Special Shares to the rollover shareholders of WideOrbit and 8,348,967 Preferred Shares to the Parent, collectively the “Preferred and Special Securities”. The Preferred and Special Securities, under certain conditions, are redeemable at the option of the holder for a redemption price of \$21.74 per share. The redemption price could either be settled in cash or through the issuance of a variable number of Subordinate Voting Shares of equal value determined by the 60-day volume weighted average trading price of the Subordinate Voting Shares,

or any combination thereof. The Preferred Shares are also convertible into Subordinate Voting Shares at a conversion ratio of 2.4302106 Subordinate Voting Shares per Preferred Share. The Special Shares are convertible into Subordinate Voting Shares at a conversion ratio of 3.4302106 Subordinate Voting Shares per Special Share. The Preferred and Special Securities holders are also entitled to a fixed annual cumulative dividend of 5% per annum on the initial face value of \$21.74 per share.

The Preferred and Special Securities are recorded at fair value at the end of each reporting period until the Mandatory Conversion Date of March 25, 2024. The change in fair value of the Preferred and Special Securities was recorded as redeemable preferred and special securities expense (income) in the condensed consolidated interim statements of income. Based on the Preferred Share and Special Share conversion rights, the value of the Preferred and Special Securities was primarily dependent on the price movement of Lumine Subordinate Voting Shares. For the three months ended March 31, 2023, the Company recorded \$646.5 million related to mark-to-market adjustments on the fair value of the Preferred and Special Securities, and \$8.1 million related to accrued dividends of the Preferred and Special Securities.

Finance and other expense (income) – Finance and other expense increased 499% or \$1.2 million for the three months ended March 31, 2023 over the same period in 2022. The increase is largely driven by fair value adjustments and interest on bank debt entered into during the fourth quarter of 2022 and the first quarter of 2023.

Income taxes – We operate globally, and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our effective tax rate on a combined basis is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses and other credits. For the three months ended March 31, 2023, income tax expense decreased \$0.7 to \$1.8 million compared to \$2.5 million for the same period in 2022. Current tax expense has historically approximated our cash tax rate. The Company's combined effective tax rate in respect of continuing operations for the three months ended March 31, 2023 was -0.28% (24% for the three months ended March 31, 2022). The significantly lower effective tax rate for the three months ended March 31, 2023 is mainly caused by permanent differences related to acquisitions closed during the quarter, including the completion of the Lumine spin-out. The current period effective tax rate is impacted by the redeemable Preferred and Special Securities expense, which is not deductible for tax purposes.

Net Income (Loss) per Share

Net loss for the three months ended March 31, 2023 was \$651.6 million compared to a net income of \$7.9 million for the same period in 2022. On a per share basis, this translated into net income per basic and diluted share of \$(9.61) in the three months ended March 31, 2023.

Comparative net income per share for the three months ended March 31, 2022 was not disclosed since the Company did not legally own Lumine Holdings during 2022 and the amalgamated entities have no historical capital structure. On a pro forma basis, had the Company completed the common control transaction at January 1, 2022 and issued 63.6 million Subordinate Voting Shares and 55.2 million Preferred Shares on that date, the net income per basic and diluted share for the three months ended March 31, 2022 would have been \$0.12 and \$0.04, respectively.

Net cash flows from operating activities ("CFO")

For the three months ended March 31, 2023, CFO increased \$10.2 million to \$15.0 million compared to \$4.8 million for the same period in 2022 representing an increase of 211%.

Free cash flows available to shareholders ("FCFA2S")

For the three months ended March 31, 2023, FCFA2S increased \$7.7 million to \$11.7 million compared to \$4.0 million for the same period in 2022 representing an increase of 193%.

