

# Liquid Avatar Technologies Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS for the year ended December 31, 2021

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2021 of Liquid Avatar Technologies Inc. (the "Company"). Such financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All dollar amounts are expressed in Canadian dollars, unless otherwise indicated.

### DATE

This MD&A is prepared as of May 3, 2022.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report contain forward-looking information under applicable Canadian securities legislation that may not be based on historical fact. Such statements reflect management's expectations regarding future events, results of operations, performance and business prospects and opportunities. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future and include certain anticipated progress, costs and anticipated completion and commercial launch dates for the Company's projects, as described under the heading "Description of Business – Discussion of Significant Projects Without Revenue". Such statements are subject to risks and uncertainties that may cause actual events, results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this report. Assumptions made in regards to progression of the Company's Pre-Revenue Projects include, but are not limited to, product development partners remaining on time and on budget; and technical and network functionality working as anticipated to enable a demonstrable pilot in the Verifier program by Q2, 2022. Cost estimate assumptions under the heading "Description of Business – Discussion of Significant Projects Without Revenue" are based on the previous expense rates that have been incurred in the last quarter for development partners and associated expenses. Timelines under the heading "Description of Business – Discussion of Significant Projects Without Revenue" are based on the best estimates from development partners and the final steps to complete the technical development roadmap.

A number of risks and uncertainties could cause actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) a downturn in general economic conditions, (2) delays in technology development, (3) industry competition, (4) the uncertainty of market acceptance, (5) potential negative financial impact from regulatory investigations, claims, lawsuits and other legal proceedings and challenges, (6) inability to finance, and (7) other factors beyond the control of the Company, including the risks set out under the heading "Risk Factors" below. Material risks to the achieving the cost assumptions and timelines under the heading "Description of Business – Discussion of Pre-Revenue Project Status" include scope and or cost overruns with development partners; and delays or functional network challenges with the Verifier program that may delay or frustrate a pilot, leading to additional development costs to address the challenge and additional costs to run another pilot, and the resulting additional time to do so, leading to timing expectations being missed.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**NOTE TO READERS:**

Further to a review by the Ontario Securities Commission (the “OSC”) of the Company's Management’s Discussion and Analysis for the period ended September 30, 2021 (the “Q3 2021 MD&A”), certain corrective disclosures are being provided herein to address comments received from the OSC on the Q3 2021 MD&A. In particular, corrective disclosures relate to:

- Description of the Company’s business
- Description of significant projects without revenue
- Discussion of operations;
- Liquidity and Capital Resources
- Related party transactions; and
- Material forward-looking information

**THE COMPANY**

The Company was incorporated under the laws of the province of British Columbia on September 10, 2014 as Torino Ventures Inc. The Company changed its name to Torino Power Solutions on November 13, 2016. The Company changed its name to KABN Systems NA Holdings Corp. on June 4, 2020 and on March 1, 2021 the Company changed its name to Liquid Avatar Technologies Inc. and its ticker symbol on the Canadian Securities Exchange from KABN to LQID. The Company wholly owns Liquid Avatar Operations Inc. (formerly KABN Systems North America Inc. and referred to herein as “KABN NA”). KABN NA wholly owns Oasis Digital Studios Limited (“Oasis”). Oasis holds a 50% interest in Aftermath Islands Metaverse Barbados Limited, with the other 50% held by an arm’s length individual.

On January 13, 2020, the Company and its newly formed wholly owned subsidiary 2733668 Ontario Inc. entered into a Business Combination Agreement with KABN NA, an arm’s length private company, providing for a transaction (the “RTO Transaction”) whereby the Company would acquire all of the issued and outstanding shares of KABN NA in exchange for issuance of common shares of the Company following the Consolidation (as defined below) (“Common Shares”). Immediately prior to the completion of the RTO Transaction, the Company completed a 1-for-10 share consolidation (the “Consolidation”). The RTO Transaction closed on June 4, 2020 and resulted in the business of KABN NA becoming the business of the Company.

References to the Company herein mean Liquid Avatar Technologies Inc. and its wholly owned subsidiaries, unless otherwise noted, from June 4, 2020 to present, and mean KABN NA prior thereto.

**DESCRIPTION OF BUSINESS**

The Company is a global blockchain, digital identity and fintech solutions company focused on empowering individuals, who are referred to as “**Holders**” or “**Customers**”, to verify, manage, control, and create value from their online identity and public, permission-based data through Self-Sovereign Identity solutions delivered through the Company's solutions.

The Company operates across 3 business lines: Digital Identity, NFT Agency and Mixed Reality.

***Digital Identity***

Once final development is complete the Company will offer Issuers and Verifiers (as defined below) a suite of financial and related services through the Liquid Avatar Mobile App, the Liquid Avatar Verifiable Credentials Ecosystem, or “LAVCE”, and proprietary services and programs that are targeted to generate revenues to the Company. Together, these services are referred to as the “**Liquid Avatar Platform**”. LAVCE supports the W3C (World Wide Web Consortium) open standards and a “trust triangle” model which services the three distinct parties in a verifiable credential transaction, being the individual user or “**Holder**”, the author or “**Issuer**” of a verifiable credential, and the validator or “**Verifier**” of the transaction. This is similar to everyday banking and now traditional point of purchase debit or credit transactions, which also include a Holder, an Issuer and a Verifier in a similar “triangle”. Issuers could include entities such as a government or other certifying entity. Verifiers could include entities such as a retailer seeking age verification or an event venue looking for access rights.

The Company intends to provide its products and services at no cost to Holders and seeks to generate revenues through permission-based partner and merchant fee-based programs with Issuers and Verifiers. The Liquid Avatar Platform provides Holders a more seamless compliance of online identity verification in combination with participation in online services and opportunities together with a developing suite of financial and other consumer services.

The Company is the exclusive licensee, in the United States and Canada, of KABN (Gibraltar) Ltd.'s ("**KABN Gibraltar**") digital identity and financial services platform, which provides organizations with a digitally enabled identity validation and verification based on industry standard KYC and AML processes (previously KABN ID), and which now forms part of LAVCE. The Company has utilized KABN Gibraltar, as the licensor of the technology, as a development partner. The Company also licenses for use in North America the "know how" for the KABN Gibraltar Loyalty program, which consists of KABN KASH and KABN Card.

The proprietary technology suite that is the Liquid Avatar Platform includes three key products:

- **LAVCE:** LAVCE is a verified Self Sovereign Identity platform that empowers Holders to create high-quality digital icons representing their online personas, referred to as "Liquid Avatars". These Liquid Avatars allow Holders to manage and control their digital identity and their verifiable access and identity credentials and to use these Liquid Avatars to share public and permission based private data when they want and with whom they want. This all done by Holders primarily through the Liquid Avatar Mobile App. The Liquid Avatar Mobile App is available for download on the Apple App Store and the Google Play Store. Digital identity validation and verification for Liquid Avatars is provided through LAVCE. LAVCE is an "Always Active", biometrically based and blockchain powered digital identity validation and verification ecosystem that will allow Customers to continuously and confidently prove themselves throughout physical and online communities using their Self Sovereign Identity consisting of verifiable credentials and a digital wallet controlled by the individual. These credentials can be requested by a Verifier, like a merchant, government, or another application that requires the validation of a trustworthy digital identity, which is where biometrics become relevant. The credential is provided by Holder through the LAMA and the Holder can validate themselves with a Verifier that requires such validation. KABN ID has been merged into LAVCE and is no longer used from a brand perspective. There are currently no revenues associated with LAVCE. LAMA is free to download and use and will not generate revenue directly. Please see "Description of Business – Discussion of Significant Projects Without Revenue".
- **LQID Card (formerly KABN Card):** LQID Card is an approved prepaid card program branded as "LQID Card" that will potentially generate revenues from merchant transaction fees, as well as new, existing and evolving financial services, and provides increased loyalty and engagement opportunities. Through partner managed platforms, the LQID Card allows Customers to hold a digital payment method, without needing a credit card account, and the ability to earn cashback and other loyalty incentives. The Company will share in transaction fees and commissions with the applicable card network. LQID Card will integrate seamlessly with the Liquid Avatar Mobile App, providing Customers with an easy way to apply for and access their LQID Card directly from their Liquid Avatar Mobile App. Applications for LQID Card accounts have not commenced to date. LQID Card is not currently operational and there are no revenues to date. Please see "Description of Business – Discussion of Significant Projects Without Revenue".
- **KABN KASH:** KABN KASH is an exclusive and customized consumer experience where Customers will be able to earn cash back on transactions with over 600 major online merchants, such as Samsung, Sportchek and Nike Canada, that the Company has signed up through the Company's affiliate program. In an affiliate program, there is a broker for various online merchants. The Company has to be approved as a merchant for each brand. The Company has been approved by 600 major online merchants. KABN KASH is a cashback, loyalty and engagement program offered to LQID Card holders that is a primary potential revenue program. Customers that obtain a LIQID following launch will be able to shop at some of North America's top online merchants and receive cashback directly on their LQID Card. Customers will also receive updates on special offers and unique deals exclusive to KABN KASH. Customers will be offered incentives to shop by way of discounts and cash back to the LQID Card based on spending volumes. When a registered KABN KASH user purchases from a KABN KASH retailer, the Company will earn a commission that it splits with the purchaser in the form of cash rebates paid to the LQID Card. Unlike points and many other loyalty programs, users receive real money as the reward for shopping and will also be able to earn points towards digital products and service for redemption. Since Holders are verified individuals as LAMA users, over time it can become potentially easier to create custom baskets of offers to suit an individual's needs, based on an individual's express permissions. KABN KASH is not operational and any immaterial revenues to date have been from pilot transactions with some of the online merchants. KABN KASH has no development to complete, as it is simply dependent on LQID Card being operational.

During Q1 and Q2 2021 the Company shifted its core focus from KABN ID to LAVCE, a far more robust platform and product offering as described above. Original components of KABN ID were incorporated into LAVCE, however new technologies and services have also been incorporated into the Liquid Avatar Platform. The Liquid Avatar Platform has a much larger scope to support identity, access and qualification verifiable credentials. LAVCE is made up of three “pillars”, which are products and services to support Holders, Issuers and Verifiers of digital identity verifiable credentials, as explained herein.

LAVCE has various components from which revenue is expected to be derived. The Company can earn revenue from activities related to Customer (Holder) engagement with businesses (Issuers and Verifiers) and may potentially earn revenue through subscriptions by businesses or sponsorships from businesses (Issuers and Verifiers). When a Customer engages with the business, revenue is generated from affiliate fees and other fees, sponsorships and commissions that are paid by the business to the Company when a Customer, on a permission basis, engages with the business (Issuer or Verifier) within the Liquid Avatar Mobile App. In the event a business uses a LAVCE service like age verification, they may pay for those services by way of sponsorship, cost per action or through a 3<sup>rd</sup> party sponsorship that covers the cost per action or subscription fee. When the LQID Card is used by a consumer, certain interchange and banking fee shares will be earned by the Company.

To have access to LAVCE, Verifiers and Issuers will have to be authenticated and will subscribe to a monthly SaaS plan for a monthly fee, which fee may be supplemented with usage charges, such as a pay per use. Monthly fees may be offset or supplemented by fees from sponsors who have an interest in making sure that Holders meet the requirements of verification. LAVCE has currently not generated any revenues and is dependant on the combination of the adoption of Holders, Verifiers and Issuers being signed up and /or onboarded. There is therefore risk to the extent and timing of any revenues generated through LAVCE related to the rate at which Holders, Verifiers and Issuers are signed up and/or onboarded.

