



Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine months ended September 30, 2022

Amounts in United States dollars unless stated otherwise

Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Three and Nine Months Ended September 30, 2022 United States dollars unless otherwise stated

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 nine months ended September 30, 2022. This management discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021 (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 30, 2022.

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.

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Overview

Direct Communication Solutions, Inc. provides Internet of Things (IoT) products, services and solutions. We deliver enhanced one-stop solutions that connect assets to increase visibility, operational efficiency, and profitability. We provide our solutions and services to a variety of industries including, Supply Chain Logistics, Transportation, Health Care, and Food & Beverages. We are a chosen global partner of service providers, value-added collaborators, system integrators, and enterprises due to our commitment to quality and demonstrated experience. We intend to continue expanding our long-standing relationships and work strategically with our partners, to jointly build leading IoT solutions based on integrated hardware, cloud-based software, and other services.

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 MiConnectivity to provide wireless data connectivity for global connectivity through our fully integrated SIM management platform and MiServices™ to provide managed services solution that includes all-inclusive device readiness program and engineering support. These services include software development, hardware integration and logistics support from SIM to Shipment, including device preparation, custom labeling, packaging, configuration confirmation, and system-side 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. Currently, the company has three primary business focuses on revenue stream and growth generation.

Smart Hardware Provider. The company utilizes smart hardware from an expanding group of suppliers to deploy through our strategic agreements with channel partners including Verizon, AT&T, U.S. Cellular, Ingram Micro, Synnex and Hyperion Partners as the basis to develop our own end-to-end SaaS based intelligent business solutions.

SaaS Software Solutions Provider. Our products and services then enable devices to communicate with each other and with server or cloud-based application infrastructures. These software applications address and solve real-world data collection and monitoring problems to best serve our customers and manage their evolving business requirements.

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Industry Technology Innovation. DCS has sold to customers within various smart 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 and utilities and safety and security. As the company applies its core competencies it can now address a broadening spectrum of software application markets.

DCS is continuing to evolve from our smart hardware distribution base of mobile broadband hardware to providing End-to-End solutions for mobile internet, M2M, and vertical markets. We serve our clients by simplifying IoT technologies, making them less costly, easier to deploy and overall, more efficient. We intend to continue to leverage our long-standing relationships with strategic partners and jointly build unique IoT solutions based on integrated third-party equipment along with our application software. This mixed hardware and software implementation allows 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, 2021 and the interim period ended September 30, 2022:

December 31, 2021

- 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 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 PTI Pacifica Inc., dba IT&E ("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.
- Entered into a strategic partnership with Streamline Transportation Technologies (an Arrow Transportation Systems Inc. company) to kick-off international expansion in SaaS.

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September 30, 2022

- Launch the first phase of the SMART ESG Program to provide Cloud-Based IoT solutions for ESG Assets and Data market
- Jointly with UScellular to provide 4G LTE Wireless upgrade for Duplin County's 157 school buses in North Carolina.
- Closed the fully subscribed \$1,500,000 USD unsecured convertible debenture.

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.

Outlook

DCS is an emerging provider that offers Internet of Things ("IoT") and connectivity-related business-critical solutions and services. 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 10% of total corporate revenue for the nine months ended September 30, 2022.

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.

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.

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Non-IFRS Financial Measures – Adjusted EBITDA

This MD&A references adjusted EBITDA, which is a non-IFRS financial measure. Adjusted EBITDA is not a recognized measure under IFRS, has no standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to adjusted EBITDA presented by other companies. Rather, it is provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, adjusted EBITDA should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

We use non-IFRS financial measures to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. There are certain limitations related to the use of non-IFRS financial measures versus their nearest IFRS equivalents. Investors are encouraged to review our financial statements and disclosures in their entirety and are cautioned not to put undue reliance on any non-IFRS financial measure and view it in conjunction with the most comparable IFRS financial measures. In evaluating non-IFRS financial measures, you should be aware that in the future we will continue to incur expenses similar to those adjusted in non-IFRS financial measures.

