# COVER TECHNOLOGIES INC.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FOR THE SIX MONTHS PERIOD ENDED MARCH 31, 2023 AND 2022

This management's discussion and analysis ("MD&A") of Cover Technologies Inc. ("Cover" or the "Company") provides an analysis of our financial situation which will enable the reader to evaluate important variations in our financial situation for the six months ended March 31, 2023, compared to the six months ended March 31, 2022. This report prepared as at May 30, 2023 intends to complement and supplement our condensed interim consolidated financial statements (the "financial statements") as at March 31, 2023 which have been prepared in accordance with International Financial Reporting Standards, and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes. Readers are also advised to read the Company's audited financial statements (the "financial statements") and accompanying notes for the year ended September 30, 2022, (the "financial statements"), which have been prepared in accordance with International Financial Reporting Standards "IFRS".

Our condensed interim consolidated financial statements and the management's discussion and analysis are intended to provide a reasonable base for the investor to evaluate our financial situation.

Our condensed interim consolidated financial statements have been prepared using accounting policies consistent with IFRS. All dollar amounts contained in this MD&A are expressed in Canadian dollars, unless otherwise specified.

## FORWARD-LOOKING STATEMENT

Where we say "we", "us", "our", the "Company", we mean Cover Technologies Inc. ("Cover" or the "Company"), as it may apply.

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "could", "should", "can", "anticipate", "expect", "believe", "will", "may", "projected", "sustain", "continues", "strategy", "potential", "projects", "grow", "take advantage", "estimate", "well positioned" or similar words suggesting future outcomes. In particular, this MD&A may contain forward-looking statements relating to future opportunities, business strategies, mineral exploration, development and production plans and competitive advantages.

The forward-looking statements regarding the Company are based on certain key expectations and assumptions of the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, exchange rates, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, the availability and cost of labour and services and the ability to obtain financing on acceptable terms. Although management of the Company consider these assumptions to be reasonable based on information currently available to them, they may prove to be incorrect and such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. Undue reliance should not be placed on forward-looking statements, as a number of important factors could cause the actual results to differ materially from the beliefs, plans, objectives, expectations and anticipations, estimates and intentions expressed in the forward-looking statements, including among other things: inability of the Company to continue meeting the listing requirements of stock exchanges and other regulatory requirements; general economic and market factors, including business competition, changes in government regulations or in tax laws; general political and social uncertainties; lack of insurance; delay or failure to receive board or regulatory approvals; changes in legislation affecting the Company; timing and availability of external financing on acceptable terms; conclusions of, or estimates contained in feasibility studies, pre-feasibility studies or other economic evaluations; and lack of qualified skilled labour or loss of key individuals; as well as those factors detailed from time to time in the Company's interim and annual consolidated financial statements and management's discussion and analysis of those statements, along with the Company's annual information form, if any, all of which are filed and available for review on SEDAR at www.sedar.com. Readers are cautioned that the foregoing list is not exhaustive.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A and the Company does not undertake and is not obligated to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise unless so required by applicable securities laws.

## OVERVIEW

The Company was incorporated on June 18, 2007 in British Columbia, Canada. The Company's head office is located at Suite 810 – 789 West Pender Street, Vancouver, V6C 1H2. The Company's shares are traded on the Canadian Securities Exchange ("CSE") and the Frankfurt stock exchange. Cover is a technology research and development company with a focus on emerging technologies and solutions.

Cover is in pursuit of identifying opportunities in emerging technologies. As at the date of this MD&A, in connection with the magnesium processing, the Company terminated a technology acquisition agreement and is currently uncertain whether to continue with the magnesium processing business. As the Investissement Québec grant relates to magnesium processing, it is uncertain whether the Quebec government will demand repayment if the Company decides to discontinue its operations in magnesium processing although the Company believe it has met all the requirements imposed by Investissement Québec. Cover will focus its efforts on completing of the proposed transaction relating to the patent-pending and proprietary process enabling true plastic waste removal in a scalable, systematic and profitable way.

## OVERALL PERFORMANCE

On May 11, 2023, the Company issued 24,000,000 units to 1346487 B.C. Ltd. ("NumberCo") as consideration for the Agreement. Each unit consisted of one common share in the capital of the Company and one share purchase warrant, exercisable for a period of two years at an exercise price of $0.125 per share.