LAVCE and LAMA are expected to earn revenue from activities related to consumer engagement with businesses and may potentially earn revenue through subscriptions by businesses or sponsorships from businesses. When a consumer engages with a business within the LAMA. Potential revenue would be generated from affiliate fees and other fees, sponsorships and commissions that are paid to the Company by businesses when a consumer, on a permission basis, engages with the business. As mentioned above, when a retail partner sells products to a Holder, a potential portion of the sale is expected to be paid to the Company through its relationship with the vendor, affiliate program and / or sponsor. The precise arrangements will vary between retail partners and may be in the form of an affiliate fee – which is revenue sharing, or commission fee from a sale, if a Holder buys a product from a vendor associated with the LAMA program. The Company is anticipating revenue sharing of up to 20%. Sponsorships are an alternative source of revenue where, instead of paying a portion of the purchase price, a Vendor, organization or association may have an interest in one or more groups of Holders and may pay a fee to interact or support retailers on a permission-basis with the Holder. In the event a business uses a LAVCE-based services like age verification they may pay for those services by way of sponsorship, cost per action or through a 3<sup>rd</sup> party sponsorship that covers the cost per action or subscription fee.

The Company’s Digital Identity business line is not subject to any special regulatory or quasi-regulatory requirements for approvals, licences or permits.

The Company’s license with KABN Gibraltar (the "**KABN Gibraltar License**") enables the Company to exclusively operate LQID Card and KABN KASH and use the KABN ID software service (now incorporated into LAVCE) for the North American region (Canada and the United States of America). KABN Gibraltar licensed components of this intellectual property from Crypto KABN Holdings Inc. to enable one direct license between KABN Gibraltar and the Company. As at December 31, 2021, Crypto KABN Holdings Inc. held 8.85% and KABN Gibcan Inc. held 9.1%, respectively, of the outstanding Common Shares. KABN Gibraltar controls KABN Gibcan Inc. and is beneficially owned by the Company's CEO and President.

### ***NFT Agency***

On March 9, 2021, the Company launched Oasis Digital Studios Limited ("**Oasis**"), an agency supporting artists and IP holders ("**Talent**"). Oasis is engaged Talent to provide management, creative services and work with producers of enhanced Non-Fungible Tokens ("**NFTs**"), avatars and related digital credentials on behalf of such Talent, Oasis deals exclusively with NFTs that are digital collectibles, and not with NFTs that could be securities. Oasis' services also include assistance with platform listing, management, and other creative, and avatar and digital icon services. Oasis is focused on NFT program management for Talent, and only had one of its own projects late in 2021 being Aftermath Islands, which is not an Agency relationship (see below). It is not the owner of the collectible being sold, which is owned by the Talent, and does not interact with purchasers of NFTs. NFT platforms will sell the NFTs and will take fees for their services. Oasis does not own or operate, and is not affiliated, with any NFT platforms. A portion of the proceeds of any sale are paid to Oasis by the artist as program management fees, with the artist receiving the balance of the proceeds once hard costs of the specific project are paid. Oasis manages payments to Talent for the sale of an NFT following deductions by an independent third party NFT platform. Oasis earns its revenue out of the proceeds of the sale of NFTs for its support and management of various NFT, avatar and other creative services to Talent. Oasis' mandate is to provide agency services only, it does not mint or activate NFTs.

The Oasis Digital Studios AR viewer app reveals hidden and bonus content distributed by Talent. This technology supports AR enabled Digital Collectibles, NFTs, fan event experiences, scavenger hunts and contests. This is a feature that, on behalf of Oasis clients and other Company activities, is intended to help increase interest in the purchase from Talent of NFTs, and in other Oasis and promotional programs.

To date, Oasis has been engaged by 9 clients, including, but not limited to May Pang, Ron Campbell and the Outer Space Men, who have sold their NFTs across a number of NFT Platforms, including Wax and Sweet. \$14,972 in revenue was recognized from Agency fees for the year ended December 31, 2021. Oasis' NFT Agency operations are considered an operating business.

The Company's NFT Agency business line is not subject to any special regulatory or quasi-regulatory requirements for approvals, licences or permits.

### ***Mixed Reality***

Aftermath Islands was originally an NFT project managed by Oasis during 2021. Aftermath Islands Metaverse Barbados Limited commenced activities as of January 1, 2022, and the intellectual property of Aftermath Islands was transferred to it. Through Oasis, the Company holds 50% of the equity of Aftermath Islands Metaverse Barbados Limited and has effective control.

Aftermath Islands is a planned metaverse, which will ultimately provide online users with theme-based first-person, Augmented Reality (AR), Extended Reality (XR) and Virtual Reality (VR) experiences, quests, games, and integrated eCommerce activities, creating a virtual world supported by users and brands. While the sale of VL commenced in November 2021, to satisfy demand from users to acquire their initial holdings, full gameplay had not commenced. Additional items such as thematic dwellings, accessories, avatars, wearables, etc. designed for each island, community and estate and users are in the planning stage or under development, along with other interactive items, which will also ultimately be available for sale as NFTs. All NFTs are expected to be able to be transferred, at the discretion of the holder, using direct and / or 3<sup>rd</sup> party, non-affiliated marketplaces, and private sale programs.

In Aftermath Islands' virtual world, users can buy, develop, trade, and sell Virtual Land (VL) and items like buildings, crafted items, transport, and other items all through collectible NFTs that represents the ownership of virtual and other items. Each plot or parcel of VL is unique and owners are expected to have the opportunity to choose what content they want to publish on their VL based on future published guidelines. This can range from simple scenery and structures to an interactive game, store, warehouse, dwelling, facility, or destination. Users can purchase VL as well as all other goods and services in Aftermath Islands with CREDITS, the current code name for in-game currency, fiat and other authorized currencies, coins, and tokens. Aftermath Islands will "charge" users for certain services and in-game utility programs, including but not limited to professions creation and leveling, access to events and activities and other goods and services that can potentially enhance their in-game experiences.

All Aftermath Islands' players will also have access to create a Liquid Avatar account allowing them to manage their digital identity and certain 'cross-over' assets and activities connecting their in-game activities to their real-world activities and engagement. Potential opportunities include managing avatars including MetaHero Project (TM) customizable and personalized avatars, items, integrated AR events and programs, and purchasing conventional

items like sneakers or trainers through KABN KASH and receiving exclusive bonuses, like matching digital assets for use in Aftermath Islands.

Aftermath Islands will publish updated white papers and technical reviews and form a governing council that will create fair play rules prior to commercial launch. Additional themes, new communities, and estates will open from time to time following launch, allowing players to own Virtual Land across a wide range of islands. For entertainment, financial, game, product, and other brands, select island environments will allow commercial operations and ownership, providing enterprises with the tools to create and support economic opportunities.

The Company has completed initial sample of potential test activities designed for Meta's (formerly Facebook) Oculus system using the Quest 2 VR headset and hand controllers as a showcase of potential capabilities, which is being extended to include other test activities like mountain climbing, western gun fights, light sword dueling, survival training. The Company is currently working to complete several additional initial pilots of virtual and interactive platforms and technologies, separate and apart from the Meta Quest platform, as it assesses a range of initiatives for its first launch program expected by mid-2022. This is based on the Company's best estimate of how long the remaining development will take to complete given current financial resources. Anticipated completion dates could be delayed if the Company's estimates of the remaining work and time to complete such work are incorrect.

Other initial launch programs include virtual escape rooms, with award winning, real world and virtual escape room creator Hourglass Escapes LLC and The Lost Kingdom of T'Sara, the upcoming P2E (play to earn) game which will allow users to gather resources and Credits for Aftermath Islands, at no cost, for use in-game to purchase VL and / or other items and services. Both these programs are currently in development for an expected Q2 beta launch. The Company will use third parties for a portion of these development efforts. As part of its Metaverse program, Aftermath Islands is developing the Aftermath Islands Explorers League, creating a virtual location for Aftermath Island virtual landowners and account holders to start their journey in Aftermath Islands, getting acquainted with new products, features and services and create their avatars. Users will be able to hone skills, share experiences, visit a virtual café and stores, engage with other users, participate in a variety of activities and transport to their favorite islands all from the Explorers League. The Company will use third parties for a portion of these development efforts.

Aftermath Islands generated sales in 2021 from the sale of VL, which commenced in November of 2021. Total sales in 2021 were \$1,058,270 which the Company has recorded as deferred revenue recognition in the consolidated financial statements for the year ended December 31, 2021. In the future, when revenue recognition criteria has been met, revenues are expected to be generated from the sale of VL, the sale of in game collectibles as described above, and potentially the sale of gameplay utility tokens. The facilitation and settlement including the minting of any NFTs is handled by third party service providers. Aftermath Islands does not currently handle any cryptocurrency and receives payment in fiat currency only.

Within Aftermath Islands, customers can buy, develop and trade VL and items such as buildings and crafted items, all through NFTs that represent the ownership of digitally created items. The Company's identified performance obligation is to provide NFTs representing ownership of virtual items to the customers. The Company has no further obligation once the NFTs are delivered to the customers' wallets. Payments from customers are non-refundable and relate to non-cancellable contracts for a fixed price that specify the Company's obligations. The Company's performance obligation is satisfied at the point in time when the NFTs are transferred to the customers' wallets through its third -party service provider, Masscult.

Potential opportunities include managing avatars including MetaHero Project customizable and personalized avatars, items, integrated Augmented Reality (AR) and Extended Reality (XR) events and programs, and purchasing conventional items like sneakers or trainers through KABN KASH and receiving exclusive bonuses, like matching digital items for use in Aftermath Islands. This latter example may be facilitated through the LAMA and LAVCE programs similar to those described earlier in this response. The precise approach to fees for these opportunities still need to be considered by management.

The Company's Mixed Reality business line is not subject to any special regulatory or quasi-regulatory requirements for approvals, licences or permits.

### **Discussion of Significant Projects Without Revenue**

The Liquid Avatar Mobile App, the LQID Card and LAVCE are significant projects of the Company that have not yet generated any appreciable revenues to date. The Company is developing proprietary technology and services in respect of these projects and as such the Company considers many factors related to these projects to be trade secrets

and is reserving certain details as confidential until and unless otherwise disclosed publicly at various junctures of market readiness likely in conjunction with commercial release.

Information is set out below in tabular form to outline the status of these projects, their estimated stages of completion and approximate costs to date since the beginning of Q1 2021 (when cost estimation by project component began), as well as estimates of costs for the coming periods or to completion.

### ***Liquid Avatar Mobile App***

The Liquid Avatar Mobile App is a component of the overall LAVCE. While the Liquid Avatar Mobile App is available for download on the Apple App Store and the Google Play Store, it is in the planning and development stage and is pre-revenue. LAMA is expected to be complete by June 30, 2022. With respect to project activities that support  **Holders** and initiatives related to digital wallets for various verifiable credentials, the Company launched Phases 1 & 2 of the Liquid Avatar Mobile App in Q1 of this year, and during Q2 rolled out Phases 3 & 4. The first two phases included creating functionality so users will have the ability to create multiple Liquid Avatars and manage different facets of their personalities (personas). There were also multiple language capabilities, with several languages built into the functionality which provides greater potential reach to connect further social media and data sources to their Liquid Avatar personas. The next two phases included the pilot and further enhancements for the preliminary Liquid Avatar Mobile App, which included software development key connections for augmented reality applications, which could have relevance for retail chains that could ultimately use this technology to help expand their reach to customers who are using the Liquid Avatar Mobile App. The project has the basis for full commercial rollout, providing consumers with the ability to use a personal digital wallet to hold different types of verifiable identity credentials. These can be digitally verified for authenticity and accuracy without the owner having to divulge personally identifying information (PII) to the person or business that is doing the verification. Currently, LAMA can associate a biometric with verified devices, create a "test" Smart Age credential, a KYC credential and a test derivative health verification credential. Additionally, LAMA can issue credentials, based on integration for a particular vendor for age verification, jurisdiction verification and account verification.

