



Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021

Amounts in United States dollars unless stated otherwise

Direct Communication Solutions, Inc.

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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 three and nine months ended September 30, 2021. 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 November 12, 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.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

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.

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.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

Significant Highlights

The following highlights and developments for the nine months ended September 30, 2021 and to the date of this management discussion and analysis:

- Released MiSensors MiTag BT sensor which has an IP67 water-resistant design, provides Bluetooth wireless connectivity and 8 sensors in one device.
- Launched MiFleet + Vision and added the Flex product portfolio (solar tracker) to enhance our telematics offerings.
- Entered into distribution agreement with Ingram Micro to provide IoT solutions to the Ingram Micro channel.
- Entered into an agreement with Bluesky Communications to offer MiFleet to their customers. Initial deployment will upgrade over 300 vehicles.
- Appointed first distributor in North American market by TOPFLYtech to provide distribution, logistics and technical support.
- 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.
- Entered into a strategic partnership with AMIT Wireless to expand our IoT product offerings.

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.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

Outlook

DCS is a value-added reseller of IoT telematics devices, and a developer of our own end-to-end SaaS based intelligent business solutions. Our customers include technology distributors, cellular operators fleet service providers and any business that needs to monitor or draw data from their machine-based assets. We serve our clients by simplifying IoT Technologies, making them less costly, easier to deploy and overall, more efficient. Since 2018 we started to transition from a hardware reseller to a SaaS based, recurring revenue, customized solutions provider, offering turnkey IoT solutions for new and existing customers. SaaS and other services revenue accounted for approximately 16% of total corporate revenue in 2020.

We continue to expand the industries we serve which now include property management, restaurants, healthcare, cold chain management, retail, offices, fleet management, public safety, and construction.

DCS continues to seek new partnerships to expand its product offerings. We entered into an agreement with TopFlyTech to become their first distributor in the North American market. TopFlytech offers solar powered GPS devices which solve the problem of monitoring high value assets which have no direct access to power.

The large cellular providers are moving towards a technology sunset on their legacy 2G networks. This will affect all 2G devices deployed on their networks and force a transition to solutions with 4G technologies. We believe our relationships with the cellular providers along with our product and service offerings, will allow us significant sales opportunities.

Total backlog for our products as of September 30, 2021 and September 30, 2020 was \$16.3 million and \$2.9 million, respectively. Our backlog for products increased year-over-year as we continue to experience significant supply shortages primarily caused by the lingering impact of the COVID-19 pandemic. As a result of the ongoing supply shortages, we reduced our workforce by 9 employees in September 2021. We continue to face delays in receiving some of our components and do not know at this time when these problems will be resolved.

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 early 2022 and commence sales mid 2022.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

Results of Operations for the Three Months Ended September 30, 2021

Revenues for the three months ended September 30, 2021 were \$2,827,658 compared to \$3,204,208 for the same period last year. Product revenue of \$2,303,477 was down 15% over the previous year as supply chain bottlenecks intensified during the quarter thereby impacting revenue.

Solutions and other services revenue of \$524,181 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 25%, while customer support services were down 62% from the same period as last year.

Cost of revenues for the three months ended September 30, 2021 were \$1,985,424 compared to \$2,221,404 for the same period in 2020. The following tables summarize gross profit and gross margin:

	Gross Profit		Gross Margin	
	Q3 2021	Q3 2020	Q3 2021	Q3 2020
Products	\$487,147	\$593,074	21.1%	22.0%
Solutions and other services	355,087	389,730	67.7%	76.7%
Total	\$842,234	\$982,804	29.8%	30.7%

The change in products gross margin is mainly due to product mix and additional shipping expense in Q3 2021. Wireless data services, which has a lower margin, comprised a greater percentage of solutions and other services in Q3 2021 compared to Q3 2020.

General and administrative expenses for the three months ended September 30, 2021 were \$1,211,079 compared to \$952,037 for the same period in 2020. Compensation was higher in Q3 2021 vs last year mainly due to the addition of 4 sales employees. Increase in professional fees is mainly due to consulting fees for building complete IoT bundled solutions and services to raise public awareness of the Company. Increase in other is mainly due to an increase in the provision for bad debts.

Research and development costs for the three months ended September 30, 2021 were \$299,556 compared to \$251,843 for the same period in 2020. The increase was primarily the result of additional engineers related to software development and testing & certification of MiSensors.

In August 2021, we received notice that our second loan pursuant to the Paycheck Protection Program was forgiven in full. We recognized a gain of debt extinguishment of \$434,105 under Other Income. In September 2021, we received \$24,247 in refundable employee retention tax credits under the CARES Act which was also recorded under Other Income.