Adjusted EBITDA is a non-IFRS financial measure that we calculate as net income (loss) before tax excluding depreciation and amortization expense, share based expense, unrealized gain on inventory, finance expense, other asset impairments, unrealized loss on fair value of deposits and convertible note, and listing expenses. Adjusted EBITDA is used by management to understand and evaluate the performance and trends of the Company's operations. The following table shows a reconciliation of adjusted EBITDA to net income (loss) before tax, the most comparable IFRS financial measure, for the nine months ended September 30, 2022 and 2021:

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
	\$	\$	\$	\$
Loss before tax	(914,377)	(240,662)	(167,009)	(1,208,712)
Accretion	8,630	-	8,630	-
Net changes in fair value	240,587	-	240,587	-
Amortization of debt issuance costs of credit facility	-	3,125	-	10,146
Depreciation	55,652	58,732	166,614	174,049
Finance cost for right of use assets	19,573	1,742	61,216	10,858
Gain on debt extinguishment	-	(434,105)	-	(856,605)
Interest expense	53,918	30,613	147,963	70,951
Provision for excess and obsolete inventory	(29,653)	56,599	(52,051)	59,126
Share based expense	32,213	107,049	526,752	364,820
Tax fees	4,373	1,528	13,783	10,669
One-time costs related to up-listing to senior exchange				
One-time professional fees	224,000	-	561,600	-

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Marketing expenses	140,620	-	140,620	-
Adjusted EBITDA	(164,464)	(415,379)	1,648,705	(1,364,698)

Revenues were 66% higher (Gross Margin increased by 43%) on a year-over-year basis from the corresponding third quarter of 2021. The decrease in EBITDA for the three months ended September 30, 2022 was primarily attributable to a marketing promotional program undertaken within the third quarter that focused on growing the annual recurring revenue. For the nine months ended September 2022, we have 19,776 active subscribers for our SaaS Solutions (13,180 active subscribers for the year ended December 2021) representing a growth of 50% in active subscribers.

Further impact on EBITDA, Payroll expenses increased from hiring two key managers at the beginning of the quarter in the Accounting and Operation department. The Company continues further strengthen its management team and board in preparation for an uplisting to a senior exchange.

Key Business Metrics

The following table shows a summary of our key business metrics as of the periods presented:

	September 30, 2022
	\$
Annual recurring revenue ("ARR")	2,096,238

ARR

We believe that ARR is a key indicator of the trajectory of our business performance, enables measurement of the progress of our business initiatives, and serves as an indicator of future growth. We define ARR as the annualized value of subscription contracts that have commenced revenue recognition as of the measurement date. ARR highlights trends that may be less visible from the face of our financial statements due to ratable revenue recognition. ARR does not have a standardized meaning and is not necessarily comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue and is not intended to be combined with or to replace it. ARR is not a forecast and the active contracts at the date used in calculating ARR may or may not be extended or renewed.

Results of Operations for the Three months ended September 30, 2022

Revenues for the three months ended September 30, 2022 were \$4,690,736 compared to \$2,827,658 for the same period last year. Product revenue of \$4,112,623 was up 79% over the same period as last year as customers were delaying orders in 2021 due to the pandemic.

Solutions and other services revenue of \$578,113 was up 10% from the same period as last year.

Cost of revenues for the three months ended September 30, 2022 were \$3,489,359 compared to \$1,985,424 for the same period in 2021. The following tables summarize gross profit and gross margin:

Gross Profit	Gross Margin
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	Q3 2022	Q3 2021	Q3 2022	Q3 2021
	\$	\$	%	%
Products	786,240	487,147	19.1%	21.1%
Solutions and other services	415,137	355,087	71.8%	67.7%
Total	1,201,377	842,234	25.6%	29.8%

The Company went through and aggressively reworked the pricing models to achieve healthier margins. The Company also expanded the portfolio of product offerings which permitted higher margin sales.

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General and administrative expenses for the three months ended September 30, 2022 were \$1,688,925 compared to \$1,211,079 for the same period in 2021. Compensation was 10% higher in Q3 2022 vs same period in last year due to appointment of the finance key hires and directors. Increase in professional fees of \$ 146,362 or 55% is mainly due to consulting fees for building complete IoT bundled solutions, services to raise public awareness of the Company and other corporate development. Increase in other represents the increase in corporate activities.