Based on ongoing user feedback during the pilot programs, the Company has updated and continues to update various components of the Liquid Avatar Mobile App and is continuing to work to add new or improved features, which the Company released during Q3 and Q4. The Company released such features in line with planned rollouts during these quarters, including revamped login, user experience and shareability, selectivity of PII for sharing a credential, and enhanced management of the credentials wallet. As of the end of Q4, there are 7 verifiable credentials enabled: Verified Email, Verified Phone Number, Driver's License, Passport, National ID, Vaccination Credential, PCR test result, and a travel clearance credential that was successfully piloted in Aruba based on its Happy Traveler credential.

The Company was one of 14 entities that participated during Q4 2021 in a Linux Foundation supported Cardea interoperability event for verifiable credentials. The Liquid Avatar Platform proved its ability to Issue, Verify and Hold credentials from all participants and providers that met the open-source standard. This technical capability means the Company's LAMA will have the ability to integrate with a wide range of technical platforms, which ultimately will expand revenue and market potential. It was critical to have a robust independent testing environment to demonstrate the current capabilities for LAMA. The Company continued to support different ID and privacy standards and added agent servers in the US and Canada. It also improved the Company's server monitoring capabilities, which is important to the Company's future ability to be able to have a variety of credential options and to scale and deliver an appropriate product. Overall, the Company expected to have a minimum viable product in early Q2 2022, which means all core functionality will be complete, but not fully optimized. Development at that time will be limited to final technical functionality, final features and infrastructure fine-tuning, prior to the finalization date for commercial launch. Commercial launch is expected by June 30, 2022

	<b>Q4 2021 (and Year ended December 31, 2021)</b>
Status of the project relative to plan	Continuation of updates made to the Liquid Avatar Mobile App as per plan and test user feedback. Test usage of the Liquid Avatar Mobile App in various Pilot activities including travel credentials. Working demos of the App were advanced during the 4 <sup>th</sup> quarter for use with various stakeholders. The Liquid Avatar Mobile App has now affirmed its ability to deal with 7 (seven) separate verifiable credential types, as enumerated above.

	There are only final development steps remaining as a minimum viable product already exists, but further technical robustness and readiness is needed prior to commercial launch.
Approximate expenditures made on the project during the period	\$214,482 (4 <sup>th</sup> Quarter) and \$719,018 (year to date). Year to date expenditures constitute total project expenditures to date.
Anticipated timing and costs to take the project to completion	Full build-out anticipated by June 2022, with remaining costs estimated at a minimum of \$570,014 in Fiscal 2022. <i>(inclusive of LQID Card costs as below)</i>

### ***LQID Card***

With respect to the LQID Card project, the Company has experienced delays in having a fully live platform in Canada to onboard card holders and is, therefore, focused on US expansion. During the 4<sup>th</sup> quarter, the Company examined options to re-brand the KABN Card program for any potential geographical market to be better aligned with the Liquid Avatar brand and ecosystem. As a result, subsequent to the quarter and year-end, the Company rebranded KABN Card to “LQID Card”. In addition, the Company advanced its planning for geographic expansion of the LQID Card program to the US and other global jurisdictions. The Company has partnered with OptimizeFT, a US financial solutions program manager, for a US payment card program for Liquid Avatar Mobile App holders that will be branded as LQID Card and managed by OptimizeFT. This payment card program will also include offers and incentive engagement and loyalty from 3rd party businesses to encourage consumers to engage with those business. The Company would earn fees from those engagements by way of affiliate fees and commissions. As previously reported, the Company began to incur costs in the 4<sup>th</sup> quarter for geographic expansion. While the Company did an initial pilot launch as announced on March 22, 2022, the Company expects to have final arrangements in place in time for the commercial launch of the LQID Card in the US by June 30, 2022.

	<b>Q4 2021 (and Year ended December 31, 2021)</b>
Status of the project relative to plan	<p>The LQID Card initiative in Canada experienced delays in readiness to onboard users and concluding end to end testing and assessed re-branding of the program. The Company elected to move to a US launch as its first revenue opportunity and has deferred its launch in Canada.</p> <p>Significant progress made for US expansion by announcement of US card solutions provider for a US prepaid card program integrated with the Liquid Avatar Mobile App.</p> <p>It is anticipated that rollout with LQID Card holder applications in the United States will commence by the end Q2 of 2022, (June 30, 2022). Revenues will be driven by the number of Holders that acquire the LQID Card and their volume of purchases using the card.</p>
Approximate expenditures made on the project during the period	Incremental system costs for US expansion began in the quarter and are included as projections in the above Liquid Avatar Mobile App costs.
Anticipated timing and costs to take the project to completion	US expansion of the LQID Card program will incur incremental costs which are also incorporated into the Liquid Avatar Mobile App costs estimated above.



**LAVCE***Issuers Project:*

With respect to LAVCE project activities that support **Issuers**, the Company has continued to develop its strategy to create products and services supporting those organizations that will issue and manage verifiable credentials. The LAVCE platform successfully participated in a pilot for the government of Aruba to use the Liquid Avatar Platform to support travel to Aruba to meet health requirement for embarkation and to support access to restaurants, using unique verifiable credentials. The Company continues to build out its SDK strategy (whereby other entities can utilize a software development kit (“**SDK**”) to embed the Company’s ID wallet in their own App), toward enterprise revenue by enabling API support for enterprise agents providing the ability for partners to issue unique verifiable credentials, which drives this revenue arm of the LAVCE. The Company does not currently have any signed binding agreements with Issuers. Based on trial results and discussions with potential Issuers, the Company expects there will be market acceptance. A minimum viable product is expected by early Q2 2022, will permit all the basic functionalities to be operational. Completion requires substantive testing, client and consumer feedback.

	<b>Q4 2021 (and Year ended December 31, 2021)</b>
Status of the project relative to plan	<p>Successful pilot proof during the quarter with a sovereign nation’s travel and tourism regulatory framework and powering of the “Aruba Happy Traveller” credential; SDK revenue strategy being pursued and advanced during the quarter as per plan.</p> <p>It is anticipated that the substantive completion of the build phase of the project will be reached by the end of Q2, 2022. Core functionality and development is complete. A few minor development steps remain to ensure connectivity of point of sale systems is complete. A minimum viable product is expected by early Q2 2022, which means all the core functionality will be completely built.</p>
Approximate expenditures made on the project during the period	\$339,899 (4 <sup>th</sup> Quarter) and \$1,090,460 (year to date). Year to date expenditures constitute total project expenditures to date.
Anticipated timing and costs to take the project to completion	Costs estimated at a minimum of \$455,402 through June 2022 in Fiscal 2022.

*Verifiers Project:*

With respect to LAVCE project activities that support **Verifiers**, the Company continues to develop its strategy to create product elements and services that will support those organizations that will be actively engaged in the validation of verifiable credentials that have been created by an Issuer, retained in a digital wallet and would be presented by a Holder, whether a client of a 3<sup>rd</sup> party Issuer or a Liquid Avatar Mobile App holder. During Q4 2021, the Company announced its proprietary solution, Passmate™, in partnership with US-based payments technology provider Dynamics Inc. This solution will utilize existing infrastructure network access via Point of Sale (POS), payment terminals and other network devices to streamline verifications and allow Verifiers efficient and secure validation of a credential presented by a Holder seeking to verify said Holder’s identity, qualification, access, or any number of other credentials. Subsequent to the quarter and year-end, in January 2022, the Company and its partner the Ontario Convenience Stores Association (“**OCSA**”) announced the successful completion of their previously announced pilot, an end-to-end, live working test of the Smart Age program. The Smart Age program aims to provide digital age verification, supported with biometric authentication for age-restricted product sales. Also subsequent to the quarter, the Company, with the OCSA’s support, was selecting a partner retailer to participate as the first adopter of the program. It is anticipated that this should be underway by the 2<sup>nd</sup> quarter of 2022. The Company does not currently have any other signed binding agreements with Verifiers. Based on the success of the OCSA pilot, the

support of the OCSA (which represents over 8,000 stores) and ongoing discussions with other potential Verifiers, the Company believes there will be market acceptance of LAVCE for Verifiers.

	<b>Q4 2021 (and Year ended December 31)</b>
Status of the project relative to plan	<p>Proprietary solution Passmate™ was announced in the quarter with technology provider Dynamics Inc., to utilize existing point-of-sale terminals in the validation of verifiable credentials of a Holder in their Liquid Avatar Mobile App wallet.</p> <p>With the pilot phase anticipated to be complete by Q2 of 2022, this should enable the Company to be in a position to sign agreements with Verifiers to provide revenue generating services to such Verifiers. Core functionality and development is complete. A few minor development steps remain to ensure connectivity of point of sale systems is complete. This is expected to be complete by June 30, 2022 at the latest.</p>
Approximate expenditures made on the project during the period	\$324,750 (4 <sup>th</sup> Quarter) and \$598,465 (year to date). Year to date expenditures constitute total project expenditures to date.
Anticipated timing and costs to take the project to completion	Costs estimated at a minimum of \$454,715 through June 2022

#### **Discussion of Material Variances from Past Disclosures of Material Forward Looking Information**

The Company has assessed various previous forward-looking information (“FLI”) that was material and provides the updates where events and circumstances have caused actual results to differ materially from that disclosed in prior FLI. The Company has concluded that no material differences in actual results have occurred when compared to previously disclosed material FLI, and no events or circumstances have arisen that would cause actual results to differ from previously disclosed material FLI.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the eight most recently completed quarters.

	Quarter Ended December 31, 2021 \$	Quarter Ended September 30, 2021 \$	Quarter Ended June 30, 2021 \$	Quarter Ended March 31, 2021 \$	Quarter Ended December 31, 2020 \$	Quarter Ended September 30, 2020 \$	Quarter Ended June 30, 2020 \$	Quarter Ended March 31, 2020 \$
Revenue	121	5,072	10,625	108	Nil	Nil	Nil	80
Net income (loss)	(3,469,181)	(2,396,201)	(2,763,699)	(2,734,851)	(1,963,099)	(1,139,708)	(2,111,282)	(425,107)
Loss per share, basic and diluted	(0.025)	(0.020)	(0.026)	(0.027)	(0.028)	(0.017)	(0.04)	(0.009)

Net losses have increased over time due to the Company's increased product development activities and the costs to prepare for commercial activities in LAVCE and related projects and Oasis commenced in March 2021.

## SELECTED THREE YEAR ANNUAL INFORMATION

The following is required disclosure of selected three-year annual information.

	Year Ended December 31, 2021 \$	Year Ended December 31, 2020 \$	Period Ended December 31, 2019 \$
Revenue	15,926	80	15,277
Net income (loss)	(11,363,932)	(5,639,196)	(613,428)
Loss per share, basic and diluted	(0.098)	(0.097)	(0.016)
Total assets	2,955,780	4,120,674	1,476,474
Total non-current liabilities	-	-	-
Dividends	-	-	-

The Company launched its Aftermath Islands project through Oasis in 2021 and generated \$1,058,270 in sales of virtual islands which are recorded as deferred revenue for the year ended December 31, 2021. Net loss was limited in 2019 since the Company prior to RTO had a much lower expense run rate and had commenced on May 1, 2019. The Company's expense levels increased further once the RTO was completed in June 2020 and had continued to increase its development and business efforts in preparation for pre-revenue projects to be operationally launched. Assets in 2019 relate primarily to the exclusive license with KABN Gibraltar, and for the year ended December 31, 2020 include substantial cash balances as the Company had just raised financing in December of 2020. For the year ended December 31, 2021, Assets include remaining cash balances, the unamortized portion of the exclusive license and the receivables from the sale of virtual land that was not collected from the 3<sup>rd</sup> party service provider until 2022.

