



Direct Communication Solutions, Inc.
Management's Discussion and Analysis
For the Year Ended December 31, 2019
May 7, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("management discussion and analysis") of the Company provides an analysis of the Company's performance and financial condition for the year ended December 31, 2019 and for the three-month period ended December 31, 2019. This management discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended December 31, 2019 (the "**Financial Statements**"), which were prepared in accordance with International Financial Reporting Standards ("**IFRS**").

All amounts referred to in this management discussion and analysis are prepared in accordance with IFRS and US GAAP and presented in U.S. dollars, unless otherwise indicated.

The following information is prepared as at May 7, 2020.

Forward-looking Statements

This management discussion and analysis contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performances of the Company; revenues; the timing and amount of estimated future operating, capital and development expenditures and requirements for additional capital. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes", or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might", or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, those factors discussed in the section entitled "Outlook, Risks and Uncertainties" in this management discussion and analysis. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this management discussion and analysis based on the opinions and estimates of management, and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, estimates or opinions, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, potential investors should not place undue reliance on forward-looking statements.

Overview

The Company provides Internet of Things (IoT) products, services and solutions. The Company has two main focuses to its business: (i) Hardware distribution, where the Company resells products from CalAmp and ATrack Technology Inc. and (ii) Software as a Service "SaaS" solutions. The Company's products and solutions enable devices to communicate with each other and with server or cloud-based application infrastructures.

The Company's current SaaS solutions include MiFleet™, which provides fleet and vehicle SaaS telematics, MiSensors™, which provides machine-to-machine device management and service enablement for wireless sensors and MiFailover™, which provides high-speed wireless internet failover to small and medium sized

businesses as a redundancy solution to continue to run their business in the event the internet is not available. In addition, the Company has recently deployed MiServices™ to provide engineering support to its distribution customers. These services include software development, hardware integration and logistics support such as SIM card insertion, activation, provisioning, labeling and device readiness checks.

The Company's corporate headquarters is in San Diego, California.

Incorporated in 2006, the Company traditionally has been a distributor of IoT components and a system integrator that assisted clients in installing such components into their installed systems and applications. The Company has focused on providing hardware items and solutions that have aided in data collection, analysis and management.

The global costs and prices of IoT sensors and products continue to drop in price and margin. As a response to this, and an interest to develop more vertically-integrated, comprehensive solutions, the Company has begun to develop software applications and databases that can analyze and manage the data that its IoT hardware has traditionally just collected. This provides the Company the opportunity to increase its gross and net profit margins by providing more services and software – through the cloud and/or via a SaaS/MaaS (Module as a Service) business model.

The Company has traditionally sold within various hardware-related vertical markets that are tied to the broad IoT market. These areas have included markets such as fleet management, healthcare, retail point-of-sale, industrial, energy & utilities, and safety and security. As the Company transitions to software, SaaS and services it can now address traditional software application markets. In addition, the Company is planning to launch applications within the beer, transportation and cannabis marketplaces. Both the beer and cannabis markets have very similar needs when it comes to sensors and utilizing the big data from those sensors. Both are temperature sensitive and have a very limited shelf-life, therefore, the logistics data that can be obtained from these sensors makes the operational side of these verticals so critical.

The Company intends to continue to leverage its long-standing relationship with its strategic partners and jointly build unique IoT solutions based on its integrated third party equipment along with new application software. This mixed hardware and software implementation will allow the Company to build new, more robust, solutions that address multiple customer problems operating on a single the Company platform.

Significant Highlights

The following highlights and developments for the year ended December 31, 2019 and to the date of this management discussion and analysis:

- Completed an initial public offering listing on the Canadian Securities Exchange.
- Launched MiFleet + Vision and added the Flex product portfolio (solar tracker) to enhance our telematics offerings.
- Included in the Verizon Circle of Excellence and our CEO, Chris Bursey, added to Verizon's Partner Advisory Council Participants.
- Provided a pilot demonstration of the Company's new wireless sensor solution offering at Mobile World Congress.
- The Company launched MiServices to accommodate the growing need for specialized technical services. MiServices is a paid services offering covering everything from technical to operations. The product suite is customizable to the exact services the Company's customers need.

