



Direct Communication Solutions, Inc.  
Management's Discussion and Analysis  
For the Year Ended December 31, 2020  
March 30, 2021

Amounts in United States dollars unless stated otherwise

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of Direct Communication Solutions, Inc. (the "Company", "DCS", "we" and "our" refer to Direct Communication Solutions, Inc.) provides an analysis of the Company's performance and financial condition for the year ended December 31, 2020 and three-month period ended December 31, 2020. This management discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020 (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 presented in United States dollars (\$ or US\$), unless otherwise indicated. C\$ refers to Canadian dollars.

The following information is prepared as at March 30, 2021.

### **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. 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**

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

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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, we have 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.

Our 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, we began to develop software applications and databases that can analyze and manage the data that its IoT hardware has traditionally just collected. This provides us 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, we are 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.

We intend to continue to leverage our 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 us to build new, more robust, solutions that address multiple customer problems operating on a single Company platform.

### **Significant Highlights**

The following highlights and developments for the year ended December 31, 2020 and to the date of this management discussion and analysis:

- Completed an initial public offering listing on the Canadian Securities Exchange (CSE: DCSI).
- Became listed on OTC Markets Group (OTCQB: DCSX).
- Released MiSensors MiTag BT sensor which has an IP67 water-resistant design, provides Bluetooth wireless connectivity and 8 sensors in one device.
- Added John Hubler to the Company's Board of Directors.

- 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.
- Entered into an 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.
- 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 manufacturers.
- Launched MiFleet Drive, a consumer-focused mobile application and MiFleet Bolt, which provides extended battery life for tracking high value assets through our MiFleet platform.
- Acknowledged by CalAmp as their top American Channel Sales Partner for their fiscal 4<sup>th</sup> quarter that ended February 29, 2020.
- Entered a pilot project with Wildflower Brands to install the MiCovid Cam in their retail locations in Canada.

### **COVID-19 Impact on Operations and Financial Position**

**In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. The outbreak led governments and other authorities around the world, including federal, state and local authorities in the United States, to impose measures intended to control its spread, including restrictions on freedom of movement and business operations such as travel bans, border closings, business closures, quarantines and shelter-in-place orders. The outbreak and preventative or protective actions that governments have taken in respect of this coronavirus have resulted in a period of business disruption, reduced customer traffic, negative impact on our order fulfillment, reduced operations, and has adversely affected workforces, economies, and financial markets globally. Furthermore, several of our key products are manufactured in Asia in locations subject to quarantines and factory closures. The magnitude of the impact of COVID-19 outbreak on our business and operations remains uncertain. In addition, we may experience disruptions to our business operations resulting from quarantines, or other movement and restrictions on the ability of our employees to perform their jobs that may impact our ability to develop and design our products and solutions in a timely manner or meet required customer commitments.**

## Discussion of Operations

We have funded ongoing operations primarily from proceeds on the issuance of the debentures and working capital credit facilities and more recently through the sale of stock. Our 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 our ability to continue as a going concern.

In January 2020, we completed an initial public offering ("IPO") issuing 1,328,500 shares at C\$2.00 (\$1.53) for gross proceeds of C\$2,657,000 (\$2,021,147). We incurred total expenses associated with the IPO totaling of \$476,619 of which \$248,085 was charged against equity and \$228,534 as an operating expense. In December 2020, we completed a private offering issuing 1,695,200 shares at C\$1.05 (\$0.80) and 880,000 warrants for net proceeds of \$1,209,209 after share issuance costs of \$123,061. The warrants have an exercise price of \$0.80 and a term of six months. On June 19, 2020, we became listed in the United States on the OTCQB Market and on December 16, 2020 graduated to the OTCQX Market.

In 2017 we 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 part of this decision, 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. For the three months and twelve months ended December 31, 2019, \$0 and \$250,000 milestone payments are included in products revenue and \$8,708 and \$99,221 royalty income is included in other income, respectively.

As a result, solutions and other services revenue as a percentage of overall revenue have increased from 8% in 2018 to 13% in 2019 and 15% in 2020.