The business of the Company's wholly owned subsidiary Liquid Avatar Operations Inc. commenced on May 1, 2019. The comparative figures presented throughout this MD&A for periods prior to June 4, 2020 include the historical results of Liquid Avatar Operations Inc.

## OVERALL PERFORMANCE (for the quarter ended December 31, 2021)

The Company had a net loss of \$3,469,181 for the quarter ended December 31, 2021 compared to a net loss of \$1,963,099 for the quarter ended December 31, 2020. The Company continued to focus on its product development activities, and had overall higher expenses to support the business than the comparative quarter. There were non-cash expenses from stock-based compensation which also increased the net loss over the prior period.

The Company overall had higher expenses in the quarter ended December 31, 2021 as compared to the comparative period, as it was moving towards completion of its pre-revenue development activities. The applicable projects being

moved forward had not begun in 2020. This level of development activities also involved related increased expense levels in other areas such as management and staff compensation and consulting expenses to support the Company's overall activities as compared to the quarter ended December 31, 2020.

### **RESULTS OF OPERATIONS (for the quarter ended December 31, 2021)**

\$121 in revenue was recognized by the Company for test pilot fees related to Digital Identity Services for the quarter ended December 31, 2021. Revenues from Aftermath Islands is expected to form the majority of the Company's revenue for the coming year as \$1,058,270 in virtual island sales are currently recorded as deferred revenue. Oasis may contribute some revenue through expected NFT programs. There were no revenues in the quarter ended December 31, 2020.

The Company incurred marketing and communications expenses of \$282,243 for the quarter ended December 31, 2021. The Company continues to engage in certain market awareness and general marketing and communications campaigns. The Company initiated a number of campaigns during the quarter ended December 31, 2021 some of which costs will be amortized beyond the current quarter. \$128,174 was recognized as an expense during the quarter from longer term arrangements and \$108,672 will be recognized from these arrangements in future quarters. Approximately \$50,000 was incurred during the quarter in regard to the Comicon event in Los Angeles which was an event that helped provide awareness for the Company and had a large audience. The remaining \$104,069 represents recurring expenses for investor relations, public relations and other marketing activities. December 31, 2021. Marketing and communications expenses incurred during the quarter ended December 31, 2020 were \$426,429 and relate mostly to the amortization of closing of agreements around the time of the completion of the RTO Transaction, with some occurring in the 4th quarter. These expenses were designed to assist in activities for market awareness, business development and multiple communication strategies.

During the quarter ended December 31, 2021, the Company incurred \$914,708 for product development expenses. Product development expenses includes complex technical development expenses related to core technical development using software engineering and related infrastructure coding, and less technical product costs including developing product features, benefits, their applications, and any program fees. \$105,000 of product development category of costs were for services provided by KABN Gibraltar which are less technical in nature. \$809,708 in costs were incurred through direct vendors to the Company between these two categories of product development costs. Of the direct vendors \$670,192 was incurred on complex technical development with the remaining \$139,516 on product features, design and other work toward commercial readiness. During the quarter ended December 31, 2020, \$412,388 was incurred in product development as the Company was still ramping up technical development activities during that period.

During the quarter ended December 31, 2021, the Company incurred \$482,643 of expenses related to management and staff. The Company had entered into employment agreements with most of its executives and staff as of January 1, 2021 who were previously paid on a limited basis as consultants in 2020 (post-RTO Transaction). Included in this category are fees to KABN Gibraltar of \$90,000 representing management and staff paid through KABN Gibraltar that remain as consultants. \$292,045 in management and staff costs were incurred for the quarter ended December 31, 2020 on a consulting basis including \$90,000 for consultants paid through KABN Gibraltar. The Company in connection with its decision to offer employment agreements has set compensation at a more competitive level to retain its executives and staff, which caused a greater increase than what was paid while executives and staff were under consulting agreements.

The Company incurred legal fees and audit fees of \$41,787 during the quarter ended December 31, 2021. These expenses relate to ongoing services to support public company compliance, as well as other operational matters in the normal course. \$29,270 in legal and audit fees were incurred during the quarter ended December 31, 2020 for the same type of services. Certain legal fees in connection with direct financing efforts are recorded as share issuance costs as opposed to an expense for the period.

The Company incurred consulting fees of \$501,166 to a number of consultants during the quarter ended December 31, 2021. The Company has engaged consultants to perform various functions for the Company including those for Oasis and Aftermath Islands which didn't exist in the prior year's quarter. \$111,038 of the expense for the quarter relates to prepaid arrangements that are being amortized in the current quarter. Approximately \$210,000 will be amortized to consulting expense in future quarters from existing arrangements. During the quarter ended December

31, 2020, \$65,710 was incurred for consulting work. The overall level of activity of the Company, including development activity, during the quarter ended December 31, 2021, was more extensive than in the prior period. Much technological development work requires discrete work with shorter terms and is thus better suited to be provided by independent consultants rather than in-house employees.

The Company incurred \$317,410 for general and administrative expenses and \$39,981 for web and infrastructure costs during the quarter ended December 31, 2021. During the quarter ended December 31, 2020, \$16,914 was incurred for general and administrative expenses and \$16,579 for web and infrastructure costs. The Company has increased in business with Aftermath Islands and Oasis carrying more costs to support the additional business. In the comparative period, the technology infrastructure was not as developed as it is now, and the Company was smaller and did not have Aftermath Islands or Oasis which is the overall cause for the increased expense level.

The Company incurred \$67,255 in amortization during the quarter ended December 31, 2021 and 2020 related to intangible assets derived from the KABN Gibraltar License. The Company records amortization on a straight-line basis.

During the quarter ended December 31, 2021, the Company recognized \$797,209 in total stock-based compensation expense. \$99,630 was recognized on stock options granted in February 2021 that were based on a graded vesting schedule. \$697,579 was recognized as a one-time expense for immediately vesting stock options issued to employees, directors and consultants issued on November 15, 2021. During the quarter ended December 31, 2020, \$303,925 of stock-based compensation was recognized. \$86,135 of stock-based compensation was recognized in conjunction with a grant of stock options that occurred on June 1, 2020 prior to the finalization of the RTO Transaction. \$217,790 of stock-based compensation was recognized in connection with grants of stock options during the fourth quarter that carry immediate vesting terms. Stock-based compensation is recognized as an operating expense with a corresponding amount recognized in contributed surplus and is valued using the Black-Scholes option pricing model. The expense level is highly dependent on the terms, inputs and timing of stock options granted in each period, which drives the amount recorded and can often cause significant variability. The Company issued a much larger number of stock options in the quarter ended December 31, 2021 compared to the quarter ended December 31, 2020 which is the largest cause of the increased expense.

Foreign exchange loss of \$4,761 incurred during the quarter ended December 31, 2021 and foreign exchange gain of \$4,497 during the quarter ended December 31, 2020 is related to the exchange fluctuation between the Canadian dollar and the United States dollar on US denominated receivables and payables. The change is relatively immaterial and reflects the limited foreign exchange risk the Company currently has.

#### **OVERALL PERFORMANCE (for the year ended December 31, 2021)**

The Company had a net loss of \$11,363,932 for the year ended December 31, 2021 compared to a net loss of \$5,639,196 for the year ended December 31, 2020. The Company had much lower operational expenses in the prior year. The Company had larger stock-based compensation expense in 2021 which is a non-cash item.

The Company is moving towards completion of its pre-revenue development activities. The applicable projects being moved forward had not begun in 2020. This level of development activities also involved related increased expense levels in other areas such as management and staff compensation and consulting expenses to support the Company's overall activities as compared to the year ended December 31, 2020.

#### **RESULTS OF OPERATIONS (for the year ended December 31, 2021)**

\$15,926 in revenue was recognized by the Company for the year ended December 31, 2021. Revenue realized from Oasis' NFT Agency business amounted to \$14,972. Revenues from Aftermath Islands is expected to form the majority of the Company's revenue for the near term, as \$1,058,270 in virtual island sales were recorded as deferred revenue. Oasis may contribute some revenue through expected NFT Agency programs. \$954 in revenue for the year ended December 31, 2021 is from Digital Identity services for pilot and similar pre-commercial launch fees. Business development is actively engaged in developing the Digital Identity revenue streams. There were \$80 in Digital Identity revenues in the previous year ended December 31, 2020.

The Company incurred marketing and communications expenses of \$1,549,766 for the year ended December 31, 2021. A number of investor/public relations campaigns and business development activities were initiated at times when significant financings were closed to leverage the ability to compensate these firms in equity as opposed to cash in many cases. Many of these expenses are derived from service arrangements over a period of time, resulting in a recording expense over several periods. The vast majority of these campaigns have been fully amortized over the year ended December 31, 2021. \$108,672 in the prepaids and other expense will amortize in future periods from arrangements in existence as of December 31, 2021. Marketing and communications expenses incurred during the year ended December 31, 2020 were \$1,038,643 and relate to the closing of agreements around the time of the completion of the RTO Transaction, which was designed to assist in activities for market awareness, business development and multiple communication strategies. The Company weighted much of its marketing and communications in 2020 to the period following the completion of the RTO Transaction which naturally creates a lower expense for the prior year compared to the current year. The expense rates have decreased as of the fourth quarter relative to the prior comparative period as noted in the quarterly review section.

For the year ended December 31, 2021, the Company incurred \$2,869,135 for product development expenses. Product development expenses includes complex technical development expenses related to core technical development using software engineering and related infrastructure coding, and less technical product costs including developing product features, benefits, their applications, and any program fees. \$427,975 of product development category of costs were for services provided by KABN Gibraltar which are less technical in nature. \$2,441,160 in costs were incurred through direct vendors to the Company. Of the direct vendors, \$1,832,888 was on technical development with the remaining \$608,272 on product features, design and other work toward commercial readiness. During the year ended December 31, 2020, \$664,899 was incurred in product development as the Company launched the majority of its technical development activities in the fourth quarter of that year.

The Company incurred \$1,794,864 during the year ended December 31, 2021 related to management and staff. The Company had entered into employment agreements with its executives and staff as of January 1, 2021 that were previously paid on a limited basis as consultants in 2020 (post-RTO Transaction). Included in this category are fees to KABN Gibraltar of \$360,000 representing management and staff paid through KABN Gibraltar that remain as consultants. \$749,545 in management and staff costs were incurred for the year ended December 31, 2020 with \$360,000 of this incurred with KABN Gibraltar for consultants paid through KABN Gibraltar. The Company in connection with its decision to offer employment agreements has set compensation at a more competitive level to retain its executives and staff, which caused a greater increase than what was paid while executives and staff were under consulting agreements.

During the year ended December 31, 2021, the Company incurred \$250,000 in annual license fees on account of the KABN Gibraltar License. The Company was provided a discount to the US\$250,000 annual license fee, by way of the obligation being settled through \$250,000 in Canadian funds in exchange for making an early payment in April 2021. During year ended December 31, 2020, the Company incurred \$140,940 (US\$100,000) in fees on account of the KABN Gibraltar License. The US\$250,000 contractual obligation was discounted by KABN Gibraltar to support the Company's RTO Transaction.

The Company incurred legal and audit fees of \$322,699 during the year ended December 31, 2021. These expenses relate to ongoing services to support public company compliance, and a component involved assistance with specific financing opportunities and structures that were never moved forward as well as other operational matters in the normal course. \$348,578 in legal and audit fees were incurred during the year ended December 31, 2020. The Company incurred costs towards its efforts to trade its securities on a public exchange and work through various components of the RTO Transaction and accompanying financing. This required significant legal, and audit related professional services. The expense levels are dependent on the Company's overall needs which can be difficult to predict precisely, however the Company expected these expense levels to be generally comparable year over year.