- Entered into an exclusive agreement with IT&E, the widest 4G LTE data network in the Marianas and Guam, to provide their customer base with MiFleet as a fleet and asset management solution.
- Launched the ATrack product portfolio with Sprint. ATrack is a Taiwanese GPS manufacturer that built 3 LTE products for Sprint based on the Company's requirements.
- Signed a Master Services Agreement with Synnex (SYX) to provide services and solutions to their customer base.
- Started development of BrewSee®, the Company's wireless beer keg monitoring solution. We anticipate production starting in the third quarter of 2020 and expect launch date in the fourth quarter of 2020.
- Started development of a comprehensive set of tools that are propriety that will automate the entire provisioning and activation process for GPS tracking devices, across all manufactures.
- Recognized as CalAmp's largest volume channel partner globally.
- Awarded 2019 Channel Partner of the Year by CalAmp at their 2019 Global Sales Summit.
- Executed agreement with US Cellular Corp. allowing them to resell MiFleet to their existing subscribers.
- Executed agreement with Sprint, allowing Sprint to resell MiFleet.
- Executed agreement with Cellcom (Northeast Communications of Wisconsin, Inc.) enabling their sales teams to resell MiFleet to their existing subscribers in the greater Green Bay Wisconsin area.
- Executed agreement with Golden M, Inc., a software engineering company, to develop and implement MiFleet mobile. MiFleet mobile is targeted specifically toward the mobile consumer market.
- Executed agreement with Queclink Wireless Solutions, Inc. in an effort to expand the Company's Saas Solutions portfolio.
- Executed agreement with the Competitive Carrier Association (CCA) to provide DCS solutions and services to their existing cellular carrier partners.
- Integrated an LTE/OBD/Wifi device into MiFleet to pair with MiFleet mobile. This solution targets a large market of consumer vehicles on the road demanding in vehicle mobile internet.

COVID-19 Impact on Operations and Financial Position

In March 2020, the World Health Organization declared the coronavirus ("COVID-19") a global pandemic. COVID-19 has had a limited impact to the Company's operations. Almost all employees have switched to working remotely at this time. The Company continues to work with its supply chain to fulfill its deliverables. The Company does not expect that the impact of COVID-19 will materially affect our business and financial results. The carrying amounts of the Company's financial assets and liabilities at December 31, 2019 represent their fair value going forward and the Company does not expect any material impairment as a result of COVID-19.

Discussion of Operations

The Company has funded ongoing operations primarily from proceeds on the issuance of the Debentures and working capital credit facilities and most recently an initial public offering. The Company's continuing operations and its financial success are dependent upon the extent to which it can successfully raise the capital to implement its future plans and ultimately on generating sufficient revenue to attain profitable operations. These factors indicate the existence of an uncertainty that may cast doubt about the Company's ability to continue as a going concern.

In 2017, the Company made a strategic decision to focus more on providing IoT solutions as the sales price per unit in distribution was dropping due to the industry became more competitive. As a result, solutions and other services revenue as a percentage of overall revenue have increased from 6% in 2017 to 8% in 2018 to over 13% in 2019.

The Company incurred US\$159,893 and US\$233,432 costs associated with the Company's initial public offering in the three month period and calendar year ended December 31, 2019 that closed on January 7, 2020. These costs were capitalized on the balance sheet as deferred offering costs.

The Company anticipates its solutions business as a percentage of total revenue to continue to increase in 2019 as new services and solution offerings are deployed. In January 2019, the Company sold its Telit modular distribution agreement and associated assets. The purchase price for the Telit modular distribution agreement and associated assets was \$250,000 cash based on upon the completion certain milestones (\$150,000 was payable at closing and the second payment of \$100,000 was payable following Company introductions to customers and Telit's sales directors; and delivery and payment of at least 50% of purchase order by a prior customer of the Company for Telit hardware) plus six (6) percent of net sales of Telit products from January 16, 2019 through December 31, 2019. The price was determined on an arm's length basis. The impact of sale was a reduction in product revenue of US\$152,161 and US\$1,796,071 in the three month period ended December 31, 2019 compared to the same period the previous year and 2019 compared to 2018.