During the period ended March 31, 2023, the Company entered into unsecured convertible debentures with arm's length parties in the principal amount of $1,500,000. As of March 31, 2023, the sale of the convertible debentures has not closed and the Company has recorded the amounts received as a deposit.

During the year ended September 30, 2022, the Company consolidated the issued share capital on the basis of seven (7) old common shares for one (1) new common share. Outstanding stock options and warrants were adjusted by the consolidation ratio. All common shares and per common share amounts in these MD&A have been retroactively restated to reflect the share consolidation.

During the year ended September 30, 2022, the Company completed a non-brokered private placement and issued 1,453,431 common shares at a price of $0.255 per share for gross proceeds of $370,625.

On April 21, 2023, the Company cancelled 554,285 stock options to certain officers, directors and consultants of the Company.

### PlasCred Transaction

As of the date of this MD&A, the Company entered into an assignment agreement (the "Assignment Agreement") with NumberCo and PlasCred Inc. ("PlasCred"), pursuant to which the Company has taken an assignment (the "Assignment") of a securities exchange agreement ("SEA") dated August 2, 2022 among NumberCo and PlasCred and the shareholders of PlasCred (collectively, the "PlasCred

Shareholders"). In connection with the Agreement, the Company has also agreed by way of novation and assumption agreement to take an assignment of the monies that have been advanced by NumberCo to PlasCred, which will be $600,000 by the time of closing of the Assignment and secured by a general security agreement over all the assets of PlasCred (the "Loan Assignment").

PlasCred is a private green technology company incorporated in Alberta, whose patent-pending and proprietary process enables true plastic waste removal in a scalable, systematic and profitable way. The PlasCred "process" hopes to deliver a commercially viable plastic recycling process, providing immediate economic benefit for industry, communities and government organizations for handling waste plastic. PlasCred is also developing strategic partnerships with CN Rail, providing PlasCred with unparalleled logistics support across North America for transportation and handling of plastic waste. Further information on PlasCred, see their website located at www.plascred.com.

In consideration for the Assignment, the Company issued 24,000,000 units (each, a "Unit") to NumberCo of the Company, as adjusted after the completion of any consolidation or subdivision, with each Unit consisting of one common share in the capital of the Company and one share purchase warrant, exercisable for a period of two years at an exercise price of $0.125 per share. The Assignment will allow the Company to acquire all of the outstanding securities of PlasCred from the securityholders of PlasCred (the "Transaction"). As of March 31, 2023, the Company has recorded the 24,000,000 units as a consideration payable with a fair value of $8,814,753 with the fair value of the common shares being $4,440,000 using a level 1 input on November 14, 2022 and the fair value of the warrants being $4,374,753. The total fair value of the warrant was calculated using the Black-Scholes Option Pricing Model with the following assumptions: expected life of warrants – 2 years; expected volatility – 333%; expected dividend yield – 0%; and risk-free rate – 3.87%. On May 11, 2024, the Company issued the Units.

In connection with the completion of the Transaction (the "Closing"), the Company will issue up to an aggregate of 35,000,000 post-consolidated shares on a pro rata basis to the PlasCred Shareholders. Except for the Loan Assignment, the Company is not assuming any long-term debt as part of the Transaction. Concurrent to the entry into of the Assignment Agreement, the Company, PlasCred and the PlasCred Shareholders entered into an amended and restated securities exchange agreement to, among other things, bring forward certain dates with respect to the Closing of the Transaction as well as to replace the representations and warranties of NumberCo with that of the Company. Completion of the Transaction remains subject to a number of conditions, including satisfactory due diligence by the parties, receipt of all requisite approvals, including the conditional approval of the CSE, and other conditions customary for transactions of this nature. The Transaction is a Fundamental Change under the Policies of the CSE, requiring the CSE to review and approve the Transaction and the Company to obtain shareholder approval for the Transaction.

Prior to the closing of the Transaction, the Company intends to consolidate its outstanding shares on the basis of 2 pre-consolidation shares for every one post-consolidation share (the "Consolidation").

