Direct Communication Solutions, Inc.

Management's Discussion and Analysis

For the Year ended December 31, 2023

Amounts in United States dollars unless stated otherwise

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of Direct Communication Solutions, Inc. (the "Company", "DCS", "we" and "our" refer to Direct Communication Solutions, Inc.) provides an analysis of the Company's performance and financial condition for the year ended December 31, 2023. This management discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2023 (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 April 22,2024.

Forward-looking Statements

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

Overview

Direct Communication Solutions, Inc. provides Internet of Things (IoT) products, services and solutions. 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.

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, move 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, 2023 and to the date of this management discussion and analysis:

- Entered into a strategic licensing and reseller agreement with System Loco Ltd. This collaboration will further expand System Loco's advanced IoT supply chain visibility and intelligence technology solutions to the North American market.
- Entered into strategic agreement with CATrak Technologies, Inc. to offer its Catalytic Converter Theft Prevention Solution
- Successful collaboration between Epson and the Company's MiFleet solution in the fight against cargo theft.
- Signed a five-year agreement with Alsco Uniforms, the world's largest uniform provider, to offer its AI Video Telematics Solution powered by VisionTrack.
- Partnered with VisionTrack to provide AI Powered Video Telematics and IoT Solutions to the North American Market.
- Partnered with Teltonika to provide IoT Solutions in North America

COVID-19 Impact on Operations and Financial Position

In March 2020, the World Health Organization declared COVID-19 ("COVID-19" or the "pandemic") to be a public health pandemic of international concern, which has led to adverse impacts on the U.S. and global economies and continues to impact our supply chain and operations. More recently, we have experienced supply shortages as a result of global supply imbalances driven by component shortages, disruptions in accessible labor, other freight and logistical challenges and other related macro-economic factors. These supply imbalances negatively impacted all parts of our business during fiscal 2022 and have continued into fiscal 2023. The supply imbalances have been restored.

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 19% (2022 – 10%) of total corporate revenue for the year ended December 31, 2023.

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.

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 years ended December 31, 2023 and 2022:

	Three months ended December 31, 2023	Three months ended December 31, 2022	**Year ended December 31, 2023**	Year ended December 31, 2022
	$	$	**$**	$
Loss before tax	**(1,613,804)**	(1,864,069)	**(5,088,023)**	(2,234,315)
Accretion	**102,815**	95,837	**270,440**	104,467
Net changes in fair value	**(9,751)**	(344,877)	**(359,062)**	(104,290)
Amortization of debt issuance costs of credit facility	**-**	-	**-**	1,041
Depreciation and amortization	**100,400**	107,821	**420,968**	431,974
Finance cost for right of use assets	**14,830**	18,708	**65,262**	79,914
Interest expense	**16,743**	95,124	**157,374**	180,840
One time cost recovery - Tetlit	**-**	-	**(75,000)**	-
Impairment of intangible asset	**210,056**	-	**210,056**	-
Government assistance	**-**	-	**-**	(286,995)
Provision for excess and obsolete inventory	**(14,646)**	165,764	**(101,550)**	97,869
Stock based compensation	**4,453**	32,369	**43,874**	280,885
Tax fees	**1,438**	5,532	**4,127**	19,315
One-time costs related to up-listing to senior exchange	**356,961**	598,606	**1,823,647**	975,041
Adjusted EBITDA	**(830,505)**	(1,089,185)	**(2,627,887)**	(454,254)

Revenues decreased by 58% (Gross Profit decreased by 18%) on a year-over-year basis from the corresponding fourth quarter of 2022 and decreased by 48% (Gross Profit decreased by 30%) on a year-over-year basis for the year ended December 31, 2023. The decrease in EBITDA for the three months and year ended December 31, 2023 compared to the same period in 2022 was primarily attributable to decreased revenue due to Covid 19 impacted supply chain issues. Many customers ordered in advance in 2022 and still have inventory on hand for 2023. Also, during the beginning of 2022, there was a spike in revenue due to customers transiting from 3G to 4G devices. For the year ended December 31, 2023, the Company have 19,116 active subscribers for our SaaS Solutions (16,829 active subscribers for the year ended December 2022) representing a growth of 14% in active subscribers.