SELECTED ANNUAL INFORMATION

	2019	2018	2017 ¹
Revenues	US\$16,063,558	US\$15,956,35	US\$8,811,674
Net income(loss)	(1,096,124)	62,544	(1,875,499)
Net income (loss) per share			
Basic	(0.11)	0.01	(0.19)
Diluted	(0.11)	0.00	(0.19)
Total Assets	5,066,308	5,657,380	1,947,638
Total non-current financial liabilities	178,447	30,000	1,218,267
Cash dividends declared in all classes of shares	NIL	NIL	NIL

¹ The net loss in 2017 includes transaction costs of US\$1,067,888 as a result of the Acquisition. Excluding this expense, the net loss in 2017 would have been US\$807,611.

Results of Operations for the Three Months Ended December 31, 2019

The Company operates in a fluid environment that can be affected by multiple outside factors. Since it does not manufacture GPS devices, the Company has to rely on its vendors to deliver quality products on time. Additional factors are component lead times, technology transitions, network upgrades and customer buying cycles. An example would be the Company's customers who focus on the bus tracking industry. These customers tend not to purchase throughout the year, but rather during the summer months when school is not in session and when they have access to the bus fleets to install the hardware. Other customers tend to purchase less throughout the summer because of the vacation cycles.

The following is an analysis of the Company's operating results for the three months ended December 31, 2019 and a comparison to the three months ended December 31, 2018.

Revenues for the three months ended December 31, 2019 were US\$4,662,029 compared to US\$5,806,527 for the same period last year. Product revenue of US\$4,090,082 was down US\$1,277,866 over the previous year. At the end of 2018, customers were updating their GPS devices due to the major wireless carriers announcing they would be discontinuing service for 2G products. Excluding product revenue from the Telit distribution agreement, product revenue was down US\$1,125,705 from the previous year.

Solutions and other services revenue of US\$571,947 was up 30% from the same period as last year. The growth was mainly driven by an increase in (i) unit deployments of the Company's SaaS solutions and, (ii) activation commissions from wireless carriers.

Cost of revenues for the three months ended December 31, 2019 were US\$3,566,602 compared to US\$4,669,084 for the same period in 2018. The following tables summarize gross profit and gross margin:

	Gross Profit		Gross Margin	
	Q4 2019	Q4 2018	Q4 2019	Q4 2018
Products	US\$ 657,040	US\$ 830,487	16.1%	15.5%
Solutions and other services	438,387	306,956	76.6%	70.0%
Total	US\$ 1,095,427	US\$ 1,137,443	23.5%	19.6%

The increase in gross margin for solutions and other services was mainly due to the growth in activation commissions from wireless carriers.

General and administrative expenses for the three months ended December 31, 2019 were US\$1,062,362 compared to US\$833,275 for the same period in 2018. The increase was mainly due to wages, commissions and professional fees partially offset by bank fees reduction as the Company received a \$70,000 merchant services usage incentive rebate.

Research and development costs for the three months ended December 31, 2019 were US\$230,218 compared to US\$150,087 for the same period in 2018. The increases were due to the hiring of two engineers and a consultant for software development.

Net loss for the three months ended December 31, 2019 was US\$(257,836) compared to net income of US\$65,945 for the same period in 2018. The increase in net loss was primarily the result of the increase in operating expenses.

Summary of Quarterly Results

The following table is based on the Company's financial statements prepared in accordance with IFRS. Amounts are in US\$ except share numbers.