Research and development costs for the three months ended September 30, 2022 were \$320,563 compared to \$299,556 for the same period in 2021.

Net loss for the three months ended September 30, 2022 was \$914,377 compared to \$240,662 for the same period in 2021. The increase in net income was primarily the result of \$1,863,078 and \$359,143 increases in revenue and gross profit, respectively.

Results of Operations for the nine months ended September 30, 2022

Revenues for the nine months ended September 30, 2022 were \$18,288,251 compared to \$10,846,387 for the same period last year. Product revenue of \$16,523,645 was up 76% over the same period as last year as customers were delaying orders in 2021 due to the pandemic.

Solutions and other services revenue of \$1,764,606 was up 20% from the same period as last year.

Cost of revenues for the nine months ended September 30, 2022 were \$12,613,816 compared to \$7,820,706 for the same period in 2021. The following tables summarize gross profit and gross margin:

	Gross Profit		Gross Margin	
	<u>YTD 2022</u>	<u>YTD 2021</u>	<u>YTD 2022</u>	<u>YTD 2021</u>
	\$	\$	%	%
Products	4,420,179	2,007,462	26.8%	21.4%
Solutions and other services	1,254,256	1,018,219	71.1%	69.0%
Total	5,674,435	3,025,681	31.0%	27.9%

The Company went through and aggressively reworked the pricing models to achieve healthier margins. The Company also expanded the portfolio of product offerings which permitted higher margin sales.

General and administrative expenses for the nine months ended September 30, 2022 were \$4,618,919 compared to \$4,073,083 for the same period in 2021. Compensation was 10% lower in Q2 2022 vs same period in last year due to resignations of the former CFO and director. Increase in professional fees is mainly due to consulting fees for building complete IoT bundled solutions, services to raise public awareness of the Company and other corporate development. Increase in other represents the increase in corporate activities.

Research and development costs for the nine months ended September 30, 2022 were \$1,022,214 compared to \$971,211 for the same period in 2021.

Net loss for the nine months ended September 30, 2022 was \$167,009 compared to \$1,208,712 for the same period in 2021. The increase in net income was primarily the result of \$7,441,864 and \$2,648,754.00 increases in revenue and gross profit, respectively.

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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 2022	Q2 2022	Q1 2022	Q4 2021
	\$	\$	\$	\$
Revenue				
Products	4,112,623	5,212,313	7,198,709	5,172,283
Solutions & other services	578,113	585,289	601,204	506,853
	<u>4,690,736</u>	<u>5,797,602</u>	<u>7,799,913</u>	<u>5,679,136</u>
Operating Expenses	2,009,488	1,906,918	1,724,727	2,105,385
Net income (loss)	(914,377)	117,248	682,288	(563,602)
Basic income (loss) per share	(0.06)	0.01	0.04	(0.03)
Fully-diluted income (loss) per share	(0.06)	0.01	0.04	(0.03)
Weighted average number shares outstanding - basic	16,135,640	16,135,640	16,135,640	15,634,727
Weighted average number shares outstanding – diluted	16,135,640	17,305,253	16,135,640	15,634,727
Total fully diluted shares	<u>20,659,587</u>	<u>20,659,587</u>	<u>20,659,587</u>	<u>20,159,587</u>
	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
	<u>2,827,658</u>	<u>3,707,132</u>	<u>4,311,597</u>	<u>4,414,609</u>
Operating Expenses	1,510,635	1,759,758	1,773,901	1,706,328
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	<u>20,159,587</u>	<u>20,184,587</u>	<u>20,558,444</u>	<u>19,923,444</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.

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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, 2022, 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, the Company issued 533,140 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 August 5, 2021, the Company received notice from TAB that the Second Loan was forgiven in full.

In November and December 2021, the Company had issued convertible promissory debentures totalling \$275,000. The debentures accrued interest at a rate of 10% per annum and was payable semi-annually unless the holder elected to defer payment. All unpaid principal and accrued interest are due two years from date of issuance. 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.

At September 30, 2022 and December 31, 2021, the outstanding balance on the credit facility was \$483,856 and \$1,670,833, respectively.