The following table reconciles FCFA2S to net cash flows from operating activities:

	Three months ended March 31,	
	2023	2022
Net cash flows from operating activities:	15.0	4.8
Adjusted for:		
Interest paid on lease obligations	(0.1)	(0.0)
Interest paid on other facilities	(0.3)	-
Credit facility transaction costs	(1.8)	-
Payment of lease obligations	(0.8)	(0.7)
Property and equipment purchased	(0.2)	(0.1)
Free cash flow available to shareholders	11.7	4.0

Quarterly Results

	Quarter ended							
	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31
	<u>2021</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2023</u>
Revenue	54.7	64.4	59.7	60.2	61.3	66.0	68.3	95.4
Net income (loss)	6.1	7.5	6.9	7.9	8.8	11.8	(1.1)	(651.6)
CFO	19.0	23.4	18.7	4.8	8.2	12.1	9.8	15.0
FCFA2S	18.1	22.3	17.9	4.0	7.4	11.3	8.0	11.7
Net income (loss) per share								
Basic and diluted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(9.61)
CFO per share								
Basic	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.22
Diluted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.06
FCFA2S per share								
Basic	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.17
Diluted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.05

In millions of dollars, except per share amounts.

Comparative financial information amended to reflect the results of Lumine Holdings. Since the Company did not legally own Lumine Holdings during 2022, the amalgamated entities have no historical capital structure. Consequently, earnings per share as required by IAS 33 Earnings per share has not been presented for 2022 and prior.

Weighted average shares (in millions)

Basic	N/A	N/A	N/A	N/A	N/A	N/A	N/A	67.8
Diluted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	236.7

On a pro forma basis, had the Company completed the common control transaction at January 1, 2021 and issued 63.6 million Subordinate Voting Shares and 55.2 million Preferred Shares on that date, the net income, CFO, and FCFA2S per basic and diluted share for the past eight quarters would have been as follows:

	Quarter ended							
	Jun. 30	Sep. 30	Dec. 31	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Mar. 31
	<u>2021</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2022</u>	<u>2023</u>
Net income (loss) per share								
Basic	0.10	0.12	0.11	0.12	0.14	0.19	(0.02)	(9.61)
Diluted	0.03	0.04	0.03	0.04	0.04	0.06	(0.02)	(9.61)
CFO per share								
Basic	0.30	0.37	0.29	0.08	0.13	0.19	0.15	0.22
Diluted	0.10	0.12	0.09	0.02	0.04	0.06	0.05	0.06

FCFA2S per share								
Basic	0.29	0.35	0.28	0.06	0.12	0.18	0.13	0.17
Diluted	0.09	0.11	0.09	0.02	0.04	0.06	0.04	0.05
Weighted average shares								
Basic	63.6	63.6	63.6	63.6	63.6	63.6	63.6	67.8
Diluted	197.8	197.8	197.8	197.8	197.8	197.8	197.8	236.7

We do not generally experience significant seasonality in our operating results from quarter to quarter. However, our quarterly results may fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain expenses or gains, which may include changes in provisions, acquired contract liabilities, and gains or losses on the sale of financial and other assets. The Preferred and Special Securities expense (income) is primarily dependent on the price movement of Subordinate Voting Shares. Material swings in the price will have a material impact on quarterly operating results.

Liquidity

Cash increased by \$82.4 million to \$149.5 million at March 31, 2023. The increase in cash was predominantly driven by the WideOrbit credit facility entered in March 2023 as well as cash generated from operations exceeding net capital deployed on acquisitions. Bank indebtedness increased by \$173.0 million to \$192.1 million at March 31, 2023 compared to 19.1 million at December 31, 2022. Due to related parties, net (see "Related Parties" below) decreased by \$26.7 million to \$8.8 million compared to \$35.5 million at December 31, 2022.

Total assets increased \$771.5 million, from \$396.6 million at December 31, 2022 to \$1,168.2 million at March 31, 2023. The increase is primarily due to a \$596.6 million increase in intangible assets, a \$82.4 million increase in cash, a \$38.2 million increase in accounts receivable, and a \$25.0 million increase in unbilled revenue.

Current liabilities increased \$2,286.0 million, from \$182.0 million at December 31, 2022 to \$2,468.0 million at March 31, 2023. The increase is primarily due to an increase of \$2,257.7 million in Preferred and Special Securities, an increase in deferred revenue of \$32.5 million, and an increase in accounts payable and accrued liabilities of \$18.1 million, partially offset by a decrease in due to related parties, net of \$26.7 million.