In addition to the Assignment, the Company will complete a non-brokered private placement consisting of the issuance of up to 13,333,333 post-Consolidation shares at a price of $0.30 per post-Consolidation share for gross aggregate proceeds of up to $4,000,000 (the "Financing"). The Company intends to use the proceeds from the Financing for general working capital purposes as well as to help fund the closing of the Transaction. Finders' fees in cash and securities may be payable in connection with the Financing in accordance with the policies of the CSE and applicable securities laws.

### Investor Relations and Communication Services

As of the date of this MD&A, the Company entered into an agreement with Adelaide Capital Markets Inc. (“Adelaide”), pursuant to which Adelaide has agreed to provide investor relations and communications services to the Company in exchange for an aggregate amount of $60,000, payable in monthly instalments of $10,000, of which $40,000 has been rendered as of March 31, 2023. The remainder will be rendered upon closing of the PlasCred Transaction. Pursuant to the agreement between Adelaide and the Company, the Company granted stock options to Adelaide to purchase up to 150,000 common shares of the Company at an exercise price of $0.25 per share. Of these Options, 37,500 shall vest on December 19, 2022, 37,500 shall vest on March 19, 2023, 37,500 shall vest on June 19, 2023 and 37,500 shall vest on September 19, 2023.

### DISCUSSION OF OPERATIONS

For the six months period ended March 31, 2023, the Company incurred a net loss of $150,433 compared to the six -months period ending March 31, 2022 spending $1,572,300. The overall administration expenses decreased to $224,727 compared to $1,551,012 for the same six months period during the prior year. The loss for the six months ending March 31, 2023 also included a non-cash stock-based compensation of $20,276 (2022 - $119,360).

Key changes in the primary components of the loss and comprehensive loss for the six months ended March 31, 2023 compared to the six months ended March 31, 2022 were as follows:

General and Administration of $224,727 (March 31, 2022 - $1,551,012), includes non-cash stock-based compensation of $20,276 (March 31, 2022 – $119,360) decreased by $1,326,285 due to the following fluctuations:

- Professional and consulting fees decreased from $493,770 to $102,559. During the comparative period ending March 31, 2022, the Company engaged additional consultants to support the increase in business operations. During the current period ended March 31, 2023, the Company engaged fewer external consultants for the oversight of regulatory compliance. During the period March 31, 2023, the Company has been focused on completing the Transaction with PlasCred.
- Marketing expenses of $Nil (2022 - $796,701) decreased as the Company scaled back on marketing.
- Investor communication decreased by $12,000 due to the Company decreasing promotional activities.
- Research expenses of $Nil (2022 - $50,000) as the Company did not do any research during the current period. In the current period, the Company is no longer conducting research and development on its magnesium project.
- Transfer agent and filing fees decreased by $5,832. The change in fees resulted from the change in general corporate compliance requirements.

A non-cash stock-based compensation charge of $20,276 (March 31, 2022 - $119,360) was incurred to reflect the fair value of stock options during the period.

The Company incurred a net income of $11,309 for the current three-months period ending March 31, 2023 compared to a net loss of $674,012 for the same three-month period during the prior year. The current three-month spending includes a non-cash stock-based compensation of $6,932 (2022 - $57,428). In the current period, the Company’s general and administrative expense decreased from $659,108 to $67,913. In general, the Company’s operations slowed in the current period relative to the previous period.

- Professional fees and marketing expenses decreased from $259,481 and $309,366 to $28,612 and $Nil, respectively. The Company initiated cost cutting measures and preserved cash flow as the Company continues to pursue the Transaction with PlasCred.

The Company recorded a write-off of accounts payable of $82,287 (2022 - $Nil) as there were historical payables deemed no longer due to the statute of limitations on debt being reached. .