During the nine months ended September 30, 2022, the Company received convertible debenture financing for the aggregate amount of \$100,000 (U.S.). Subscribers may convert all or part of the principal amount outstanding under the debentures into shares of common stock of the company. The debentures are convertible into units at the higher of \$1.19 or a price equal to the price of the shares or units of the next financing carried out before the second anniversary of the closing date less a 30-per-cent discount.

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The units comprise a share and one-half of one warrant, where a whole warrant shall be exercisable at \$0.40 per common share for a two-year term. The debentures have a maturity date of the second anniversary of the closing date and bear an interest rate of 10 per cent per annum, payable semi-annually.

In September 2022, the Company issued additional convertible promissory debentures totalling \$1,500,000, bearing interest at 10% per annum (accruing annually and payable at maturity), on September 9, 2022 and maturing on September 9, 2024, or a period of 24-months. The Debentures are convertible, at the option of the holder, to common shares of DCS at a price of \$1.19 USD or a price equal to the price of the shares of the next financing carried out before the second anniversary of the closing date less a 25% discount. Upon issuance of the debentures, the Company also issued 750,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of \$0.86 per share for a period of 24 months from the date of issuance of the debentures. The Company records the fair value of the conversion features with variable exercise prices as an embedded derivative separate from the host contract. The fair value of the derivative liabilities is revalued on each balance sheet date with corresponding gains and losses recorded in the consolidated statements of operations. The Company uses a derivative valuation technique to fair value the components of the hybrid contract on initial recognition, including the debt component, the embedded derivative, and the warrants.

During the nine months ended September 30, 2022, the Company received unsecured promissory note in the principal amount of \$200,000. The note is interest bearing at 5.00% per annum and any payments made by the Company will first be applied to accrued interest and then to principal. The note matures December 31, 2022.

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 0.008% 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 in operating activities during the nine months ended September 30, 2022 were \$1,565,021 compared to \$2,813,315 used during the same period last year.

Cash flows used in investing activities during the nine months ended September 30, 2022 were \$4,040 versus \$19,787 during the same period last year. The difference is primarily the purchase of property and equipment during the same period last year.

Cash flows used in financing activities during the nine months ended September 30, 2022 were \$112,608 compared to \$1,810,755 provided during the same period last year. The Company received \$300,000 during the nine months ended September 30, 2022 compared to \$434,105 for the same period in 2021 from the Paycheck Protection Program. During nine months ended September 30, 2021, the Company received \$426,512 from the exercise of 533,140 warrants while there was \$Nil received during the nine months ended September 30, 2022. Net repayments on credit facility were \$1,670,833 during the nine months ended September 30, 2022 while net borrowings under our credit facility were \$1,111,782 during the same period in 2021.

At September 30, 2022, the Company had working capital of \$1,860,126 (December 31, 2021 – deficiency of \$32,630).

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Capital Resources

As of September 30, 2022, the Company has committed approximately \$600K 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 after share issuance costs of \$123,061.

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

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

At December 31, 2021, the Company had 15,635,640 shares issued and outstanding with a par value of \$0.00001.

In January 2022, 500,000 common shares of common stocks were issued at CAD\$0.55 in exchange for non-arm's length consulting fee for corporate development.

Warrants

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 \$30,555.

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.

In January 2022, all outstanding warrants were expired.

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In September 2022, upon issuance of the debentures, the company also issued 750,000 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of \$0.86 per share for a period of 24 months from the date of issuance of the debentures. The Company determined the fair value of the warrants to be \$215,667 using a derivative valuation technique and capitalized in the fair value of the convertible debentures.