(Unaudited)		
Net Changes in Cash Flows		
(\$ in millions)	Three months ended March 31, 2023	Three months ended March 31, 2022
Net cash provided by operating activities	15.0	4.8
Net cash from (used in) financing activities	348.5	2.4
Cash used in the acquisition of businesses	(315.1)	(3.0)
Cash obtained with acquired businesses	34.0	-
Net cash from (used in) other investing activities	(0.2)	(0.1)
Net cash from (used in) investing activities	(281.4)	(3.1)
Effect of foreign currency	0.3	0.2
Net increase (decrease) in cash and cash equivalents	82.4	4.3

The net cash flows from operating activities were \$15.0 million for the three months ended March 31, 2023. The \$15.0 million provided by operating activities resulted from \$651.6 million in net loss plus \$675.4 million of non-cash adjustments to net income, which includes \$654.6 million in redeemable Preferred and Special Share expense. This is partially offset by \$4.8 million in taxes paid, and \$4.0 million of cash used in non-cash operating working capital.

The net cash flows from financing activities for the three months ended March 31, 2023 were \$348.5 million, which is mainly a result of the issuance of preferred shares for \$181.5 million and bank debt for \$175.0 million.

The net cash flows used in investing activities for the three months ended March 31, 2023 were \$281.4 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$315.1 million (including payments for holdbacks relating to prior acquisitions) offset by \$34.0 million of acquired cash.

We believe we have sufficient cash to continue to operate for the foreseeable future. Generally, our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the Company organically without any additional funding. Additional external funding may be utilized depending upon the size and timing of potential future acquisitions.

Related Parties

Transactions with related parties are assumed when a relationship exists between the Company and a natural person or entity that is affiliated with the Company. This includes, amongst others, the relationship between the Company and its subsidiaries, significant shareholders, directors, key management personnel, certain companies affiliated with key management personnel, and companies that are under common control of the Company's indirect controlling shareholder, CSI. Transactions are transfers of resources, services or obligations, regardless of whether anything has been charged.

The Company pays management fees to the Parent (included within "Other, net" expenses), reimburses the Parent for certain expenses paid on behalf of the Company, and borrows funds from the Parent from time to time to fund acquisitions. During the three months ended March 31, 2023, the Company expensed management fees of \$0.3 million (March 31, 2022 – \$0.8 million). At March 31, 2023, the Company had outstanding amounts due to related parties of \$8.8 million (December 31, 2022 – \$35.5 million) which reflects the amount owing to the Parent for management fees and the reimbursement of expenses paid on its behalf, net of the cash sent to the Parent during the quarter.

During the three months ended March 31, 2023, the Company borrowed \$115.0 million from the Parent in relation to the WideOrbit acquisition, which was repaid with the proceeds from the credit facility in March 2023. In relation to the acquisition of WideOrbit, the Company issued 8,348,967 Preferred Shares to the Parent for cash proceeds of \$181.5 million and transferred cash of \$10.0 million to the Parent to be held in trust for the holdback consideration.

The Parent makes cash capital contributions for certain acquisitions completed by the Company. During the three months ended March 31, 2023, the Parent made capital contributions of \$22.5 million in relation to the current quarter acquisitions.

On February 22, 2023, the Company acquired a 100% ownership interest in Lumine Holdings for a non-cash consideration of \$1,200.8 million. The acquisition of Lumine Holdings is a business combination involving entities under common control in which all of the combining entities are ultimately controlled by CSI, both before and after the acquisition and Amalgamation transactions were completed.

Redeemable Preferred and Special Securities

A detailed description of the significant terms and conditions of the Preferred and Special Securities are described in Note 8 to the Company's Unaudited Condensed Consolidated Interim Financial Statements for the three-month period ended March 31, 2023.