Key Business Metrics

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

	As at December 31, 2023
	$
Annual recurring revenue ("ARR")	2,712,511

<u>ARR</u>

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 December 31, 2023

Revenues for the three months ended December 31, 2023 were $1,821,603 compared to $4,298,055 for the same period last year. Product revenue of $1,190,465 was down 68% over the same period as last year as customers stocked up in inventory in 2022 due to supply chains issues caused by COVID-19.

Solutions and other services revenue of $631,138 was up 21% from the same period as last year.

Cost of revenues for the three months ended December 31, 2023 were $983,279 compared to $3,280,497 for the same period in 2022. The following tables summarize gross profit and gross margin:

	Gross Profit		**Gross Margin**	
	Q4 2023	Q4 2022	Q4 2023	Q4 2022
	$	$	%	%
Products	471,337	647,451	39.6%	17.1%
Solutions and other services	366,987	370,107	58.1%	71.0%
Total	838,324	1,017,558	46.0%	23.7%

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 three months ended December 31, 2023 were $2,037,841 compared to $2,947,349 for the same period in 2022. Professional services decreased in 2023 vs same period in last year, due to the Company's decision to cease the Company's ongoing IPO process during Q4 of 2023, and advertising and marketing expenses decreased in 2023 as the Company ceased one of its marketing programs in 2023. Compensation and benefits decreased in 2023 primarily due decrease in commission as a result of less sales and the Company decision to preserve working capital for operations. Bank fees increased due to the Company obtained financing from additional loans. Increase in other expense during the three months ended December 31, 2023 was primarily due to significant increase in insurance expense as additional insurance was required for the Company's IPO process.

The Company recognized $9,356 of bad debt recovery compared to an expense of $134,669 during the same quarter last year. The decrease was due to managements' projected a customer would likely default on its loan last year, whereas the estimated balance of allowance for doubtful accounts decreased due to successful collections of accounts receivable during the current quarter. Bad debt expense and estimated balance of allowance for doubtful accounts are determined by the aging of accounts receivable balance at each quarter end and would move in correlation with the balance of accounts receivable at the point in time.

There were no other significant changes in general and administrative expenses.

Research and development costs for the three months ended December 31, 2023 were $79,595 compared to $150,441 for the same period in 2022. The decrease was a result of reduction in testing for new hardware devices.

Interest expense and accretion for the three months ended December 30, 2023 were $134,388 compared to $128,714 for the same period in 2022. The increase was primarily due to the interest expense of the new additional loans that were obtained for financing in Q4 2023.

During the three months ended December 31, 2023, management assessed there were observable indications that the intangible asset value declined and determined the carrying amount and recoverable amount were $Nil, as a result, a total of $210,056 (2022 - $Nil) was recognized in impairment of intangible on the consolidated statement of operating loss and comprehensive loss.

Net loss for the three months ended December 31, 2023 was $1,613,804 compared to $1,864,069 for the same period in 2022. The difference in net loss was primarily the result of cost saving initiatives implemented by management during the year of 2023.

Results of Operations for the year ended December 31, 2023

Revenues for the year ended December 301 2023 were $13,027,675 compared to $22,586,306 for the same period last year. Product revenue of $10,500,555 was down 48% over the same period as last year as customers stocked up in inventory in 2022 due to supply chains issues caused by COVID-19.

Solutions and other services revenue of $2,527,110 was up 11% from the same period as last year.

Cost of revenues for the year ended December 31, 2023 were $8,598,869 compared to $16,218,247 for the same period in 2022. The following tables summarize gross profit and gross margin:

	Gross Profit		**Gross Margin**	
	Q4 2023	Q4 2022	Q4 2023	Q4 2022
	$	$	%	%
Products	2,794,145	4,743,696	26.6%	23.4%
Solutions and other services	1,634,661	1,624,363	64.7%	71.1%
Total	4,428,806	6,368,059	34.0%	28.2%

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 year ended December 31, 2023 were $8,657,068 compared to $8,154,887 for the same period in 2022. Professional services increased in 2023 vs same period in last year, due to efforts to increase awareness within the investor community across the globe in preparation of the Company's ongoing IPO process for the first three quarters of the year, and advertising and marketing expenses decreased in 2023 as the Company ceased one of its marketing programs 2023. Bank fees decreased substantially due to decreased usage of the Company's credit facilities. Facilities expense increased due to increased operation cost from post pandemic inflation. Increase in other represents increase in corporate activities, insurance expense for the Company's IPO process, and inflation occurred post pandemic. Included in other expense during the year ended December 31, 2023 was a recovery of $75,000 recorded in connection to a recovery expense from Tetlit financing, there were no such expense last year.