Net loss for the three months ended September 30, 2021 was (\$240,662) compared to (\$246,326) for the same period in 2020. The decrease in net loss was primarily the result of \$458,352 of debt forgiveness and refundable employee retention tax credits offset by \$259,042 and \$47,713 increases in general and administrative expenses and research and development costs, respectively and \$140,570 decrease in gross profit.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

Results of Operations for the Nine Months Ended September 30, 2021

Revenues for the nine months ended September 30, 2021 were \$10,846,387 compared to \$9,842,851 for the same period last year. Product revenue of \$9,371,462 was up 14% over the previous year as customers were postponing orders in 2020 due to the pandemic.

Solutions and other services revenue of \$1,474,925 was down 8% from the same period as last year. SaaS solutions, which comprises the largest amount of solutions and other services revenue, was up 22%, while customer support services and engineering services were down 66% and 18% from the same period as last year, respectively.

Cost of revenues for the nine months ended September 30, 2021 were \$7,820,706 compared to \$6,962,150 for the same period in 2020. The following tables summarize gross profit and gross margin:

	Gross Profit		Gross Margin	
	YTD 2021	YTD 2020	YTD 2021	YTD 2020
Products	\$2,007,462	\$1,630,865	21.4%	19.8%
Solutions and other services	1,018,219	1,249,836	69.0%	77.8%
Total	\$3,025,681	\$2,880,701	27.9%	29.3%

The change in products gross margin is mainly due to tariffs. YTD 2021 tariffs were 0.3% of product revenue compared to 1.8% for YTD 2020. Wireless data services, which has a lower margin, comprised a greater percentage of solutions and other services YTD 2021 compared to YTD 2020.

General and administrative expenses for the nine months ended September 30, 2021 were \$4,073,083 compared to \$3,453,878 for the same period in 2020. The increase was mainly due to increased compensation associated with 4 additional sales employees and, consulting fees for building complete IoT bundled solutions and services to raise public awareness of the Company.

Research and development costs for the nine months ended September 30, 2021 were \$971,211 compared to \$747,833 for the same period in 2020. The increase was primarily the result of additional engineers related to software development for MiSensors.

Net loss for the nine months ended September 30, 2021 was (\$1,208,712) compared to (\$1,410,258) for the same period in 2020. The decrease in net loss was primarily the result of \$856,605 debt forgiveness and \$144,980 increase in gross profit offset by increases of \$619,205 and \$223,378 in general and administrative and research and development expenses, respectively.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

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.

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Revenue				
Products	2,303,477	3,232,185	3,835,800	3,860,012
Solutions & other services	524,181	474,947	475,797	554,597
	2,827,658	3,707,132	4,311,597	4,414,609
Operating Expenses	1,510,635	1,759,758	1,773,901	1,706,980
Net income (loss)	(240,662)	(771,062)	(196,988)	(537,970)
Basic income (loss) per share	(0.02)	(0.05)	(0.01)	(0.04)
Fully-diluted income (loss) per share	(0.02)	(0.05)	(0.01)	(0.04)
Weighted average number shares outstanding - basic	15,634,727	15,631,640	15,208,916	13,924,261
Weighted average number shares outstanding – diluted	15,634,727	15,631,640	15,208,916	13,924,261
Total fully diluted shares	20,159,587	20,184,587	20,558,444	19,923,444
	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Revenue				
Products	2,696,150	2,669,412	2,870,588	4,090,082
Solutions & other services	508,058	527,889	570,754	571,947
	3,204,208	3,197,301	3,441,342	4,662,029
Operating Expenses	1,203,228	1,439,993	1,557,838	1,292,580
Net income (loss)	(245,673)	(494,580)	(669,353)	(257,836)
Basic income (loss) per share	(0.02)	(0.04)	(0.05)	(0.02)
Fully-diluted income (loss) per share	(0.02)	(0.04)	(0.05)	(0.02)
Weighted average number shares outstanding - basic	13,403,300	13,403,300	13,315,707	10,794,365
Weighted average number shares outstanding – diluted	13,403,300	13,403,300	13,315,707	10,794,365
Total fully diluted shares	17,229,580	17,254,580	16,964,580	14,824,800

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.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

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 September 30, 2021, 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.

On August 5, 2021, the Company received notice from TAB that the Second Loan was forgiven in full.

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

In July 2021, the Company issued 4,000 shares due to the exercise of options for proceeds of \$3,880.

On November 1, 2021, the Company issued convertible promissory debentures totaling \$250,000. The term of the debentures is two years and accrues interest at a rate of 10% per annum, payable semi-annually unless the holder elects to defer payment. The holder of the debenture at any time could convert in whole or any part principal and interest into common shares of the Company at a conversion price of \$1.00 per share. In the event of default, all principal and interest due shall become immediately due and payable.