Stock Options

In October 2017, the Company's board of directors and stockholders approved the 2017 Stock Plan under which 3,500,000 shares of common stock are reserved for the granting of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and performance awards to employees, directors and consultants. Recipients of stock option awards are eligible to purchase shares of the Company's common stock at an exercise price equal to no less than the estimated fair market value of such stock on the date of grant. The maximum term of awards granted under the 2017 Plan is ten years and vesting is determined by the board of directors. Stock awards are generally not exercisable prior to the applicable vesting date, unless otherwise accelerated under the terms of the applicable stock plan agreement. Unvested shares of the Company's common stock issued in connection with an early exercise allowed by the Company may be repurchased by the Company upon termination of the optionee's service with the Company. The vesting terms of each option grant are at the discretion of the Board of Directors

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, 2022, 4,126,885 options were outstanding of which 2,668,090 are vested and are exercisable at \$0.47 per option; 102,605 are vested and exercisable at \$1.53 per option; 6,875 are vested and exercisable at \$0.79 per option; 36,000 are vested and exercisable at \$0.42 per option; 29,688 are vested and exercisable at \$0.41 per option; 4,167 are vested and exercisable at \$0.41 per option; 59,557 are vested and exercisable at \$0.59 per option; 100,000 are vested and exercisable at \$0.79 per option; 390,000 are vested and exercisable at \$1.02 per option. The Company recognized stock-based compensation expense for the nine months ended September 30, 2022 of \$422,490.

On May 9, 2022, the Company granted 390,000 and 100,000 stock options to directors with an exercise price of \$1.02 and \$0.79 respectively.

On March 14, 2022, the Company granted 435,000 stock options to officers with an exercise price of \$0.59 which was the fair market value of a share of stock on the date of the grant.

On February 28, 2022, the Company cancelled 980,000 stock options. of which 100,000 were exercisable at US\$0.79, 485,000 were exercisable at \$1.53, 375,000 were exercisable at \$1.59, and 20,000 were exercisable at \$1.68.

On February 24, 2022, the Company granted 100,000 stock options to officers with an exercise price of

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\$0.41 which was the fair market value of a share of stock on the date of the grant.

On February 9, 2022, the Company cancelled 435,000 stock options. of which 85,000 were exercisable at \$0.79, 50,000 exercisable at \$1.53, and 300,000 exercisable at \$1.59.

On February 4, 2022, the Company granted 175,000 options with an exercise price of \$0.41 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.

In June 2021, the Company modified an option for a former Board of Director to extend the period to exercise 66,667 vested options from 90 days to one year (the "Modification"). The Company recognized an additional \$1,694 in stock-based compensation associated with the Modification, included within total stock-based compensation of \$629,167.

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 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 January 7, 2020, the Company granted 755,000 options to certain of its directors and officers. 735,000 of the options are exercisable at \$1.53 (\$2.00 CAD equivalent) and 20,000 of the options are exercisable at \$1.68 per share (\$2.20 CAD equivalent). 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.

Rich Gomberg, the Company's former CFO is a former employee of CFO Connect. Ed O'Sullivan, a former member of the Company's Board of Directors, is managing partner of CFO Connect. The relationship with the Company was terminated during the nine months ended September 30, 2022. The Company recorded professional fees the consolidated condensed statement of operations associated with CFO services for \$83,850 for the nine months ended September 30, 2022. As of September 30, 2022 and December 31, 2021, the Company owed \$Nil and \$9,325, respectively.

John Hubler, a former member of the Company's Board of Directors, is a partner of BH IoT Group. Subsequently on July 28, 2022, John Hubler tendered his resignation as a director of the Company to take on the role of chair of the technology advisory board, effective July 28, 2022. 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

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Phase1, both parties agreed to continue the relationship on a month-to-month basis. The Company recorded \$121,000 professional fees on the consolidated condensed statement of operations for the nine months ended September 30, 2022. As of September 30, 2022 and December 31, 2021, no balance was due with respect to this agreement.

Mike Zhou, a member of the Company's Board of Directors, is the owner of MYZ Corporate Relations, Ltd. In May 2021, the Company entered into an agreement with MYZ Corporate Relations, Ltd. To provide consulting services on strategic matters related to business development opportunities, product development and marketing strategies for a monthly fee of \$4,000. The agreement is effective for one year and will automatically renew annually unless terminated by either party. The Company recorded \$67,722 of professional fees on the consolidated condensed statement of operations for the nine months ended September 30, 2022.

In March 2022, the Company entered into an agreement with Zeus Capital Ltd. to assist the company with corporate finance and strategic initiatives for a monthly fee of \$15,000. The agreement is effective for one year and will automatically renew annually unless terminated by either party. The Company recorded \$244,079 of professional fees on the consolidated condensed statement of operations for the nine months ended September 30, 2022. In January 2022, 500,000 common shares of common stocks were issued at CAD\$0.55 in exchange for consulting fee for corporate development.