The Company recognized $121,695 of bad debt expense compared to $224,795 the same period last year. The decrease was due to management projected a customer would likely default on its loan last year, whereas the estimated balance of allowance for doubtful accounts decreased due to successful collections of accounts receivable during the current year.

There were no other significant changes in general and administrative expenses.

Research and development costs for the year ended December 31, 2023 were $515,691 compared to $553,465 for the same period in 2022. The decrease was result of reduction in testing for new hardware devices .

During the year ended December 31, 2023, the Company received $Nil in employee retention tax compared to a recovery of $286,995 recorded in connection to employee retention tax credit during the year ended December 31, 2022.

Interest expense and accretion for the year ended December 31, 2023 were $493,076 compared to $285,307 for the same period in 2022. The increase was primarily due the interest expense and accretion of the convertible debentures that were issued in September 2022, where only four months of expense had been factored in compared to a full year in the current year.

During the year ended December 31, 2023, management assessed there were observable indications that the intangible asset value declined and determined the carrying amount and recoverable amount were $Nil, as a result, a total of $210,056 (2022 - $Nil) was recognized in impairment of intangible on the consolidated statement of operating loss and comprehensive loss.

Net loss for the year ended December 31, 2023 was $5,088,023 compared to $2,234,315 for the same period in 2022. The difference in net loss was primarily the result of less sales for the year of 2023.

Summary of Quarterly Results

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

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
	$	$	$	$
Revenue				
Products	1,190,465	2,815,266	3,922,122	2,572,712
Solutions & other services	631,138	609,096	662,586	624,290
	1,821,603	3,424,362	4,584,708	3,197,002
Operating Expenses	2,117,435	2,030,931	2,835,343	2,189,049
Net loss	(1,613,804)	(1,006,837)	(1,102,297)	(1,246,874)
Basic income (loss) per share	(0.70)	(0.49)	(0.48)	(0.54)
Fully-diluted income (loss) per share	(0.70)	(0.49)	(0.48)	(0.54)
Weighted average number shares	2,305,079	2,305,079	2,305,079	2,305,079

outstanding - basic				
Weighted average number shares outstanding – diluted	2,305,079	2,305,079	2,305,079	2,305,079
Total fully diluted shares	2,305,079	2,305,079	2,305,079	2,305,079

	Q4 2022	Restated Q3 2022	Restated Q2 2022	Restated Q1 2022
	$	$	$	$
Revenue				
Products	3,776,934	4,112,623	5,212,313	7,198,709
Solutions & other services	521,121	578,113	585,289	601,204
	4,298,055	4,690,736	5,797,602	7,799,913
Operating Expenses	3,097,790	2,169,783	1,818,887	1,621,892
Net income (loss)	(2,080,232)	1,049,031	103,095	732,955
Basic income (loss) per share	(0.81)	(0.46)	0.04	0.32
Fully-diluted income (loss) per share	(0.81)	(0.46)	0.04	0.32
Weighted average number shares outstanding - basic	2,305,091	2,305,049	2,305,049	2,271,126
Weighted average number shares outstanding – diluted	2,305,091	2,305,049	2,305,049	2,271,126
Total fully diluted shares	2,305,091	2,305,049	2,375,049	2,375,091

The Company's business typically undergoes seasonal variation in the fiscal quarter ended March 31 due to disruptions in the manufacturing of hardware components in Asia driven primarily by the observance of the lunar new year holidays during that period and in the fiscal quarter ended September 30 due to summer vacations of the industrial buyers representing business or government customers.

Liquidity and Capital Resources

The Company defines capital as consisting of issued share capital, reserves and accumulated deficit. We expect to fund the operating costs of the Company over the next twelve months from expanding sales of our current products and solutions that support the growth of the Company and raising additional capital as necessary. The Company's continuing operations and its financial viability is dependent upon the extent to which it can successfully raise the capital to implement its future plans and ultimately on generating sufficient revenue to attain profitable operations. These factors indicate the existence of an uncertainty that may cast doubt about the Company's ability to continue as a going concern. At December 31, 2023, the Company is not subject to any externally imposed capital requirements or debt covenants.