The Company incurred consulting fees of \$1,117,309 with a number of consultants during the year ended December 31, 2021. The Company has engaged consultants to perform various functions for the Company including those for Oasis and Aftermath Islands which didn't exist in the prior year. The vast majority of the expense are incurred on a monthly basis, however a few consultants had prepaid arrangements initiated in the second half of 2021. Approximately \$210,000 will be amortized to consulting expense in future quarters from existing arrangements as at December 31, 2021. During the year ended December 31, 2020, \$339,636 was incurred for consulting work. The overall level of activity of the Company, including development activity, during the year ended December 31, 2021,

was more extensive than in the prior period. Much technological development work requires discrete work with shorter terms and is thus better suited to be provided by independent consultants rather than in-house employees.

The Company incurred \$577,404 for general and administrative expenses and \$156,710 for web and infrastructure costs during the year ended December 31, 2021. During the year ended December 31, 2020, \$44,269 was incurred for general and administrative expenses and \$60,177 for web and infrastructure costs. The Company has increased in business with Aftermath Islands and Oasis carrying more costs to support the additional business. In the comparative period, the technology infrastructure was not as developed as it is now, the Company has increased in size over the past year carrying more costs to support its development activities and did not have Aftermath Islands or Oasis. All of these factors are the overall cause for the increased expense level.

The Company incurred agent fees of \$38,417 during the year ended December 31, 2021, which related primarily to agreements with agents that assist in financial consulting services to support OTCQB listing efforts. \$337,500 of agency fees paid in the form of equity during the year ended December 31, 2020, which were all incurred in the fourth quarter.

The Company incurred \$269,020 in amortization during the year ended December 31, 2021, and 2020 related to intangible assets derived from the KABN Gibraltar License. The Company records amortization on a straight-line basis.

During the year ended December 31, 2021, the Company recognized \$2,351,313 in total stock-based compensation expense. \$53,550 of stock-based compensation was recognized as part of the vesting terms associated with a grant of stock options that occurred on June 1, 2020, prior to the finalization of the RTO Transaction. \$1,278,585 was recognized on stock options granted February 2021 that were based on a graded vesting schedule. \$321,600 was recognized for immediately vested options on February 15, 2021 and May 15, 2021. \$697,579 was recognized as a one-time expense for immediately vesting stock options issued to employees, directors and consultants issued on November 15, 2021. \$671,741 was recognized in the year ended December 31, 2020. \$411,950 was related to the June 2020 stock option grant on a graded vesting schedule. \$259,791 was recorded based on stock options granted with immediate vesting terms during the year. Stock-based compensation is recognized as an operating expense with a corresponding amount recognized in contributed surplus and is valued using the Black-Scholes option pricing model. The expense level is highly dependent on the terms, inputs and timing of stock options granted in each period, which drives the amount recorded and can often cause significant variability. The Company has granted more stock options in 2021 compared to 2020, which is the primary cause for the increase in the expense. As noted above there were two larger grants in 2021, one in February and one in November. The stock price and the exercise price for the February 2021 grant was substantially higher than the other grants which also drive a higher valuation for the stock-based compensation under the Black-Scholes option pricing model.

Foreign exchange loss of \$43,371 incurred during the year ended December 31, 2021 and foreign exchange loss of \$5,155 during the year ended December 31, 2020 is related to the exchange fluctuation between the Canadian dollar and the United States dollar on US denominated receivable and payables. The increase is due to the overall increase in the size of the US denominated activity in 2021 compared to 2022 however the overall foreign exchange exposure has been relatively immaterial overall in both years.

In conjunction with the completion of the RTO Transaction, the Company recorded a public company charge of \$951,504 during the year ended December 31, 2020. The charge relates to the purchase price allocation and under IFRS 2 is a share-based payment in addition to the liabilities of Torino Power Solutions Inc. assumed as part of the RTO Transaction. The purchase price of the shares was \$0.15 which is the same value as the most recent financing round by the Company and the most objective evidence of fair value.

## **LIQUIDITY AND CAPITAL RESOURCES**

During the year ended December 31, 2021, the Company incurred a net loss of \$11,363,932 and had a deficit of \$17,616,556. The Company held cash of \$646,096 and had working capital deficiency of \$422,936 as of December 31, 2021. The Company is an early-stage entity with limited revenue, while incurring costs to advance its critical marketing, business development and product development programs. The Company does not currently generate cash from operations and is reliant on external financing to fund its operations. As the Company completes additional financings and commercially launches certain programs, working capital and operational cash flow are expected to

improve, but the Company will continue to have a negative operational cash flow until that time, may continue to have a working capital deficiency during the next twelve months. Such deficiency will require that the Company raise external financing, which financing cannot be assured.

The Company received \$6,255,350 from financing activities during the year ended December 31, 2021. \$3,148,651 was from warrant and option exercises. Warrant exercise activity included exercise of outstanding warrants expiring in January and February 2021, all of which were exercised. The Company offered a warrant exercise incentive program during 2021. The total number of warrants exercised from this program was 3,165,600 which resulted in 1,514,288 incentive Common Shares being issued. The total proceeds from this program were \$633,120.

On May 14, 2021, the Company closed a non-brokered private placement priced at \$0.20 per unit and issued 1,800,000 units for gross proceeds of \$360,000. Each unit consists of one Common Share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one Common Share at \$0.30 per share and expires at 24 months following the closing date of the private placement.

On August 24, 2021, the Company closed a brokered private placement for \$2,700,000 in gross proceeds priced at \$0.1125 for 24,000,001 Common Shares and 24,000,001 Common Share purchase warrants at an exercise price of \$0.15 per share with a five-year term to maturity.

On November 18, 2021 the Company received a short-term loan of \$500,000 for a three-month term, carrying interest of 12% and a 2% arrangement fee. There was no equity component for this loan. The Company has repaid \$50,000 of this loan as of the date of this MD&A. There are no contractual penalties for default, and the debt is unsecured. The Company will repay the debt as soon as it is able to.

As of the date of this MD&A there are approximately 70.6 million warrants, broker compensation options and stock options that are exercisable at prices between \$0.15 and \$0.345 per share for potential proceeds of up to approximately \$13.7 million.

While financings that closed during the year have and will assist in the Company meeting its cash requirements for the pre-revenue projects as described above, the Company's future capital requirements will depend upon many factors. At present the Company uses approximately \$500,000 of cash per month, which amount is expected to remain consistent for the near term. The Company does not have any commitments for capital expenditures by way of contract or obligation. The Company's estimate of the funds required to complete the pre-revenue projects is described above totaling \$1,480,131, most of which is targeted to be spent by June 30, 2022. Without substantial revenue from operations and positive cash flow from operations, the Company will require additional capital during the second quarter of 2022, potentially as debt and/or the additional sale of equity securities for cash required to meet its project plans, expand its operations, and to fund the administration of the Company. The Company will prioritize expenses that will enable its pre-revenue projects to continue, while deferring certain management and staff salaries, short term debt obligations and accounts payable to the extent possible. The only past due obligations as of the date of this MD&A are short term debt and certain accounts payable greater than 30 days, which can often be extended in the normal course of business without penalty. There is no assurance that future financing, whether debt or equity, will be available to the Company in the amount required by the Company at any particular time or for any period and that such financing can be obtained on terms satisfactory to the Company. The continued operations of the Company are dependent on its ability to generate future cash flows from operations and/or obtain additional financing as necessary before cash flow from operations can sustain other cash needs of the Company. Management is of the opinion that, while in the absence of external financing, it expects the Company to have a working capital deficiency within the next 12 months. Sufficient working capital will potentially be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. If the Company is unable to raise additional capital in the future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures.

These foregoing raises substantial doubt about the Company's ability to continue as a going concern.



***Cash Used in Operating Activities***

The Company used net cash of \$8,056,906 in operating activities during the year ended December 31, 2021, and \$2,726,998 during the year ended December 31, 2020. For the year ended December 31, 2021, the Company's net loss was \$11,363,932 and had reductions for non-cash expenses including, stock-based compensation of \$2,351,313, expenses paid in shares or warrants of \$222,220, amortization of \$269,020 and depreciation of \$12,281. Change in non-cash working capital and foreign exchange provided cash of \$452,192. For the year ended December 31, 2020, the Company's net loss was \$5,639,196 and had reductions for non-cash expenses including amortization of \$269,020, depreciation of \$129, expenses paid in shares or warrants of \$876,658, stock-based compensation of \$671,741, charge due to the RTO Transaction of \$951,504 and changes in non-cash working capital and foreign exchange added back of \$143,146.

***Cash From Financing Activities***

The Company received \$6,255,350 from financing activities during the year ended December 31, 2021. See above commentary for details of the sources of financing. \$5,331,731 of financing in the year ended December 31, 2020 related to net proceeds from private placement financing in conjunction with the RTO Transaction and the non-brokered and brokered private placement financing completed in December 2020

***Cash Used in Investing Activities***

The Company used net cash of \$140,938 in investing activities during the year ended December 31, 2021, related to a strategic investment in Indicio, PBC of \$122,722 and \$18,216 for the acquisition of computer related equipment. Investing activities for the year ended December 30, 2020 include \$18,627 for the acquisition of computer related equipment and \$2,484 in cash from the RTO Transaction.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

**TRANSACTIONS WITH RELATED PARTIES**

The Company's related parties include its key management personnel, and companies related by way of directors or shareholders in common, including KABN Gibraltar, which beneficially owns 9.1% of the issued and outstanding Common Shares and which is beneficially owned by David Lucatch, the Company's Chief Executive Officer and President, and a director.

During the year ended December 31, 2020, the initial license fee of \$1,345,100 (US\$1,000,000), which was recorded as an intangible asset, has been paid in full to KABN Gibraltar. The initial license fee was agreed in May 2019 and the intangible asset was based on the license agreement value of US\$1,000,000 converted at the spot exchange rate at that time, resulting in \$1,345,100 being recorded as an intangible asset. On the first anniversary of the license agreement, May 15, 2020, US\$100,000 was due and paid to KABN Gibraltar, and for each anniversary thereafter, an annual license fee of US\$250,000 will be due to KABN Gibraltar. Royalties of 14% of gross margins of the Company are payable to KABN Gibraltar calculated on annual results. The Company was provided a discount to the May 15, 2021 license fee payment of US\$250,000 that enabled the obligation to be settled for \$250,000 as opposed to US\$250,000. The only consideration for the discount was that the payment be made in April 2021 instead of May 15, 2021.

Management services were provided to the Company by KABN Gibraltar for a maximum period of nine months from May 15, 2019 to February 15, 2020 which carried an option to extend this deadline by mutual agreement. On February 15, 2020, the maximum period of no cash compensation paid for management services of nine months expired. KABN Gibraltar commenced monthly billing for management services at that time. \$360,000 was billed by KABN Gibraltar for the period from February 15, 2020 to December 31, 2020 and was paid during the year ended December 31, 2020.

During the year ended December 31, 2021, \$360,000 was billed by KABN Gibraltar and was paid during this period. This represents payments to consultants that were still employed by KABN Gibraltar as opposed to direct employees of the Company as described in the results of operations analysis above.

During the year ended December 31, 2021, billings for product, technical development and usage were incurred with KABN Gibraltar in the amount of \$427,975, of which \$112,480 was outstanding and payable as at December 31, 2021. \$150,000 was billed for the year ended December 31, 2020 which was outstanding as of December 31, 2020 but paid during 2021. There are no fixed terms of repayment.

\$175,100 was outstanding (including \$25,100 from December 31, 2019) to KABN Gibraltar as at December 31, 2020 for product, technical development and operational services was paid during the year ended December 31, 2021. \$122,755 outstanding to KABN (Gibraltar) Ltd. as at January 1, 2020 for the initial license fee was paid during the year ended December 31, 2020.