Capital Resources and Commitments

Bank Debt

On March 2, 2023, WideOrbit entered into a revolving financing facility with a syndicate of Canadian and US financial institutions amounting to \$185.0 million, to provide long-term financing in connection with the acquisition of WideOrbit (the "WO Loan"), of which \$175.0 million was drawn during the three months ended March 31, 2023. The Company used the borrowings of \$115.0 million to repay its related party payable balance to the Parent. Covenants associated with this facility are monitored and reported based on the financial position and financial performance of WideOrbit. The covenants include a leverage ratio and a fixed charge coverage ratio. The WO Loan has a maturity date of March 2, 2028 and bears an interest rate of SOFR plus applicable spreads ranging from 1.75% to 3%, based on the leverage ratio. The Company does not

guarantee this debt, nor are there any cross-guarantees between other subsidiaries. The credit facility is collateralized by substantially all of the assets of WideOrbit.

On October 31, 2022, Telarix Inc., an indirect subsidiary of the Company, closed term loan funding with a Canadian chartered bank, amounting to \$39.0 million, to provide long-term financing in connection with an acquired business. The financing also comes with a revolving credit facility of \$2.5 million (collectively, the "Telarix Loans"). During the three months ended March 31, 2023, there were no additional borrowings made on the Telarix Loans and minimal repayments made on the term loan. Covenants and guarantees associated with this loan are monitored and reported based on the financial position and financial performance of the acquired business. The covenants include a leverage ratio and an interest coverage ratio. The bank debt has a maturity date of October 31, 2026. The term loan bears an interest rate of SOFR plus applicable spreads ranging from 1.85% to 3.85%, based on the leverage ratio. The revolving facility bears an interest rate of Prime plus applicable spreads ranging from 0.50% to 2.50%. The Company does not guarantee the debt of these subsidiaries, nor are there any cross-guarantees between other subsidiaries. The Telarix Loans are collateralized by substantially all of the assets of Telarix Inc. and its subsidiaries.

As of March 31, 2023, the Company and its subsidiaries are in compliance with their respective debt covenants.

(\$ in thousands)	Maturity	Principal Amount	Interest Rate	March 31, 2023	December 31, 2022
Term loan	2026	39,000	SOFR+1.85%	\$ 19,179	\$ 19,422
Revolving facility	2026	2,500	Prime+0.50%	-	-
Revolving facility	2028	185,000	SOFR+2.5%	175,000	-
				194,179	19,422
Deferred transaction costs				(2,041)	(309)
Less current portion				(650)	(975)
Total long-term debt				191,488	18,138

The annual minimum repayment requirements are as follows:

(\$ in thousands)	
2023	731
2024	975
2025	975
2026	16,497
2027	-
2028	175,000
	\$ 194,179

Other Commitments

Commitments include operating leases for office equipment and facilities, letters of credit and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with contingent consideration based on the future performance of the acquired business. The fair value of contingent consideration recorded in our statement of financial position was \$9.9 million at March 31, 2023. Aside from the aforementioned and the redeemable Preferred and Special Securities, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-combined entities that would have a significant effect on our assets and liabilities as at March 31, 2023.

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for short term leases, leases of low value assets, and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Proposed Transactions

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year.

Share Capital

As at March 31, 2023, there were 63,671,177 Subordinate Voting Shares and 1 Super Voting Share outstanding.

As at March 31, 2023, there were 63,582,712 Preferred Shares and 10,178,504 Special Shares outstanding.

The Super Voting Share is convertible into a Subordinate Voting Share on a one-for-one basis. The Preferred Shares and Special Shares are convertible on the basis of 2.4302106 Subordinate Voting Shares per Preferred Share and 3.4302106 Subordinate Voting Shares per Special Share. As a result, an additional 189,433,793 Subordinate Voting Shares would be issuable upon the exercise of these conversion rights. On a fully-diluted basis, there would be 253,104,970 Subordinate Voting Shares issued and outstanding as of March 31, 2023. During the three months ended March 31, 2023, 25,790 Special Shares were converted into 88,465 Subordinate Voting Shares.

For more information on the capital structure of Lumine, including additional details regarding the terms and conditions relevant to the subordinate voting shares, the super voting share, the preferred shares, and the special shares of Lumine, see Lumine's final long form prospectus dated February 6, 2023, which is available on SEDAR at www.sedar.com.

Risk Factors

The Company's business is subject to a number of risk factors, including those risk factors which are described in the final prospectus of Lumine dated February 6, 2023. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business and operations and cause the price of our securities to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operations may suffer significantly.