During the year ended December 31, 2022, the Company received convertible debenture financing for the aggregate amount of $100,000. 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 $8.33 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.

The units comprise a share and one-half of one warrant, where a whole warrant shall be exercisable at $2.80 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 $8.33 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 107,142 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of $6.02 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.

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.

At December 31, 2023 and December 31, 2022, the outstanding balance on the credit facility was $244,015 and $Nil, respectively.

In December 2023, the Company entered into two loan agreements and pledged $110,532 (2022- $Nil) of inventory as collateral. The loans have expected terms of 12 months and 60 months and bear an interest rate of 35.28% and 6.77% respectively. As of December 31, 2023, the loans have a carrying balance of $143,362, with $99,201 due within 12 months and $44,161 not due in 12 months.

Cash flows used in operating activities during the year ended December 31, 2023 were $3,104,347 compared to $1,352,554 provided during the same period last year.

Cash flows used in investing activities during the year ended December 31, 2023 were $5,214 versus $4,040 during the same period last year. The difference is primarily the purchase of property and equipment in the current year compared to purchases during the same period last year.

Cash flows used in financing activities during the year ended December 31, 2023 were $114,008 compared to $287,875 during the same period last year. Net repayments on credit facility were $1,670,833 during the year ended December 31, 2022 compared to borrowing $244,015 this year. During the year ended December 31, 2022, the Company received $1,600,000 from convertible debenture, and there were no such transactions in the current year.

At December 31, 2023, the Company had working capital deficiency of $7,110,419 (December 31, 2022 - $1,137,657 working capital surplus).

Capital Resources

As of December 31, 2023, the Company has spent approximately $600K to complete the development of BrewSee®. The Company has no other sources of financing which have been arranged but are as yet unused.

Share Capital

Effective February 9, 2023, the Company consolidated 7 common shares for 1 common share (the "Stock

Consolidation"). The Stock Consolidation was effected in the form of cancelling 6 common shares for each common share owned by shareholders of record at the close of business on February 9, 2023. All share data and stock-based compensation plans presented herein have been retroactively adjusted to give effect to the Stock Consolidation.

The Company has authorized 5,714,286 shares with a par value of $0.00001 per share.

There were no transactions affecting share capital during the year ended December 31, 2023.

At December 31, 2023, the Company had 2,305,079 shares issued and outstanding with a par value of $0.00001.

In January 2022, 71,428 common shares of common stocks were issued at $3.05 in exchange for non-arm's length consulting fee for corporate development.

Warrants

In January 2022, 15,183 warrants expired.

In September 2022, upon issuance of the debentures, the company also issued 107,143 share purchase warrants. Each warrant entitles the holder to purchase one common share at a price of $6.02 per share for a period of 24 months from the date of issuance of the debentures. The Company determined the warrants represent an embedded derivative and has accounted for the warrants in derivative liability.

Stock Options

In October 2017, the Company's board of directors and stockholders approved the 2017 Stock Plan under which 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 a majority of the stockholders approved the following amendments to the 2017 Stock Plan: (a) increase in the number of authorized shares for issuance to 585,714 and (b) add an annual evergreen provision that will adjust the number of authorized shares reserved for issuance to an amount equal to 29.99% of the Company's issued common stock. As a result of the evergreen provision, the number of authorized shares for issuance as of December 31, 2023 is 691,500.

The following table summarizes stock option transactions under the 2017 Plan as of the date of this report:

	Number of Options	**Weighted average exercise price**
Outstanding, December 31, 2021	620,270	$ 5.84
Granted	171,429	5.35
Expired	(47,270)	6.01
Forfeited	(202,143)	10.23
Outstanding, December 31, 2022	542,286	$ 4.03
Forfeited	(1,429)	2.87
Outstanding, December 31, 2023	540,857	$ 4.03

At the date of this report, the Company had outstanding and exercisable stock options as follows:

Date of Expiry	Number of Options Outstanding	Number of Options Exercisable	Exercise Price
October 5, 2027	357,143	357,143	$ 3.29
June 1, 2031	13,714	13,714	$ 6.79
February 4, 2032	23,571	18,103	$ 2.87
February 24, 2032	14,286	13,690	$ 2.87
March 14, 2032	62,143	48,430	$ 4.13
May 9, 2027	14,286	14,286	$ 5.53
May 9, 2027	55,714	55,714	$ 8.40

During the year ended December 31, 2023, 1,429 options with an exercise price of $2.87 were forfeited.