## **SUBSEQUENT EVENTS**

On January 1, 2022 the Company commenced the operations of Aftermath Islands through its subsidiary Aftermath Islands Metaverse Limited. Aftermath Islands Metaverse Limited is a controlled subsidiary of Oasis Digital Studios Limited with a 50% ownership interest and has a 50% non-controlling interest shareholder. The business and activities of Aftermath Islands continue to be fully controlled and operated by Oasis Digital Studios Limited through as governed by the shareholder agreement entered into between Oasis Digital Studios Limited and the non-controlling interest shareholder.

The Company was unable to repay the short-term loan payable described in the Consolidated Financial Statement by the maturity date. The Company repaid \$50,000 in principal, the \$10,000 arrangement fee and \$6,274 in interest on February 24, 2022.

## **CHANGES IN ACCOUNTING STANDARDS**

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2021 that had a material effect on the financial statements of the Company.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2021, and have not been early adopted in preparing the financial statements. None of these are expected to have a material effect on the financial statements of the Company.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments consist of accounts receivable, payables to KABN Gibraltar, short term loan payable, accounts payables and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise stated.

## **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

A breakdown of all material components of operating expenses of the Company is set forth in notes the audited consolidated financial statements for the year ended December 31, 2021 and a breakdown of the material components of the product development expenses component of operating expense is set out under the headings “Results of Operations (for the quarter ended December 31, 2021)” and “Results of Operations (for the year ended December 31, 2021)”, and for the 3 and 9 month periods ended September 30, 2021, under the heading “Supplement to MD&A for the Quarter Ended September 30, 2021”.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

### **Common Shares**

The Company has 143,678,473 Common Shares issued and outstanding, as of April 29, 2022.

### **Share Purchase Warrants**

The Company has 50,978,554 share purchase warrants outstanding exercisable into 50,978,554 Common Shares, as of April 29, 2022.

### **Broker Compensation Options**

The Company has 1,419,978 broker compensation options outstanding, which are each exercisable into one Common Share and one share purchase warrant. The broker compensation options are exercisable into an aggregate of 2,839,956 Common Shares, as of April 29, 2022.

### **Stock Options**

The Company has 16,768,900 stock options outstanding exercisable into 16,768,900 Common Shares, as of April 29, 2022.

## **SUPPLEMENT TO MD&A FOR THE QUARTER ENDED SEPTEMBER 30, 2021**

### **Forward Looking Information**

The Company previously disclosed that its Verifier Program (now named “Passmate <sup>TM</sup>”) would show, at minimum a demonstrable pilot by Q4, 2021. The key factor used in developing this forward-looking information was detailed working plans set between the third-party developers and management of the Company, which management believed to be the best and reasonable estimate for completion. The key risks to achieving this expected timing include third party developers being unable to manage all of the technical uncertainties to be able to deliver on a pilot.

### **Related Party Transactions**

The Company’s related parties include its key management personnel, and companies related by way of directors or shareholders in common, including KABN Gibraltar, which beneficially owns 9.5% of the issued and outstanding common shares and which is beneficially owned by David Lucatch, the Company’s Chief Executive Officer and President, and a director.

During the year ended December 31, 2020, the initial license fee of \$1,345,100 (US\$1,000,000) that was recorded as an intangible asset was paid in full to KABN Gibraltar. The initial license fee was agreed in May 2019 and the intangible asset was based on the license agreement value of US\$1,000,000 converted at the spot exchange rate at that time, resulting in \$1,345,100 being recorded as an intangible asset.

On May 15, 2020, the first anniversary of the KABN Gibraltar License, US\$100,000 was due and paid to KABN Gibraltar, and on each anniversary thereafter, an annual license fee of US\$250,000 will be due to KABN Gibraltar. Royalties of 14% of gross margins of the Company deriving from the use of technology and programs under the KABN Gibraltar License are payable to KABN Gibraltar calculated on annual calendar results. The Company was provided a discount to the May 15, 2021, license fee payment of US\$250,000 that enabled the obligation to be settled for \$250,000 as opposed to US\$250,000. The only consideration for the discount was that the payment be made in April 2021 instead of on May 15, 2021.

Management services were provided to the Company at no cost by KABN Gibraltar for a maximum period of nine months from May 15, 2019, to February 15, 2020. On February 15, 2020, the maximum period of no cash compensation for management services of nine months expired. \$270,000 was billed by KABN Gibraltar for the period from February 15, 2020, to September 30, 2020. \$269,184 of these billings were paid during the nine-month period ended September 30, 2020. During the nine-month period ended September 30, 2021, \$270,000 has been billed by KABN Gibraltar and was paid during this period. This represents payments to consultants that were still employed by KABN Gibraltar as opposed to direct employees of the Company as described in the results of operations analysis above.

During the nine-month period ended September 30, 2021, billings for product, technical development and usage were incurred by KABN Gibraltar in the amount of \$322,975, of which \$125,100 was outstanding and payable as at September 30, 2021 with \$197,875 being paid. \$150,000 was billed for the nine-month period ended September 30, 2020, none of which was paid during the period. There are no fixed terms of repayment.

\$175,100 was outstanding to KABN Gibraltar as at December 31, 2020 for product, technical development and operational services was paid during the nine -month period ended September 30, 2021. \$122,755 was outstanding to KABN Gibraltar. as at January 1, 2020 for the initial license fee was paid during the nine-month period ended September 30, 2020.

## **Results of Operations**

### **OVERALL PERFORMANCE (for the quarter ended September 30, 2021)**

The Company had a net loss of \$2,396,201 for the quarter ended September 30, 2021 compared to a net loss of \$1,139,708 for the quarter ended September 30, 2020. The Company had much lower operational expenses for the prior year's comparative period. The main drivers of the net loss for the quarter ended September 30, 2021 were a further ramp up of product development and launch activities of \$864,646 and management and staff expenses of \$473,487. Marketing and communications was also a significant expense item totaling \$321,930 which comprises predominately one-time costs incurred during the quarter, with a small amount comprised from agreements that were initiated in prior quarters with a service period extending into the current quarter. The Company incurred \$192,315 in consulting costs and included on consolidation \$80,607 in operating expenses from Oasis. In addition, stock-based compensation of \$199,260 and amortization of intangible assets of \$67,255 are non-cash expenses for the quarter. The main expenses in the prior period were marketing and communications of \$274,765 product development of \$219,193 stock-based compensation of \$146,727, management and staff of \$277,500 and \$73,775 in consulting costs.

The Company overall had higher expenses between the comparative periods in order to move forward its pre-revenue development activities, which also involved related increased expense levels in other areas such as management and staff compensation and consulting expenses to support the Company's overall activities.

The Company incurred marketing and communications expenses of \$321,930 for the quarter ended September 30, 2021. The Company continues to engage in certain market awareness and general marketing and communications campaigns. A portion of these expenses are derived from service arrangements over a period of time, resulting in a recording of a prepaid expense that is amortized over the service period. \$91,918 relates to expenses that were amortized in the quarter ended September 30, 2021 initiated from prior quarters and represent contract services over time. The remaining \$230,012 represents specific Q3 campaigns that were initiated and expensed during the quarter ended September 30, 2021. \$38,997 in the prepaids and other expense will amortize in future periods from arrangements in existence as of September 30, 2021. Marketing and communications expenses incurred during the quarter ended September 30, 2020 were \$274,765 and relate primarily to the amortization of closing of agreements around the time of the completion of the RTO Transaction, which was designed to assist in activities for market awareness, business development and multiple communication strategies. The marketing and communications expenses were largely higher period over period due to the timing of specific campaigns during Q3 2021 as the

majority of the expense was initiated and expensed. The Company anticipates a consistent to lower marketing and communications expense in the next few quarters in comparison to the prior period.

The Company incurred \$864,646 for product development for the quarter ended September 30, 2021. Product development includes technical development which related to core technical development using software engineering and related infrastructure coding as one category with a second category consisting of less technical product costs including developing product features, benefits, their applications, and any program fees. \$105,000 of the costs were incurred through KABN Gibraltar all from the second category of product development expenses, with \$759,646 incurred through direct vendors to the Company which consists of both categories. Of the direct vendors, \$570,800 was incurred on technical development with the remaining \$293,846 on product features, design and other work toward commercial readiness. During the quarter ended September 30, 2020, \$219,193 was incurred in product development as the Company was in the early technical development stage of activities during that period and nowhere near the current levels of activity as the commercial development applications and LAVCE had yet to be scoped and defined.

The Company incurred \$473,487 during the quarter ended September 30, 2021 related to management and staff. The Company had entered into employment agreements with most of its executives and staff as of January 1, 2021 whom were previously paid on a limited basis as consultants in 2020 (post-RTO Transaction). Included in this category are fees to KABN Gibraltar of \$90,000 representing management and staff paid through KABN Gibraltar that remain as consultants. \$277,500 in management and staff costs on a consulting basis were incurred for the quarter ended September 30, 2020 including \$90,000 to KABN Gibraltar for consultants paid through KABN Gibraltar. The Company in connection with its decision to offer employment agreements has set compensation at a more competitive level to retain its executives and staff, which caused a greater increase than what was paid while executives and staff were under consulting agreements.

The Company incurred consulting fees of \$192,315 with a number of consultants during the quarter ended September 30, 2021. The Company has engaged consultants to perform various functions for the Company. None of the current consultants have a long-term commitment from the Company. During the quarter ended September 30, 2020, \$73,775 was incurred for consulting work. The overall activities of the Company were larger than the prior period and many of the services are better suited as consulting with shorter terms than under in-house employee arrangements.

During the quarter ended September 30, 2021, the Company recognized \$199,260 in total stock-based compensation expense. During the quarter ended September 30, 2020, \$146,727 of stock-based compensation was recognized on the graded vesting schedule for the June 1, 2020 stock option grant which was the only grant impacting the quarter. On February 15, 2021, the Company granted 5,400,000 stock options at an exercise price of \$0.345 that has 40% immediate vesting terms with 30% vesting in six months from the grant date and 30% vesting in twelve months from the grant date. All of the stock-based compensation recognized during the quarter ended September 30, 2021 related to this stock option grant based on a graded vesting schedule. Stock-based compensation is recognized as an operating expense with a corresponding amount recognized in contributed surplus and is valued using the Black-Scholes option pricing model. The expense level is highly dependent on the terms, inputs and timing of stock options granted in each period, which drives the amount recorded and can often cause significant variability.

#### **OVERALL PERFORMANCE (for the nine-month period ended September 30, 2021)**

The Company had a net loss of \$7,894,751 for the nine-month period ended September 30, 2021 compared to a net loss of \$3,676,096 for the nine-month period ended September 30, 2020. The Company had much lower operational expenses in the prior year's comparative period. The main drivers of the net loss for the quarter ended September 30, 2021 were a substantial spend on product development activities of \$1,954,427, management and staff expenses of \$1,312,222, Marketing and communications expenses of \$1,267,524, legal and audit fees of \$280,912 and consulting fees of \$381,796. The Company incurred its annual license fee under the KABN Gibraltar License for \$250,000 and included on consolidation \$308,656 in operating expenses from Oasis. In addition, stock-based compensation of \$1,554,104 and amortization of intangible assets of \$201,765 are non-cash expenses for the period. The main expenses in the prior period were marketing and communications of \$612,224, management and staff of \$457,500, stock based compensation of \$367,816, product development of \$252,511 a one-time charge related to the RTO Transaction of \$951,504, legal and audit fees of \$319,308, consulting fees of \$274,466 and \$140,940 in the first annual license fee which was discounted from contractual levels.

The Company overall had higher expenses between the comparative periods in order to move forward its pre-revenue development activities, which also involved related increased expense levels in other areas such as management and staff compensation and consulting expenses to support the Company's overall activities.