	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenue				
Products	4,090,082	3,760,816	3,635,909	2,474,627
Other services	571,947	528,759	510,371	491,047
	<u>4,662,029</u>	<u>4,289,575</u>	<u>4,146,280</u>	<u>2,965,674</u>
Operating Expenses	1,292,580	1,246,377	1,183,230	1,158,625
Net income (loss)	(257,836)	(318,146)	(166,739)	(353,403)
Basic income (loss) per share	(0.02)	(0.03)	(0.02)	(0.04)
Fully-diluted income (loss) per share	(0.02)	(0.03)	(0.02)	(0.04)
Weighted average number shares outstanding - basic	10,794,365	10,151,009	10,098,000	9,667,889
Weighted average number shares outstanding – diluted	10,794,365	10,151,009	10,098,000	9,667,889
Total fully diluted shares	<u>14,824,800</u>	<u>15,067,250</u>	<u>15,007,250</u>	<u>15,007,250</u>
	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue				
Products	5,367,948	3,213,393	3,488,965	2,555,938
Other services	438,579	343,340	271,012	277,180
	<u>5,806,527</u>	<u>3,556,733</u>	<u>3,759,977</u>	<u>2,833,118</u>
Operating Expenses	983,446	837,667	749,035	730,031
Net income (loss)	65,945	(87,454)	203,536	(119,483)
Basic income (loss) per share	0.01	(0.01)	0.02	(0.01)
Fully-diluted income (loss) per share	0.00	(0.01)	0.01	(0.01)
Weighted average number shares outstanding - basic	9,608,000	9,608,000	9,608,000	9,608,000
Weighted average number shares outstanding – diluted	15,007,250	9,608,000	14,222,734	9,608,000
Total fully diluted shares	<u>15,007,250</u>	<u>15,007,250</u>	<u>14,500,250</u>	<u>14,086,250</u>

The Company's business typically undergoes seasonal variation in the fiscal quarter ended March 31 due to disruptions in the manufacturing of hardware components in Asia driven primarily by the observance of the lunar new year holidays during that period and in the fiscal quarter ended September 30 due to summer vacations of the industrial buyers representing business or government customers. Further, there were increased sales in the fiscal quarter ended December 31, 2018 due to proposed increased tariffs for imported internet hardware components effective January 1, 2019 (which were actually not brought into force) and the proposed transition in 2019 and onwards of the current telecommunications protocols to "4G", the fourth generation of broadband cellular network technology.

Results of Operations for the Year Ended December 31, 2019

The following is an analysis of the Company's operating results for the year ended December 31, 2019 and a comparison to the year ended December 31, 2018.

Revenues for 2019 were US\$16,063,558 compared to US\$15,956,355 in 2018. Product revenue of US\$13,961,434 was down 5% over the previous year as customers were updating their GPS devices at the end of 2018 due to the major wireless carriers announcing they would be discontinuing service for 2G products. In addition, the Company sold its Telit product line in January 2019. Excluding product revenue from the Telit distribution agreement, product revenue was up US\$1,131,261 from the previous year.

Solutions and other services revenue of US\$2,102,124 for the year ended December 31, 2019 was up 58% over December 31, 2018. The growth was mainly driven by additional deployments of the Company's SaaS solutions and entering into enterprise support agreements with some of the Company's larger customers.

Cost of revenues for the year ended December 31, 2019 were US\$12,016,148 compared to US\$12,327,006 for the year ended December 2018. The following table summarizes gross profit and gross margin for the last three fiscal years:

	Gross Profit			Gross Margin		
	2019	2018	2017	2019	2018	2017
Products	US\$ 2,353,413	US\$ 2,705,535	US\$ 1,954,608	16.9%	18.5%	23.6%
Solutions and other services	1,693,997	923,814	366,265	80.6%	69.5%	67.8%
Total	US\$ 4,047,410	US\$ 3,629,349	US\$ 2,320,873	25.2%	22.7%	26.3%

The decrease in gross margin for products in 2019 is mainly due to a more competitive environment in the mobile to mobile and GPS tracking modules. The increase in gross margin for solutions and other services in 2019 is mainly due to enterprise support contracts and commissions, which generate higher gross margins, comprising a greater percentage of the overall solutions and other services revenue.

General and administrative expenses for the year ended December 31, 2019 were US\$4,098,119 compared to US\$2,949,022 for 2018. The US\$1,149,098 increase was mainly due to increase in wages and commissions as the Company added three new employees, and professional fees for staffing related to our consultant chief financial officer, products manger and marketing manger.