We originally intended to finalize development and commence sales of BrewSee®, our wireless beer keg monitoring solution in the fourth quarter of 2020. Due to the ongoing COVID-19 pandemic, we lowered the development priority of BrewSee. With our target market of bars and restaurants being significantly impacted with lockdowns, we made the decision to reallocate engineering resources to other products and solutions. We have decided to refine some of the features of BrewSee that will be integrated into the hardware design. We now anticipate completing development in 2021 and commence sales early 2022.

## Results of Operations for the Three Months Ended December 31, 2020

Revenues for the three months ended December 31, 2020 were \$4,414,608 compared to \$4,662,030 for the same period last year. Product revenue of \$3,860,011 was down 6% over the previous year as customers were delaying orders due to the pandemic.

Solutions and other services revenue of \$554,597 was down 3% from the same period as last year. SaaS solutions, which comprises the largest amount of solutions and other services revenue, was up 25%, while customer support services and engineering services were down 26% and 19%, respectively, from the same period as last year.

Cost of revenues for the three months ended December 31, 2020 were \$3,218,119 compared to \$3,566,602 for the same period in 2019. The following tables summarize gross profit and gross margin:

	<b>Gross Profit</b>		<b>Gross Margin</b>	
	<b>Q4 2020</b>	<b>Q4 2019</b>	<b>Q4 2020</b>	<b>Q4 2019</b>
Products	\$781,266	\$657,041	20.2%	16.1%
Solutions and other services	415,223	438,387	74.9%	76.6%
Total	\$1,196,489	\$1,095,428	27.1%	23.5%

The change in products gross margin is mainly due to tariffs we incurred. In Q4 2019 tariffs were 5.0% of product revenue compared to 0.5% in Q4 2020. Wireless data services, which has a lower margin, comprised a greater percentage of solutions and other services in Q4 2020 compared to Q4 2019.

General and administrative expenses for the three months ended December 31, 2020 were \$1,372,748 compared to \$1,062,362 for the same period in 2019. Bank fees were higher in Q4 2020 compared to Q4 2019 as last year received a one-time rebate on the majority of the fees. Compensation was higher in Q4 as added 4 sales employees. Stock-based compensation was \$45,445 greater in Q4 2020 than Q4 2019.

Research and development costs for the three months ended December 31, 2020 were \$334,232 compared to \$230,218 for the same period in 2019. The increase was primarily the result of additional engineers related to software development and testing & certification of MiSensors.

Net loss for the three months ended December 31, 2020 was (\$537,970) compared to (\$257,837) for the same period in 2019. The increase in net loss was primarily the result of \$310,367 and \$104,014 increases in general and administrative expenses and research and development costs, respectively offset by \$101,061 increase in gross profit.

## Results of Operations for the Year Ended December 31, 2020

Revenues for the year ended December 31, 2020 were \$14,257,460 compared to \$16,063,558 for 2019. Product revenue of \$12,096,162 was down 13% over the previous year as customers were postponing orders due to the pandemic.

Solutions and other services revenue of \$2,161,298 was up 3% from the same period as last year. SaaS solutions, which comprises the largest amount of solutions and other services revenue, was up 26%, while engineering services were down 33% from last year.

Cost of revenues for the year ended December 31, 2020 were \$10,180,270 compared to \$12,016,148 for the same period in 2019. The following tables summarize gross profit and gross margin:

	<b>Gross Profit</b>		<b>Gross Margin</b>	
	2020	2019	2020	2019
Products	\$2,412,168	\$2,359,467	19.9%	16.9%
Solutions and other services	1,665,022	1,687,943	77.0%	80.3%
Total	\$4,077,190	\$4,047,410	28.6%	25.2%

Wireless data services, which has a lower margin, comprised a greater percentage of solutions and other services in 2020 compared to 2019.

General and administrative expenses for the year ended December 31, 2020 were \$4,825,974 compared to \$4,098,120 in 2019. The increase was mainly due to (i) \$228,535 expenses related to our initial public offering and (ii) increase of \$339,103 in stock-based compensation.

Research and development costs for the year ended December 31, 2020 were \$1,082,065 compared to \$782,692 in 2019. The increase was primarily the result of additional engineers related to software development and testing & certification of MiSensors.