The Company incurred marketing and communications expenses of \$1,267,524 for the nine-month period ended September 30, 2021. A number of investor/public relations campaigns and business development activities were initiated at times when significant financings were closed to leverage the ability to compensate these firms in equity as opposed to cash in many cases. Many of these expenses are derived from service arrangements over a period of time, resulting in a recording expense over several periods. Substantially all of these campaigns have been fully amortized over the nine-month period ended September 30, 2021. Only \$38,997 in the prepaids and other expense will amortize in future periods from arrangements in existence as of September 30, 2021. Marketing and communications expenses incurred during the nine-month period ended September 30, 2020 were \$612,224 and relate to the closing of agreements around the time of the completion of the RTO Transaction, which was designed to assist in activities for market awareness, business development and multiple communication strategies. The Company weighted much of its marketing and communications in 2020 to the post RTO stage which was June of 2020 which naturally creates a lower expense for the prior nine month period compared to the current nine month period especially as many of the prior year expenses are amortized over time, some of which impacted the 2021 nine month period. The expense rates are largely timing related and it's expected the expense rates will reduce over time relative to the current nine-month period.

The Company incurred \$1,954,427 for product development for the nine months ended September 30, 2021. Product development includes technical development which related to core technical development using software engineering and related infrastructure coding as one category with a second category consisting of less technical product costs including developing product features, benefits, their applications, and any program fees. \$322,975 of the costs were incurred through KABN Gibraltar, all from the second category of product development expenses with \$1,631,452 incurred through direct vendors to the Company which consists of both categories. Of the direct vendors, \$1,162,696 was incurred on technical development with the remaining \$468,756 on product features, design and other work toward commercial readiness. Specifically, in the first quarter more costs were incurred on application development and design from direct vendors than on technical development as there was a specific push towards the development of user interface and design applications. During the nine-month period ended September 30, 2020, \$252,511 was incurred in product development as the Company was only working through the initial stages of technical development activities during that period as the commercial development applications and LAVCE had yet to be scoped and defined.

The Company incurred \$1,312,222 during the nine-month period ended September 30, 2021 related to management and staff. The Company had entered into employment agreements with most of its executives and staff as of January 1, 2021 that were previously paid on a limited basis as consultants in 2020 (post-RTO Transaction). Included in this category are fees to KABN Gibraltar of \$270,000 representing management and staff paid through KABN Gibraltar that remain as consultants. \$457,500 in management and staff costs on a consulting basis were incurred for the nine-month period ended September 30, 2020 with \$270,000 of this incurred with KABN Gibraltar for consultants paid through KABN Gibraltar. The Company in connection with its decision to offer employment agreements has set compensation at a more competitive level to retain its executives and staff, which caused a greater increase than what was paid while executives and staff were under consulting agreements.

The Company incurred consulting fees of \$381,796 with a number of consultants during the nine-month period ended September 30, 2021. The Company has engaged consultants to perform various functions for the Company. None of the current consultants have a long-term commitment from the Company. During the nine-month period ended September 30, 2020, \$274,466 was incurred for consulting work. The overall activities of the Company were larger than the prior period and many of the services are better suited as consulting with shorter terms than under in-house employee arrangements.

During the nine-month period ended September 30, 2021, the Company recognized \$1,554,104 in total stock-based compensation expense. \$53,550 of stock-based compensation was recognized as part of the vesting terms associated with a grant of stock options that occurred on June 1, 2020, prior to the finalization of the RTO Transaction. \$367,816 was recognized in the nine-month period ended September 30, 2020, related to this, the only grant during the period. No further expense will be recorded in relation to this grant as the vesting date has passed. On February 15, 2021, the Company granted 1,400,000 stock options at an exercise price of \$0.345 with immediate vesting terms and recorded an expense of \$310,800 for the nine-month period ended September 30, 2021. On February 15, 2021, the Company granted 5,400,000 stock options at an exercise price of \$0.345 that has 40% immediate vesting terms with 30% vesting in nine months from the grant date and 30% vesting in twelve months from the grant date. \$1,178,955 of stock-based compensation was recognized during the nine-month period ended September 30, 2021, related to this stock option grant based on a graded vesting schedule. On May 13, 2021, the Company granted 100,000 stock options at an exercise price of \$0.175 with immediate vesting terms and recorded an expense of \$10,800 for the nine-month period

ended September 30, 2021. Stock-based compensation is recognized as an operating expense with a corresponding amount recognized in contributed surplus and is valued using the Black-Scholes option pricing model. The expense level is highly dependent on the terms, inputs and timing of stock options granted in each period, which drives the amount recorded and can often cause significant variability.

## **RISK FACTORS**

Much of the information included in this report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by the Company and its management in connection with the Company's business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. The Company cautions readers of this report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements. In evaluating the Company, its business and any investment in its business, readers should carefully consider the following factors:

### **Risks Related to the Company's Business**

***Because of the unique difficulties and uncertainties inherent in early stage development, the Company faces a high risk of business failure. The Company currently does not generate significant revenue from its operations, and as a result, the Company faces a high risk of business failure***

The Company has a history of operating losses and may never achieve profitability in the future. The Company is an early stage technology company.

The Company's ability to generate future revenue or achieve profitable operations is largely dependent on its ability to attract and retain the experienced management and know-how to develop and commercialize its programs. Successfully commercializing the current programs and gaining critical mass of client adoption may take several years and significant financial resources and the Company cannot assure that it can achieve these objectives.

***The Liquid Avatar Platform may not gain the level of market acceptance needed to make the Company profitable or achieve its growth objectives***

The Company could experience difficulty in securing Holders, Issuers and Verifiers within Canada and the United States of America, which would also reduce the number of users of the Liquid Avatar Platform. This would slow the Company's revenue growth and path to positive cash flow and profitability, and materially and adversely impact the Company's prospects, which could negatively impact market value of the Common Shares.

Even if the Company secures a significant level of Holders, Issuers and Verifiers within Canada and the US, the LQID Card could experience low adoption by end users or relatively low spend volume which could negatively impact related fees from the card and from KABN KASH and thus have a material and adverse impact on the Company's revenues, cash flows, profitability and financial position.

While the Company has a budget for marketing and communications to help support its efforts to gain market acceptance, secure new customers and promote revenue programs, such funds may not be sufficient to achieve the Company's revenue goals. If additional funds are required for marketing and communication, the Company may need to allocate funds from other uses, or raise additional capital, which could result in dilution to holders of the Common Shares, additional interest expense or both.

The Company could experience a limitation or stagnation in the ability to acquire cardholders in Canada and the United States of America which could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

The Company's card partners, payment card network and/or issuing banks could introduce new fees or assessments which could negatively impact the value proposition of LQID Card.

### ***Financial Liquidity***

The Company has not yet generated substantial revenues and will likely operate at a loss as it looks to launch commercialized programs driving future revenue. The Company will require additional financing in order to execute its business plan. The Company's ability to secure required financing will depend in part upon investor perception of the Company's business and prospects. Capital market conditions and other factors beyond the control of management may also play important roles in the ability to raise capital. The Company can offer no assurance that it will be able to successfully obtain additional financing, or that future financing occurs on terms satisfactory to management. If funds are unavailable in the future, or unavailable in the amounts that management considers necessary, or unavailable on acceptable terms, the Company may be required to cease operating or modify its business plans in a manner that undermines its ability to achieve planned business objectives.

### ***Reliance on KABN Gibraltar License***

The intellectual property used under the KABN Gibraltar License is built upon the intellectual property developed by or licensed to KABN Gibraltar and in particular verification IP. The Company's business will be highly dependent on the availability to it of the verification IP and the right to use it to operate the Liquid Avatar Platform. A loss of, or restriction on using, any material part of the IP, would significantly impact the operations of the Company, including its ability to offer services to current and future Holders, Issuers and Verifiers which could have a material and adverse impact on the Company's revenues, results of operations, cash flows and prospects.

### ***Reliance on payment card networks and related financial services providers***

The KABN Gibraltar License includes the ability to offer the LQID Card within Canada and the United States of America, subject to approvals by payment card networks and issuing banks. Payment card networks and issuing banks could exclude the Company from their approval which would require the Company to seek approval from an alternative payment card network and/or issuing bank, which could delay or eliminate the Company's ability to issue a digital currency-linked card in Canada and/or the United States of America, as payment card networks provide program approvals regionally.

Although KABN Gibraltar has been conditionally approved to run a digital currency-linked network branded prepaid card program in the United Kingdom and Europe, and the Company has been approved to run a similar prepaid card program in Canada, there is no guarantee that a similar program will be approved in the United States of America.

Once approved, payment card networks and issuing banks could create new governance/franchise rules which could negatively impact the Company's card products which could require the Company to seek approval from an alternative payment card network which could suspend the Company's ability to issue a digital currency linked card for an unknown period of time.

The Company's financial and related services, which will include card partners, payment card networks and issuing banks in Canada and the United States of America, could change their position and/or rescind approved program status which would require the Company to seek approval from an alternative issuing bank which could delay or eliminate the Company's ability to issue or continue to issue the LQID Card.

The Company's card program, payment card network and issuing banks(s) could implement new rules and/or fees that impact revenues for the LQID Card, which could material and adverse impact on the Company's revenues, results of operations, cash flows and prospects.

The Company will be reliant on payment card networks and issuing banks to conduct its business, particularly to provide functionality for the LQID Card. There is a risk that one or more of these issuing banks may cease to deal with the Company (which may occur on short notice), cease to deal with international payments services generally,



substantially reduce the services it offers, substantially alter the terms on which it is willing to offer services to the Company, or exit one or more of the markets for which the Company uses its services.

***The Liquid Avatar Platform will be subject to competing service offerings, including new technologies***

Alternative payment card network, banking or payment solutions could be introduced to the Canadian and American markets which could compete or outsell the Company's offerings and suite of services. Additionally, unknown new programs for the movement of funds, alternative banking and payment solutions may be introduced in the future that may have an impact on the Company's ability to compete in the marketplace.

The Company believes that the Liquid Avatar Platform provides a unique market proposition in providing identity verification that is portable, secure and cost effective. Notwithstanding this, the industry in which the Company will operate is competitive and includes companies with significantly greater financial, technical, human, research and development, and marketing resources than the Company. Numerous entities around the world may compete with the Company's efforts to commercialize, develop and expand products and services. Competitors may develop products in advance of the Company, products that are more effective than those developed by the Company, or that have or gain greater market acceptance. As a consequence, the Company's current and future technologies and products may become obsolete or uncompetitive, resulting in a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

The identity verification and financial and related solutions markets are highly competitive, and the Company's offering competes with other financial related services businesses, including other businesses focused on identity verification and management. Many existing providers either compete directly with the Company or provide services that are potential substitutes. The Company's major existing competitors will include identity verification companies, banks, money transfer organizations and other international payments specialists. New competitors, services and business models that will compete with the Company are likely to arise in the future. Many of these existing and potential competitors have or may have substantially more resources than the Company and have or may have product and service solutions that are more attractive to Holders, Issuers and Verifiers.

There is a risk that an existing or future competitor:

- allocates significantly more resources to competing in the Company's markets, including resources devoted to marketing, developing technology and/or client service;
- develops a lower cost or more effective business model, for example by developing or acquiring a more sophisticated technology platform or service delivery method;
- responds to changes to regulations, new technologies or changes in client requirements faster and more effectively than the Company; or
- develops new services that compete more directly with the Company than their current services.