**SUMMARY OF QUARTERLY RESULTS**

The following table sets out selected quarterly financial information derived from the Company's unaudited condensed interim consolidated financial statements, for each of the eight recently completed quarters.

| Period | Total revenue $ | Loss and comprehensive loss for the period $ | Net loss per share, basic and fully diluted $ |
|---|---|---|---|
| March 31, 2023 | - | 11,447 | 0.00 |
| December 31, 2023 | - | (162,374) | (0.03) |
| September 30, 2022 | - | (528,870) | (0.10) |
| June 30, 2022 | - | (260,384) | (0.05) |
| March 31, 2022 | - | (673,696) | (0.14) |
| December 31, 2021 | - | (898,573) | (0.22) |
| September 30, 2021 | - | (6,708,504) | (1.98) |
| June 30, 2021 | - | (434,121) | (0.13) |

There are no general trends regarding the Company's quarterly results and the Company's business is not seasonal, as it can develop and progress on a year-round basis, funding permitting. Quarterly results may vary significantly depending mainly on whether the Company has engaged in new activities or abandoned any projects and these factors which may account for material variations in the Company's quarterly net income (losses) are not predictable. See also the results of operations discussion above.

During the second quarter of 2023, the Company incurred a net income of $11,309 compared to $674,012 for the same quarter during the prior year. The loss includes $28,612 (2022 - $259,481) professional fees. The Company also did not incur any marketing expenses in the current period, compared to $309,366 in the comparative period. The Company engaged fewer external consultants for the oversight of regulatory compliance. The Company recorded a write-off of accounts payable of $82,287 (2022 - $Nil) as there were historical payables deemed no longer due.

During the first quarter ended December 31, 2022, the Company incurred a loss of $162,374 compared to $898,573 during the same quarter the prior year. The decrease in losses is mainly as the Company engaged fewer external consultants for the oversight of regulatory compliance.

During the fourth quarter of the year ended September 30, 2022, the Company incurred a loss of $528,870 compared to $6,708,504 during the same quarter the prior year. At the time of acquisition, no fair value was attributed to the Flurbo technology. As such the consideration paid and related acquisition costs in the amount of $4,490,300 were expensed as stock-based compensation in the consolidated Statement of Loss and Comprehensive Loss, for the comparative period.

## LIQUIDITY

### Cash flow

*Cash flows during the six months ended March 31, 2023 and March 31, 2022*

| | **March 31, 2023 $** | **March 31, 2022 $** | **Change $** |
|---|---|---|---|
| Cash used in operating activities | (298,818) | (790,716) | 491,898 |
| Cash used in investing activities | - | - | - |
| Cash provided by financing activities | 500,000 | 212,189 | 287,811 |

During the six months period ending March 31, 2023 compared to the six months period ending March 31 2022, cash used in operating activities between 2023 and 2022 decreased primarily as a result of the factors mentioned above under the summary of quarterly results.

During the six months period ending March 31, 2023 and 2022, the Company had no investing activities.

During the six months period ending March 31, 2023 compared to the six months period ending March 31 2022, cash provided by financing activities between 2023 and 2022 increased primarily as $500,000 net were raised by receipt of convertible debenture deposits compared to the prior year when $370,625 cash were raised from share issuances and $100,843 were used in the payment of notes payable and $57,593 were used to redeem convertible debentures.

### Liquidity

| | March 31, 2023 | September 30, 2022 |
|---|---|---|
| Cash on hand | $ 425,177 | $ 224,489 |
| Working capital (deficiency) | $ 7,835,304 | $ (848,798) |
| Deficit | $ (21,918,513) | $ (21,768,080) |

Recent developments in the capital markets have restricted access to debt and equity financing for many companies. As the Company has no significant income, cash balances will continue to decline as the Company utilizes these funds to conduct its operations, unless replenished by capital fundraising or debt.

## CAPITAL RESOURCES

The Company has not yet realized profitable operations and it has relied on non-operational sources of financing to fund operations. The ability of the Company to achieve its objectives, meet its ongoing obligations and recover its investments in granted and pending patents, and other assets will depend on management's ability to successfully execute its business plan, achieve profitable operations and obtain additional financing, if or when required. There is no assurance that these initiatives will be successful.

During the period ended March 31, 2023, the Company entered into unsecured convertible debentures with arm's length parties in the principal amount of $1,500,000. As of March 31, 2023, the sale of the convertible debentures has not closed and the Company has recorded the amounts received as a deposit.

## OFF – BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## RELATED PARTY DISCLOSURES

Key management personnel are the persons responsible for the planning, directing and controlling the activities of the Company and includes both executive and non-executive directors, and entities controlled by such persons. The Company considers all Directors and Officers of the Company to be key management personnel.