Net loss for the year ended December 31, 2020 was (\$1,947,576) compared to (\$1,096,124) for 2019. The increase in net loss was primarily the result of expenses related to our initial public offering and increases in stock-based compensation and research and development 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 2020	Q3 2020	Q2 2020	Q1 2020
Revenue				
Products	3,860,012	2,696,150	2,669,412	2,870,588
Other services	554,597	508,058	527,889	570,754
	<u>4,414,609</u>	<u>3,204,208</u>	<u>3,197,301</u>	<u>3,441,342</u>
Operating Expenses	1,706,980	1,203,228	1,439,993	1,557,838
Net income (loss)	(537,970)	(245,673)	(494,580)	(669,353)
Basic income (loss) per share	(0.04)	(0.02)	(0.04)	(0.05)
Fully-diluted income (loss) per share	(0.04)	(0.02)	(0.04)	(0.05)
Weighted average number shares outstanding - basic	13,924,261	13,403,300	13,403,300	13,315,707
Weighted average number shares outstanding – diluted	13,924,261	13,403,300	13,403,300	13,315,707
Total fully diluted shares	<u>19,923,444</u>	<u>17,229,580</u>	<u>17,254,580</u>	<u>16,964,580</u>
	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>

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.



## Liquidity and Capital Resources

The Company defines capital as consisting of issued share capital, reserves and accumulated deficit. We expect to fund the operating costs of the Company over the next twelve months from expanding sales of our current products and solutions that support the growth of the Company and raising additional capital as necessary. 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, 2020, the Company is not subject to any externally imposed capital requirements or debt covenants.

On February 19, 2021, the Company was granted a second loan (the "Second Loan") from TAB Bank ("TAB") in the aggregate amount of \$434,105 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 Second Loan, which was in the form of a Note dated February 19, 2021 matures February 19, 2026 and bears interest at a rate of 1.00% per annum, payable in 44 equal monthly payments commencing on June 19, 2022. The Second Loan may be prepaid at any time prior to maturity with no prepayment penalties. The Second Loan and accrued interest are forgivable after twenty-four 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 Second Loan amount for eligible purposes.

On March 5, 2021, the Company received notice from the U.S. Small Business Administration a loan (the "Loan") dated April 10, 2020 from TAB in the aggregate amount of \$422,500 pursuant to the PPP was forgiven in full.

In February and March 2021, we issued 553,140 shares due to the exercise of warrants for proceeds of \$426,512.

The Company has a credit facility with 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.

Cash flows provided by (used in) operating activities during the year ended December 31, 2020 were (\$1,990,825) compared to \$809,892 during the previous year. The change was primarily the result of \$851,452 increase in net loss and change in non-cash working capital items as (\$850,394) in 2020 and \$1,487,687 in 2019.

Cash flows used in investing activities during the year ended December 31, 2020 were \$136,313 versus \$333,853 for last year. Expenditures of \$43,780 and \$310,309 were development costs of the Company's Brewsee® Keg Management System in 2020 and 2019, respectively.

Cash flows provided by (used in) financing activities during the year ended December 31, 2020 were \$3,192,100 compared to (\$977,567) in 2019. In January 2020, the Company completed its initial public

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offering and received net proceeds of \$1,773,063 and in December 2020 completed a private offering resulting in net proceeds of \$1,239,781. In 2019, the Company had net repayments on its credit facility of \$453,066 and payments of \$272,000 on a loan.

At December 31, 2020, the Company had working capital deficiency of (\$27,671) compared to (\$1,744,178) at December 31, 2019. The change is mainly due to \$3,012,844 of net proceeds from the initial public offering and private offering plus the \$422,500 proceeds from the Loan offset by our net loss of (\$1,947,576).

**Capital Resources**

As of December 31, 2020, the Company has committed approximately \$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 \$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 \$1.25 per share for net proceeds of \$75,000.

In September 2019, 16,800 warrants were exercised at US\$1.00 per share for net proceeds of \$16,805.

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

On January 7, 2020, the Company completed its initial public offering and sold 1,328,500 shares of common stock for net proceeds of \$1,773,063 after underwriter's commission and offering expenses of \$269,426 of which \$47,102 were paid during the year ended December 31, 2019.

On December 15, 2020, the Company completed an offering and sold 1,695,200 shares of common stock at C\$1.05 per share for net proceeds of \$1,209,226.

At December 31, 2020, the Company had 15,098,500 shares issued and outstanding with a par value of \$0.00001. As of the date of this report, the Company has 15,631,640 shares issued and outstanding.

Warrants

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 \$5.