A substantial increase in competition for any of these reasons could result in the Company's services becoming less attractive to existing and potential Holders, Issuers and Verifiers, requiring the Company to increase its marketing or capital expenditure, lower prices or fees, or alter other aspects of its business model in order to remain competitive, any of which could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

***There are significant regulatory and legislative risks***

The Liquid Avatar Platform assists Issuers with their AML and KYC compliance obligations in relation to their customers. Future legislative changes to AML, KYC or other similar requirements, may result in the Company's verification program not being as effective or losing its competitive advantage, and it may therefore become less attractive to current and prospective Issuers and Verifiers, which may have a significant effect on the business, operations and prospects of the Company. If Issuers and Verifiers change providers, the growth in the number of new users of the Liquid Avatar Platform will slow, impacting revenues across all aspect of the Company's business.

The international financial and related services market is a highly regulated area of economic activity around the world. Regulations applicable to those providing services and earning revenues in the market for international financial and related services include regulation relating to money laundering and financing of terrorism, sanctions laws and

other regulations. There is a risk that the Company may fail to comply with these laws or government regulations. Any breach of law by the Company could have significant consequences for the Company. The further development, acceptance and use of digital currencies is subject to a variety of factors that are difficult to evaluate.

***The growth of the Neo Bank and identify verification industries in general, and the use of digital currencies in particular, is subject to a high degree of uncertainty***

The growth of the Neo Bank and identify verification industries in general, and the use of digital currencies in particular, is subject to a high degree of uncertainty, and the slowing, or stopping of the development or acceptance of developing protocols may adversely affect the Company's services related to future digital currencies-to-fiat link via the LQID Card which is operated by a partner party. The factors affecting the further development of these industries and digital currencies, include, but are not limited to:

- Continued worldwide growth in the adoption and use of digital currencies;
- Governmental and quasi-governmental regulation of digital currencies and their use;
- Restrictions on or regulation of access to and operation of the network or similar digital currency systems;
- Changes in consumer demographics and public tastes and preferences;
- The maintenance and development of the open-source software protocol of the network;
- The availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies;
- General economic conditions and the regulatory environment relating to digital assets; and
- Negative consumer sentiment and perception digital currencies generally.

***Data and privacy breaches can significantly harm the Company***

The majority of the Company's transactions will be conducted over the Internet and will therefore be subject to an element of risk. The Company's information technology infrastructure is designed to be secure, but is not immune to outside rogue elements, including computer viruses, computer hackers, and organized activities among groups of persons designed to breach the Company's security systems.

Privacy breaches may expose the Company to additional liability and result in the loss of Holders, Issuers and Verifiers, or an inability to conduct business. Any inability on the Company's part to protect the privacy in the Company's electronic transactions or systems could have a material effect on future revenue, financial conditions, and profitability. A privacy breach could expose the Company to additional liability under the privacy legislation of different jurisdictions, which could result in fines, additional compliance costs, or significant costs to remedy the breach and strengthen security; result in a customer or user's personal and/or financial information falling into the hands of criminal elements, exposing the Company to lawsuits, loss of revenue and reputations risks; and deter potential Holders, Issuers and Verifiers from using LAVCE or the Liquid Avatar Platform.

***The Company's failure to manage its growth successfully may adversely impact its operating results***

The Company's failure to manage its growth successfully may adversely impact its operating results. The Company's ability to manage growth will require it to continue to build its operational, financial and management controls, contracting relationships, marketing and business development plans and controls and reporting systems and procedures. The Company's ability to deal with growth may have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

***The Company's business is based on software and information systems and is exposed to the risks associated with such technologies***

While the Company's verification software was developed by KABN Gibraltar and through internally developed derivative works under the KABN License Agreement, such software may be subject to external factors, such as deprecation of operating systems, libraries, components, third party interfaces, drivers, patches, or other related issues. In addition, software requires regular updating and maintenance to keep it operating efficiently, continually, and robustly. If updates and maintenance are not carried out regularly or are carried out negligently, the software may be subject to operational outages, slowdowns, or errors. In addition, these external factors may affect the ability of the Company and KABN Gibraltar to effectively upgrade and maintain the Liquid Avatar Platform. The market in which the Company will operate is continually evolving, which can often lead to product and software obsolescence. If the

Company does not successfully adapt to changes in the market and technology, its business and results may adversely be affected.

In addition, services based on sophisticated software and computing systems often encounter development and upgrade delays, and the underlying software may contain undetected errors or failures when introduced or when the volume of services provided increases. The Company may experience delays in the ongoing development of the software and computing systems underlying their services. In addition, despite testing, it is possible that the software may contain errors, and this could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

The Company depends on the performance, reliability, and availability of the Liquid Avatar Platform. There is a risk that these systems may be adversely affected by a number of factors including damage, equipment faults, power failure or natural disasters. Events of that nature may cause part or all of the Liquid Avatar Platform or its website to become unavailable. This in turn could reduce the Company's ability to generate income, impact client service levels and cause damage to the Company's reputation and, potentially, have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

There is also a risk that potential faults in the Liquid Avatar Platform could cause transaction errors that could result in legal exposure from Issuers and Verifiers, potentially leading to a loss of Customers and other business partners, damage to the Company's reputation or even cause a breach of certain regulatory requirements (including those affecting any required license) and could, in turn, have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

#### ***Dependency on the Internet and/or Cloud based services***

The Company will rely on the availability of its website(s) and related cloud services to provide Holders, Issuers and Verifiers (both current and prospective) access to the Liquid Avatar Platform. The Company will depend on the continued acceptance of the Internet and/or cloud as a communications and commerce platform for individuals and enterprises. The Internet and/or cloud could become less viable as a business tool due to delays in development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility and quality-of-service. Hackers or Internet service provider outages could render one or more of the Company's website(s) and/or technology related services unavailable. If for any reason the Internet and/or cloud does not remain a widespread communications medium and commercial platform, or the Company's websites and/or technology related services are unavailable for an extended period, the demand for the Liquid Avatar Platform and the Company's services would be significantly reduced, which would have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

#### ***Customer service and reputational risk***

The reputation of the Company, along with the Liquid Avatar Platform, is important in attracting new and retaining existing Holders, Issuers and Verifiers of the Liquid Avatar Platform. Reputational damage could arise due to a number of circumstances, including errors or defects, data or privacy breaches, inadequate services or unsatisfactory client outcomes. Negative publicity could adversely impact the reputation of the Company, along with the Liquid Avatar Platform, which may potentially result in a fall in the number of persons seeking the products and services of the Company.

#### ***The Company may become involved in legal matters that may materially adversely affect it***

From time to time in the ordinary course of business, the Company may become involved in various legal proceedings, including commercial, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. Furthermore, because litigation is inherently unpredictable, and can be highly expensive, the results of any such actions may have a material adverse effect on the Company's business, operations or financial condition.

### ***Fraud***

Combatting fraud is a significant challenge in the online identity, financial and related services industry because transactions are conducted between parties who are not physically present, which in turn creates opportunities for misrepresentation and abuse.

Companies in this sector are especially vulnerable because of the convenience and immediacy of verifying and validating identity and movement of funds, both digital currencies and fiat, from one account to another and subsequently withdrawing them. The Company's partners that facilitate identity, financial and other services over the Internet makes dealing with the risk of fraud a cost of doing business.

The Company will face significant risks of lost revenues due to fraud and disputes between parties. If the Company is unable to deal effectively with losses from fraudulent transactions the Company's business would be harmed.

Examples of such risks include:

- unauthorized use of personal information and undetected identity theft;
- client fraud;
- breaches of system security;
- employee fraud; and
- unauthorized use of the Liquid Avatar Platform or the LQID Card or associated mobile wallets.

### ***The Company's operations in the future may be adversely affected by other risks outside the control of the Company***

The Company's operations in the future may be adversely affected by labour unrest, civil disorder, war, terrorist attacks, computer viruses, telecommunications failure, power loss, subversive activities or sabotage, fires, earthquakes, floods, explosions or other catastrophes, epidemics or quarantine restrictions. For example, a system outage or data loss resulting from such an event could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

### ***Conflicts of Interest***

Certain executive officers and directors will dedicate a portion of their time to other ventures. Management may have conflicts of interest in allocating management time, services and functions among the Company and any present and future ventures which are or may be organized by officers or directors and/or their affiliates. While management dedicates a full-time equivalent effort to the Company they are not required to direct the Company as their sole and exclusive function, and they may have other business interests and engage in other activities in addition to those relating to the Company. This includes rendering advice or services of any kind to other investors and creating or managing other businesses.

It is possible, however, that certain directors and officers may owe similar consideration to another organization(s). It is possible that these and other conflicts of interest are resolved in a way that has a material adverse impact on the Company.

### ***Dependence on Key Personnel***

The Company depends on support from existing directors and officers and its ability to attract, and retain, new directors, officers, and other personnel with appropriate skill sets. Inability to retain key team members or find new professionals to serve in important roles could have a material adverse effect on the Company's business. There can be no assurance that we will be able to attract or retain the quality of personnel required in the future.

### ***Financial Statements Prepared on Going Concern Basis***

The Company's financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the successful completion of financing and the creation of profitable operations deemed successful according to the standards of the industry in which it operates. The Company cannot guarantee that it will be successful in obtaining financing in the future or in achieving profitable business operations. The Company's

consolidated financial statements may not contain the adjustments relating to carrying values and classification of assets and/or liabilities that would be necessary should the Company be unable to continue as a going concern.

### ***Costs of Maintaining a Public Listing***

As a result of having a public listing, the Company incurs greater legal, accounting and other expenses related to regulatory compliance than it would have had it remained a private entity under its prior operation. The Company may also elect to devote greater resources than it otherwise would have on communication and other activities typically considered important by publicly traded companies.

### **Risks Relating to the Company's Common Shares**

#### ***Active Trading Market***

Currently the volume of trading in the public market for the Common Shares has at certain times been limited, and there can be no assurance that an active market for the Securities will be sustained at any time. If an active public market for the Company's securities is not sustained or enhanced, the liquidity of an investor's investment may be limited, and the share price may decline.

#### ***Share Price Volatility and Speculative Nature of Share Ownership***

Factors both internal and external to the Company may significantly influence the price at which the Common Shares trade, and the volatility of the share price. Quarterly operating results and material developments reported by the Company can, and likely will, influence the price of the Common Shares.

Sentiment toward technology and early stage business stocks, as well as toward the stock market in general, is among the many external factors that may have a significant impact on the price of the Common Shares. The Company is not generating material revenue and does not possess significant cash reserves. As such, it should be considered a speculative investment. There is no guarantee that a liquid market for the Common Shares will exist at any time or be maintained.

#### ***The Company does not intend to pay dividends***

The Company has never paid any cash dividends and currently does not intend to pay any dividends for the foreseeable future. To the extent that the Company requires additional funding, those funding sources may prohibit the payment of a dividend. Because the Company does not intend to declare dividends, any gain on an investment in the Company will need to come through an increase in the price of the Common Shares. This may never happen, and investors may lose all of their investment in the Company.

#### ***A decline in the price of the Common Shares could affect its ability to raise further working capital and adversely impact its ability to continue operations***

A prolonged decline in the price of the Common Shares could result in a reduction in the liquidity of the Common Shares and a reduction in its ability to raise capital. Because a significant portion of the Company's operations have been and will be financed through the sale of equity securities, a decline in the price of the Common Shares could be especially detrimental to the Company's liquidity and its operations. Such reductions may force the Company to reallocate funds from other planned uses and may have a significant negative effect on the Company's business plan and operations, including its ability to develop new products and continue its current operations. If the Company's stock price declines, it can offer no assurance that the Company will be able to raise additional capital or generate funds from operations sufficient to meet its obligations. If the Company is unable to raise sufficient capital in the future, the Company may not be able to have the resources to continue its normal operations.

**ADDITIONAL INFORMATION**

Additional information about the Company is available on SEDAR at <http://www.sedar.com>.

**BOARD APPROVAL**

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