The following are the remuneration of the Company's related parties:

| | **March 31, 2023** | **March 31, 2022** |
|---|---|---|
| | $ | $ |
| Dorian Banks, Executive Director and CEO and interim CFO | 30,000 | 30,000 |
| Drew Brass, non-executive Director for consulting fees | 18,000 | 18,000 |
| Share-based compensation | - | 119,360 |
| | 48,000 | 167,360 |

<u>Due to related parties</u>

| | **March 31, 2023** | **September 30, 2022** |
|---|---|---|
| | $ | $ |
| Dorian Banks, Executive Director and CEO and interim CFO | 20,000 | - |
| Drew Brass, non-executive Director | 90,000 | 72,000 |
| | 110,000 | 72,000 |

All amounts owing to related parties do not bear any interest, are unsecured and due on demand.

## PROPOSED TRANSACTIONS

See the description of the Transaction with PlasCred above.

In the normal course of business, management actively targets sources of additional financing through alliances with financial entities or other business and financial transactions which would assure continuation of the Company's operations and technology programs. As of the date of this MD&A, the Company has no proposed transactions other than what has been outlined in this MD&A.

## CRITICAL ACCOUNTING ESTIMATES

### Significant estimates, assumptions and judgements

The preparation of the condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Information about critical judgments in applying accounting policies and sources of estimation uncertainty that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim consolidated financial statements within the next financial year are the same as those that applied to the Company's 2022 annual financial statements.

## CHANGES IN ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

Certain pronouncements were issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretation Committee ("IFRIC") that are not yet effective. Many are not applicable or do not have significant impact to the Company and have been excluded.

On October 1, 2021, the Company amended its significant accounting policy to state that upon settlement of convertible debentures, the Company reclassifies the carrying value of equity portion from loan reserve to deficit in order to provide more relevant information on the Company's financial position. This change was applied retrospectively; therefore, the opening balances of each affected component of financial position for the earliest period presented and other comparative amounts disclosed for each prior period have been presented as if this method has always been applied.

Retrospective application of this change in accounting policy results in the following impact on the October 1, 2020 opening statement of financial position:

| | **As at October 1, 2020** | | |
|---|---|---|---|
| | **Reported at October 1, 2020** | **Impact of changes** | **Restated at October 1, 2020** |
| Reserves | 2,918,987 | (2,664,963) | 254,024 |
| Deficit | (13,686,270) | 2,664,963 | 11,021,307 |

## OUTSTANDING SHARE DATA

**(a) Authorized**

Unlimited number of Class A shares without par value.
Unlimited number of non-voting Class B preferred without par value.

(b) The table below presents the Company's common share data:

| | **Number as May 30, 2023** | **Number as at March 31, 2022** |
|---|---|---|
| Common shares, issued and outstanding | 29,521,309 | 5,521,309 |
| Stock options convertible into common shares | - | 554,286 |
| Warrants | 24,000,000 | - |

## CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its intangible assets and to maintain flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company currently has no source of revenues, though it raises capital by obtaining equity financing, selling assets and/or incurring debt. The Company is primarily dependent on the capital markets as its source of operating capital and the Company's capital resources are largely determined by the strength of the markets and by the status of the Company's intangible asset progress in relation to these markets, and its ability to compete for investor support of its technical capability.

The Company does not currently have adequate sources of capital to complete its current obligations and ultimately the development of its business, and will need to raise capital by obtaining equity financing, selling assets and/or incurring debt. The Company may raise additional debt or equity financing in the near term to meet its obligations. The Company is primarily dependent on the capital markets as its source of operating capital and the Company's capital resources are largely determined by the strength of the markets and by the status of the Company's intangible asset progress in relation to these markets, and its ability to compete for investor support of its technical capability.

There were no changes in the Company's approach to capital management during the period and the Company is not subject to any externally imposed capital requirements.

## FINANCIAL INSTRUMENTS

Fair values

The company's financial instruments consist of cash, accounts payable, due to related parties, notes payable, advance from Investissement Québec and proceeds from convertible debentures.

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

- Level 1: - Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: - Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: - Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair value of the Company's cash is classified as a Level 1 fair value measurement. The Company does not have any Level 2 or 3 fair value measurements.