Research and development costs for the year ended December 31, 2019 were US\$782,692 compared to US\$351,157 for the same period in 2018. The increase was mainly due to the hiring of two engineers and a consultant for software development.

Net loss for the year ended December 31, 2019 was US\$(1,096,124), an increase in loss of US\$1,158,668 from 2018. The increase in net loss was primarily the result of US\$1,580,633 additional operating expenses in 2018; offset by US\$418,061 additional gross profit.

Liquidity and Capital Resources

Historically, the Company's funding has been through the issuance of debt, primarily through its vendors and private placements to sophisticated investors. We expect to fund the operating costs of the Company over the next twelve months from the net proceeds of our initial public offering that closed in January 2020 and by launching current products in development that support the growth of the Company. The Company's continuing operations and its financial viability is dependent upon the extent to which it can successfully raise the capital to implement its future plans and ultimately on generating sufficient revenue to attain profitable operations. These factors indicate the existence of an uncertainty that may cast doubt about the Company's ability to continue as a going concern. At December 31, 2019, the Company is not subject to any externally imposed capital requirements or debt covenants.

The Company has a credit facility with TAB Bank ("TAB") whereby it advances funds to the Company up to 90% of the Company's domestic receivables less than 90 days from invoice date and not subject to offset up to \$2,000,000. TAB charges monthly interest at a rate greater of (a) 90-Day LIBOR rate plus 4.50% and (b) 6.41%. In addition, there is an administration fee equal to 0.01% per diem of the outstanding daily obligations. The credit facility is secured by a lien on substantially all the assets of the Company.

On April 20, 2020, the Company was granted a loan (the "Loan") from TAB in the aggregate amount of \$422,500 pursuant to the Paycheck Protection Program (the "PPP") established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") in the United States. The Loan, which was in the form of a Note dated April 10, 2020 matures April 10, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on November 10, 2020. The Loan may be prepaid at any time prior to maturity with no prepayment penalties. The Loan and accrued interest are forgivable after eight weeks as long as the borrower uses the proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The Company intends to use the entire Loan amount for eligible purposes.

The Company issued debentures from October 2, 2017 to September 25, 2018 totalling US\$2,100,000. The debentures accrued interest at a rate of 10.0% per annum and the interest was payable semi-annually unless the holder elected to defer payment. The maturity date of the debentures was October 2, 2019. The holder of the debentures at any time could convert in whole or any part principal and interest into common shares of the Company at a conversion price of US\$1.00 per share. In June 2019, US\$2,000,000 of the debentures agreed to amend their debentures so that on the date the Company receives a Canadian Securities Exchange ("CSE") conditional approval letter for the listing of the common shares of the Company, all unpaid principal automatically convert into common shares at a conversion price of US\$1.00 per share. In September 2019, the holders of US\$1,900,000 of the debentures agreed to extend the maturity date to November 22, 2019. On October 2, 2019, the balance of US\$200,000 of the debentures were repaid. In November 2019, such holders agreed to extend the maturity date to December 31, 2019. On December 2, 2019, the CSE provided its conditional approval letter and the remaining debentures were converted into 1,900,000 common shares

Cash flows provided by (used in) operating activities during the year ended December 31, 2019 were US\$809,892 compared to US\$(165,380) during the previous year. The net loss was US\$1,158,668 greater in 2019 than 2018. This was more than offset by a higher change in non-cash working capital items, particularly account receivable which had a change of US\$731,259 in 2019 compared to US\$(2,026,676) in 2018.

Cash flows used in investing activities during the year ended December 31, 2019 were US\$333,853 versus US\$258,949 for the same period last year. Expenditures of US\$310,309 and US\$254,233 were development costs of the Company's Brewsee® Keg Management System in 2019 and 2018, respectively.

Cash flows provided by (used in) financing activities during the year ended December 31, 2019 were US\$(977,567) compared to US\$1,218,233 in 2018. In 2019, the Company had net repayments on its credit facility of \$453,066 and repaid \$272,000 in debt. In 2018, the Company received proceeds of US\$879,000 from the issuance of convertible debt and \$411,233 net borrowings on its credit facility.