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 used in operating activities during the nine months ended September 30, 2021 were \$2,813,315 compared to \$2,055,412 during the previous year. The change was primarily the result of \$201,546 decrease in net loss and \$58,031 change in non-cash working capital items offset by (\$856,605)

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

gain on debt extinguishment and (\$136,725) change in deferred offering costs.

Cash flows used in investing activities during the nine months ended September 30, 2021 were \$19,787 versus \$63,613 for last year. The difference is primarily the result of \$39,169 development costs of the Company's Brewsee® Keg Management System in 2020.

Cash flows provided by financing activities during the nine months ended September 30, 2021 were \$1,810,755 compared to \$1,951,465 in 2020. In February 2021, the Company received \$434,105 from a second loan under the Paycheck Protection Program. In February and March 2021, the Company received \$426,512 from the exercise of 533,140 warrants. Net borrowings under our credit facility were \$1,160,025 higher in 2021 than 2020. In January 2020, the Company completed its initial public offering and received net proceeds of \$1,820,165. In April 2020, the Company received \$422,500 from a loan under the Paycheck Protection Program.

At September 30, 2021, the Company had working capital (deficiency) of (\$875,539) compared to (\$27,671) at December 31, 2020. The change is mainly due to \$426,512 proceeds from exercise of warrants plus the \$434,105 proceeds from the second PPP loan offset by our net loss of (\$1,208,712) and gain of debt extinguishment of \$856,605.

Capital Resources

As of September 30, 2021, 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.

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 \$248,085 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.

In February and March 2021, 533,140 warrants were exercised at \$0.80 per share for net proceeds of \$426,512.

In July 2021, 4,000 options were exercised at \$0.97 per share for net proceeds of \$3,880.

At September 30, 2021, the Company had 15,635,640 shares issued and outstanding with a par value of \$0.00001.

Warrants

In January 2020 in conjunction with the Company's initial public offering, the Company issued warrants to

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

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.

In May and June 2021, 465,524 warrants expired and were forfeited.

As of the date of this report, the Company has 106,280 warrants outstanding which expire in January 2022 and have an exercise price of C\$2.00 per share.

Stock Options

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.

At September 30, 2021, 4,417,667 options were outstanding of which 2,694,010 are vested and are exercisable at \$0.47 per option; 550,209 are vested and exercisable at \$1.53 per option; 120,833 are vested and exercisable at \$0.79 per option; 156,250 are vested and exercisable at \$1.59 per option; and 8,500 are vested and exercisable at \$0.97 per option. The Company recognized stock-based compensation expense for the nine months ended September 30, 2021 and 2020 of \$364,820 and \$302,180, respectively.

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.

On June 1, 2021, the Company granted 125,000 options of which 100,000 to a director. The options are exercisable at \$0.97 which was the fair market value of a share of stock on the date of the grant.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

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.

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 loss associated with this agreement of \$214,475 and \$225,665 for the nine months ended September 30, 2021 and 2020, 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 \$122,825 professional fees on the consolidated statements of operating loss for the nine months ended September 30, 2021.

Mike Zhou, a member of the Company's Board of Directors, is sole proprietor of MYZ Corporate Relations, Ltd.

In May 2021, the Company entered into an Agreement with MYZ Corporate Relations to provide strategic advice and business development opportunities. The Agreement is for a term of one year. The Company recorded \$16,800 professional fees on the consolidated statements of operating loss for the nine months ended September 30, 2021.

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, 2021 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.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

(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.

(v) Employee retention tax credits - Under the provisions of the CARES Act, the Company is eligible for refundable employee retention credits subject to certain criteria. In connection with the CARES Act, the Company adopted a policy to recognize the employee retention credit when received given the uncertainty of when the credit will be received.

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 Second 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, 2021 and 2020, approximately 31% and 37% of the Company's revenue is attributable to sales transactions with one and three customer(s).

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.

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

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:

	September 30, 2021	December 31, 2020
Accounts Receivable	\$ 1,570,854	\$ 1,371,998
Allowance for doubtful accounts	(51,611)	(27,946)
Total	\$ 1,519,243	\$ 1,344,052

Aged trade receivable listing:

Days outstanding	September 30, 2021	December 31, 2020
Current	\$ 1,214,166	\$ 1,194,982
1 – 30	295,952	84,895
31 – 60	19,723	80,914
61 – 90	25,864	1,192
> 90	15,049	10,015
Total	\$ 1,570,854	\$ 1,371,998

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 September 30, 2021, the Company had working capital deficiency of \$875,539. 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

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2021 United States dollars unless otherwise stated

in 2021 would result in approximately \$8,000 additional interest expense for the nine months ended September 30, 2021.

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 the nine months ended September 30, 2021.

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.