As at March 31, 2023, the fair values of the Company's financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

## RISK AND UNCERTAINTIES

Risk is inherent in all business activities and cannot be entirely eliminated. Our goal is to enable the Company's business processes and opportunities by ensuring that the risks arising from our business activities, the markets and political environments in which we operate is mitigated. The risks and uncertainties described in this section are considered by management to be the most important in the context of the Company's business. The risks and uncertainties described are not inclusive of all the risks and uncertainties the Company may be subject to and other risks may apply.

### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's primary exposure to credit risk is on its cash which is held in bank accounts. As most of the Company's cash is held by two banks, there is a concentration of credit risk. This risk is low and is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The maximum exposure to credit risk is the carrying amount of the Company's financial instruments. The Company's secondary exposure to credit risk is on its receivables. This risk is moderate as receivables consists primarily of refundable government goods and services taxes and loan receivable from PlasCred. The loan receivables from PlasCred are secured by PlasCred's assets.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's advance from Investissement Québec is exposed to changes in prime rate. As at March 31, 2023, a 1% increase/decrease in prime rate would increase/decrease the net loss by $5,830 (September 30, 2022 - $5,730).

### *Currency risk*

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to minimal foreign exchange risk.

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its ability to meet its short-term research and administrative expenditures by raising additional funds through share issuance when required. All the Company's financial liabilities have contractual maturities of less than a year or due on demand and are subject to normal trade terms. Working capital deficiency poses a liquidity risk unless the Company can monetize its intangible assets or acquire further equity or debt funding. The Company is exploring all opportunities for monetization of its assets and in acquiring further funding.

### New Business

The Company currently does not have any contractual customers. To mitigate this risk, the Company is actively in discussion with several large companies who have shown great interest in purchasing the Company's magnesium-based products. However, there is a risk that the Company may not be able to find sufficient customers at the early stages.

**Market**

The profitability of the Company's operations is significantly affected by changes in the market prices of the products. The level of interest rates, the rate of inflation, and the stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

**Key Personnel**

The success of the Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

This risk is mitigated through the engagement of technology experts, consultants in the field, etc. who can intervene in such an instance. Once the final design, equipment procurement and construction of the pilot -plant and other operations is complete, this risk is further mitigated.

The facilities' location in an industrial community gives it the ability to engage qualified personnel to operate the facility, create local jobs and renovate an industrial wasteland to an environmentally friendly business hub is deemed to be a very low risk.

**Environmental and Safety Compliance**

The processing facility will be designed and constructed to meet all required environmental, health and safety standards. Although best practices will be used to design, construct and operate the facility, there is always a risk that operator error or equipment failure will result in environmental and/or safety non-compliance.

**Intellectual Property**

The Company has significant know-how which will be protected through the filing of patents as well as the issuance of non-disclosure agreements for specific know-how and business confidential information. Although every effort will be made to ensure that the Company's IP and know-how are protected, there is a risk that the competition and/or employees will not respect their legal obligations and the Company may be forced to take legal action.

**Legal Risk**

In the normal course of the Company's business, the Company may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to the personal injuries, property damage, property tax, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Company and as a result, could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

**Other**

Additional information relating to the Company's operations and activities can be found by visiting the Company's website at www.covertechnologies.ca and www.sedar.com.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The design of the Company's internal control over financial reporting was assessed as of the date of this MD&A. Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. Management will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional personnel in order to provide greater segregation of duties. Since there is insufficient work at this time to warrant the additional costs, management has chosen to disclose the potential risk in its filings and proceed with increased personnel only when the budgets and work load will enable the action. The Company has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by management of the financial reports, the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the audit committee.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Information provided in this report, including the consolidated financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future value for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurances that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

### Cautionary Statement

This document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements regarding technologies and solutions, plans and our other future plans and objectives are forward-looking statements that involve various risks and uncertainties. Such forward-looking statements include, without limitation, (i) estimates of investment and scope of programs, and (ii) estimates of stock-based compensation expense and (iii) future operations and (iv) continuation of operations. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statement. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date of statements are made, and the Company endeavors to update corporate information and material facts on a timely basis. Forward-looking statements are subject to risks, uncertainties and other factors, including risks associated with technology, price volatility in the technology sector and commodities we seek, and operational and political risks.

## APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A.