At December 31, 2019, the Company had working capital deficiency of US\$(1,744,178) compared to US\$(2,110,090) at December 31, 2017. The change is mainly due to \$1,900,000 of the Debentures converting into common stock offset by net loss of \$1,096,124.

Capital Resources

As of December 31, 2019, the Company has committed approximately US\$300,000 to complete the development of BrewSee®. The Company has sufficient capital resources to meet this commitment. The Company has no other sources of financing which have been arranged but are as yet unused.

Share Capital

The Company has authorized 40,000,000 shares with a par value of US\$0.00001 per share. Upon approval of the listing on the CSE, the Company filed an amended and restated certificate of incorporation pursuant to which its authorized capital stock will consist of 40,000,000 shares. Such amendment has been approved by the Company's Board of Directors and shareholders.

In July 2019, the Company completed a private placement issuing 60,000 shares at US\$1.25 per share for net proceeds of US\$75,000.

In September 2019, 16,800 warrants were exercised at US\$1.00 per share for net proceeds of US\$16,800.

On December 2, 2019, \$1,900,000 of convertible debentures were converted into 1,900,000 shares of common stock

At December 31, 2019, the Company had 12,074,800 shares issued and outstanding with a par value of US\$0.00001.

On January 7, 2020, the Company completed its initial public offering and sold 1,328,500 shares of common stock for net proceeds of US\$1,751,721 after underwriter's commission and offering expenses of \$269,426.

Warrants

At December 31, 2018, 490,000 warrants were outstanding which are exercisable at US\$0.00001 per warrant and expire December 10, 2022 and 59,250 warrants were outstanding which are exercisable at US\$1.00 per warrant and expire October 2, 2019.

As at September 30, 2019, 42,450 warrants were outstanding and granted to Industrial Alliance Securities Inc. for their assistance with the previous offering of the Debentures, which warrants were exercisable at US\$1.00 per share and expired October 2, 2019.

In March 2019, 490,000 warrants were exercised for proceeds of US\$5.

In September 2019, 16,800 warrants were exercised at US\$1.00 per share for proceeds of US\$16,800.

In October 2019, all remaining warrants expired and were forfeited.

In January 2020 in conjunction with the Company's initial public offering, the Company issued warrants to the underwriter to purchase 106,280 shares of common stock with an exercise price of CAD\$2.00 per share and a term of two years.

Stock Options

At December 31, 2019, 2,750,000 options were outstanding of which 2,511,717 are vested and are exercisable at US\$0.47 per option. The Company recognized stock-based compensation expense of US\$11,364 for the years ended December 31, 2019 and 2018.

In June 2019, the Board of Directors and Stockholders of the Company agreed to increase the number of authorized shares reserved for issuance under the Company's 2017 Stock Plan from 3,500,000 to 4,100,000 shares and add an annual evergreen feature that will adjust the number of authorized shares reserved to an amount equal to 29.99% of the Company's issued capital stock (other than the maximum number of shares that may be issued through Incentive Stock Options, which is fixed at 4,100,000 shares).

On January 7, 2020, the Company granted 755,000 options to certain of its directors and officers. These options are exercisable at prices ranging from US\$1.53 to US\$1.68 per share. As our CEO is more than a 10% shareholder, per incentive stock option rules in the U.S., his exercise price is 110% of the fair market value of a share of stock on the effective date of grant of the option.

Related Party Transactions

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Remuneration attributed to key management personnel can be summarized as follows:

	Twelve Months Ended December 31, 2019	Twelve Months Ended December 31, 2018
Salaries	US\$924,159	US\$819,906
Consulting fees	247,475	110,385
Share-based compensation	2,886	2,886
Totals	US\$1,174,520	US\$933,177

As at December 31, 2019, US\$76,275 (December 31, 2018 –US\$42,161) was included in accounts payable and accrued liabilities for fees owed to related parties.

Critical Accounting Estimates

This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019 and the notes thereto to gain a better understanding of the Company's accounting estimates. Accounting estimates are critical if they require the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made and that different estimates that could have been used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the Company's financial condition, changes in financial condition or financial performance. The accounting estimates that are determined to be critical are described below.