Also in April 2022, the Company appointed Mr. Lichtenwald as the new CFO and Mr. Lichtenwald is a principal of Lichtenwald Professional Corp ("LPC"). The Company entered into an agreement with LPC to provide CFO service fee of \$12,500 monthly. The Company recorded \$101,500 of professional fees on the consolidated condensed statement of operations for the nine months ended September 30, 2022.

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

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	\$	\$
Salary	505,931	660,891
Consulting fees	618,151	354,100
Share-based compensation	279,918	237,230
Total	1,404,000	1,252,221

As at September 30, 2022, \$Nil (December 31, 2021 – \$46,503) was included in accounts payable and accrued liabilities for fees owed to related parties.

Critical Accounting Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated condensed interim financial statements are, but not limited to the following:

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- 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 accounts receivable. These are determined based on analyzing known uncollectible accounts, aged receivables, economic conditions, historical losses, and changes in customer payment cycles and the customers' credit-worthiness.
- Provision for excess and obsolete inventory - Inventory is valued at the lower of cost and net realizable value. Net realizable value for inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. All of these estimates involve uncertainty relating to future pricing, demand and market conditions. Provisions are made in profit or loss of the current period on any difference between book value and net realizable value.
- Fair value of stock options and warrants - Determining the fair value of warrants and stock options requires judgements related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity (deficiency).
- Income taxes - Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and future periods. Deferred tax assets, if any, are recognized to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.
- Estimated product returns - Revenue from product sales is recognized net of estimated sales discounts, credits, returns, rebates and allowances. The return allowance is determined based on an analysis of the historical rate of returns, industry return data, and current market conditions, which is applied directly against sales. The Company recognizes product returns when incurred due to the infrequent occurrence of returns.
- Employee retention tax credits – Under the provisions of the CARES Act (Note 10), 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. The Company recorded \$24,247 employee retention tax credit during the year ending December 31, 2021, which is included in other income in the consolidated condensed statements of operating loss.

Critical Accounting Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated condensed financial statements are, but are not limited to, the following:

- Deferred income taxes – judgements are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be

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an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

- Going concern – As disclosed in Note 1 to the consolidated condensed financial statements.

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. Approximately 38% of the Company's revenue (2021 - 31%) is attributable to sales transactions with one customer.

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:

	September 30, 2022	December 31, 2021
Accounts receivables	\$ 3,708,558	\$ 4,024,625
Other receivables	120,035	
Allowance for doubtful accounts	(195,601)	(121,319)
Total	\$ 3,632,992	\$ 3,903,306

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Aged trade receivable listing:

Days outstanding	September 30, 2022	December 31, 2021
Current	\$ 2,642,197	\$ 3,046,604
1 – 30	368,725	690,882
31 – 60	111,151	174,211
61 - 90	37,722	32,824
> 90	548,763	80,104
Total	\$ 3,708,558	\$ 4,024,625

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company examines current forecasts of its liquidity requirements so as to make certain that there is sufficient cash for its operating needs. These forecasts take into consideration matters such as the Company's plan to use debt for financing its activity, compliance with any required financial covenants and liquidity ratios, and compliance with external requirements such as laws or regulation.

The Company has a factoring agreement with external funding. The Company's accounts payable and accrued liabilities have contractual terms of 30 to 90 days, with the exception of one vendor where payment terms of 36 months have been granted. The Company is exposed to liquidity risk.

Market risk

a) Currency Risk

The Company is located in the United States and virtually all transactions including the company's sales and debt are negotiated in US dollars.

b) Interest Rate Risk

The Company's debt has fixed interest rates and are not exposed to interest rate risk until maturity. The Company's credit facility is variable based on the 90 day LIBOR rate. A 1% increase in the 90 day LIBOR rate in 2020 would result in approximately \$115 additional interest expense for the nine months ended September 30, 2022.

c) 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

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

SUBSEQUENT EVENTS

Subsequent to nine months ended September 30, 2022, there were no significant subsequent events.