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In September 2019, 16,800 warrants were exercised at \$1.00 per share for proceeds of \$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 C\$2.00 per share and a term of two years.

In November 2020 in a private offering, the Company issued warrants to purchase 880,000 shares of common stock with an exercise price of \$0.80 per share and a term of six months for proceeds of \$30,556.

In November and December 2020, in conjunction with an offering, the Company issued warrants to placement agents to purchase 118,664 shares of common stock with an exercise price of \$0.80 per share and a term of six months.

In February and March 2021, 533,140 shares were issued due to the exercise of warrants for proceeds of \$426,512.

As of the date of this report, the Company has 571,804 warrants outstanding. 106,280 warrants expire in January 2022 and have an exercise price of C\$2.00 per share and 465,524 warrants expire in May and June 2021 and have an exercise price of \$0.80.

### Stock Options

At December 31, 2020, 3,720,000 options were outstanding of which 2,615,884 are vested and are exercisable at \$0.47 per option, 329,789 are vested and exercisable at \$1.53 per option and 41,166 are vested and exercisable at \$0.79 per option. The Company recognized stock-based compensation expense for the three months ended December 31, 2020 and 2019 of \$48,286 and \$2,841, and for the year ended December 31, 2020 of \$350,467 and \$11,364, respectively.

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). As a result of the evergreen feature, the number of authorized shares for issuance increased to 4,528,040 effective January 1, 2021.

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 \$1.53 to \$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.

On May 20, 2020, the Company granted 290,000 options of which 100,000 to a director. The options are exercisable at \$0.79 which was the fair market value of a share of stock on the date of the grant.

On March 19, 2021, the Company granted 675,000 options of which 375,000 were to certain officers. The options are exercisable at \$1.59 which was the fair market value of a share of stock on the date of the grant.

### 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. The remuneration of key management personnel for the years end December 31, 2020 and 2019 is as follows:

	2020	2019
Salary	\$899,528	\$924,159
Consulting fees	329,130	247,475
Share-based compensation	252,528	2,886
Totals	\$1,491,186	\$1,174,520

Rich Gomberg, the Company's CFO is an employee of CFO Connect. Ed O'Sullivan, a member of the Company's Board of Directors, is managing partner of CFO Connect.

The Company is a party to a Business Services Agreement with CFO Connect whereby CFO Connect provides CFO services. The Company recorded professional fees on the consolidated statements of operating income (loss) associated with this agreement of \$302,130 and \$247,475 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Company owed \$13,055 and \$22,380 under this agreement, respectively.

John Hubler, a member of the Company's Board of Directors, is a partner of BH IoT Group.

In November 2020, the Company entered into an Agreement with BH IoT Group to assist in building complete IoT bundled solutions. The Company entered into an initial Phase 1 project expected to last 3 months. At the end of Phase 1, both parties agreed to continue the relationship on a month-to-month basis. The Company recorded \$27,000 professional fees on the consolidated statements of operating income (loss) for the year ended December 31, 2020. As of December 31, 2020, no balance was due with respect to this agreement.

### **Critical Accounting Estimates and Judgments**

This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2020 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.
- (iv) Stock-based compensation – The Company grants or issues options and warrants. The Company makes judgements of expected volatilities, expected lives, expected forfeiture rates and risk free interest rates.

### **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 Loan, credit facility, 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 nine months ended September 30, 2020 and 2019, approximately 37% of the Company's revenue is attributable to sales transactions with three customers.

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:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Accounts Receivable	\$ 1,371,998	\$ 2,530,052
Allowance for doubtful accounts	(27,946)	(118,779)
<b>Total</b>	<b>\$ 1,344,052</b>	<b>\$ 2,411,273</b>

Aged trade receivable listing:

<b>Days outstanding</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Current	\$ 1,194,982	\$ 1,708,131
1 – 30	84,895	510,227
31 – 60	80,914	179,074
61 – 90	1,192	46,431
> 90	10,015	86,189
<b>Total</b>	<b>\$ 1,371,998</b>	<b>\$ 2,530,052</b>

#### *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, 2020, the Company had negative working capital of (\$27,671). 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 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 is based on the 90 day LIBOR rate. A 1% increase in the prime rate in 2020 would result in approximately \$6,400 additional interest expense for the year ended December 31, 2020.

*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 2020 or 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.