- (i) Going concern - The evaluation of the Company's ability to continue as a going concern, to raise additional financing to cover its operating expenses and its obligations for the incoming year requires significant judgment based on past experience and other assumptions including the probability that future events are considered reasonable according to the circumstances.
- (ii) Provision for excess and obsolete inventory – The Company values inventory at the lower of cost and net realizable value. Significant management judgements must be made in determining net realizable value and excess inventory.
- (iii) Allowance for doubtful accounts receivable – The Company makes allowances for doubtful accounts based on its best estimate of the amount of probable credit losses in existing accounting receivable. Management bases its judgement on historical write-off experience and specific knowledge of the customer.

Changes in Accounting Policies

Adoption of new accounting standards

The Company has adopted IFRS 16 using the modified retrospective approach with an initial application date of January 1, 2019. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to asset and liability accounts and applies the standard prospectively.

On adoption of IFRS 16, the Company has recognized lease liabilities in relation to our office leases measured at the present value of the remaining lease payments. The associated right-of-use assets were measured at the amount equal to the lease liability on January 1, 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company has elected to apply the exemptions not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

The impact of the adoption of IFRS 16 as at January 1, 2019 was to increase other assets by \$421,898 to capitalize the right-of-use assets and correspondingly increase lease liabilities by the same amount.

Financial Instruments

The Company's financial assets include cash and amounts receivable. The carrying value of cash and amounts receivable approximates their fair value due to their short term to maturity.

The Company's financial liabilities include accounts payables, the Debentures, credit facility, loans payable and customer deposits. The carrying value of these items approximates their fair value due to their immediate or short term to maturity.

Financial Risk Factors

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company places its cash with institutions of high credit worthiness. Management has assessed there to be a low level of credit risk associated with its cash balances.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. For the years ended December 31, 2019 and 2018, approximately 22% and 20% of the Company's revenue is attributable to sales transactions with two customers and one customer, respectively.

The Company has established a credit policy under which each major new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available, and in some cases bank references. Purchase limits and terms are established for each customer and reviewed periodically. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Company's wholesale and retail customers.

Trade and other receivables consist of:

	December 31, 2019	December 31, 2018
Accounts Receivable	US\$ 2,530,052	US\$ 3,261,311
Allowance for doubtful accounts	(118,779)	(94,468)
Total	US\$ 2,411,273	US\$ 3,166,843

Aged trade receivable listing:

Days outstanding	December 31, 2019	December 31, 2018
Current	US\$ 1,708,131	US\$ 2,760,938
1 – 30	510,227	385,815
31 – 60	179,074	46,580
61 – 90	46,431	5,263
> 90	86,189	62,715
Total	US\$ 2,530,052	US\$ 3,261,311

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due. At December 31, 2019, the Company had negative working capital of US\$1,744,178. As such, the Company has insufficient working capital to fund corporate overhead costs and the repayment of the Company's cash obligations for the next fiscal year and is significantly exposed to liquidity risk. The Company completed an initial public offering in January 2020 and intends to continue raising funds as necessary and entering into sales contracts with new customers that will provide increased sources of funds and liquidity in the future.

Market risk

The significant market risks to which the Company is exposed are interest rate risk, foreign currency risk, and price risk.

Interest rate risk

The Company's debt has fixed interest rates and is not exposed to interest rate risk until maturity. The Company's credit facility was variable based on the prime rate and effective January 2020 is now variable on the 90 day LIBOR rate. A 1% increase in the prime rate in 2019 would result in approximately US\$6,000 additional interest expense for the year ended December 31, 2019.

Foreign currency risk

The Company is located in the United States and virtually all transactions including the Company's sales and debt are negotiated in U.S. dollars. The Company's wholly-owned subsidiary, DCS Canada, is located in British Columbia, Canada and its functional currency is the Canadian dollar.

DCS Canada has immaterial assets and liabilities and had no activity in 2019.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk or currency risk. The Company is not exposed to significant price risk.

Off-Balance Sheet Arrangements

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