On May 9, 2022, the Company granted 55,714 and 14,286 stock options to directors with an exercise price of $8.40 and $5.53 respectively.

On March 14, 2022, the Company granted 62,143 stock options to officers with an exercise price of $4.13 which was the fair market value of a share of stock on the date of the grant.

On February 28, 2022, the Company cancelled 140,000 stock options. of which 14,286 were exercisable at $5.53, 69,286 were exercisable at $10.71, 53,571 were exercisable at $11.13, and 2,857 were exercisable at $11.76.

On February 24, 2022, the Company granted 14,286 stock options to officers with an exercise price of $2.87 which was the fair market value of a share of stock on the date of the grant.

On February 9, 2022, the Company cancelled 62,143 stock options. of which 12,143 were exercisable at $5.53, 7,143 exercisable at $10.71, and 42,857 exercisable at $11.13.

On February 4, 2022, the Company granted 25,000 options with an exercise price of $2.87 which was the fair market value of a share of stock on the date of the grant.

Related Party Transactions

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

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 year ended December 31, 2022. The Company recorded professional fees on the consolidated statement of operations associated with CFO Connect's services for $Nil for the year ended December 31, 2023 (December 31, 2022 - $83,850). As of December 31, 2023 and 2022, the Company owed $ Nil and $Nil to CFO Connect.

John Hubler, a member of the Company's Board of Directors, is a partner of BH IoT Group. On July 28, 2022, John Hubler resigned as a director, and rejoined the Company as a director in April 2023. 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 Phase1, both parties agreed to continue the relationship on a month-to-month basis. For the year ended December 31, 2023, John Hubler was considered as a related party starting April 2023 for the fiscal year 2023. The Company recorded $180,000 (2022 - $121,000) related party professional fees on the consolidated statement of operations for the year ended December 31, 2023.

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 agreement is effective for one year and will automatically renew annually unless terminated by either party. Since fiscal year end 2022, the Company incurred additional professional fees in connection to its plans for NYSE up-listing, and MYZ Corporate Relations also contributed additionally to the event. The Company recorded $104,000 of professional fees on the consolidated statement of operations for the year ended December 31, 2023 (December 31, 2022 - $88,200). As at December 31, 2023, the Company owed $32,000 (2022 - $Nil) to MYZ Corporate Relations, Ltd.

Mr. Lichtenwald, a member of the Company's Board of Directors, is a principal at Zeus Capital Ltd. In April 2022, Mr. Lichtenwald was appointed the new CFO of the Company, and on June 30, 2022, Mr. Lichtenwald resigned as a director. In November 2021, 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 $180,000 of professional fees on the consolidated statement of operations for the year ended December 31, 2023 (December 31, 2022 - $361,798). Of the $361,798 professional fees on the consolidated statement of operations for the year ended December 31, 2022, $218,158 was paid by issuing 71,428 in shares to Zeus Capital Ltd. for corporate development.

Also, Mr. Lichtenwald is a principal of Lichtenwald Professional Corp ("LPC"). The Company entered into an agreement with LPC to provide CFO service fees of $12,500 monthly, effective April 2022. The Company recorded $156,250 of professional fees on the consolidated statement of operations for the year ended December 31, 2023 (December 31, 2022 - $139,000).

In July 2022, the Company appointed David Diamond as a new director and Chair of the Audit Committee. Mr. Diamond provides services and is compensated via director fees of $2,500 monthly. Since April 2023, Mr. Diamond provided additional service to the Company in connection to its plans for NYSE up-listing, The Company recorded $52,500 of related party professional fees on the consolidated statement of operations for the year ended December 31, 2023 (December 31, 2022 - $12,500). Mr. Diamond resigned effective December 22, 2023.

In July 2022, the Company appointed Julie Hajduk as a new director. Ms. Hajduk provides services and is compensated via director fees of $2,500 monthly. Since May 2023, Ms. Hajduk provided additional service to the Company in connection to its plans for NYSE up-listing, The Company recorded $17,750 of related party marketing fees and $22,500 of related party professional fees on the consolidated statement of operations for the year ended December 31, 2023 (December 31, 2022 - $Nil).

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

	Year ended December 31,	
	2023	**2022**
	$	$
Salary	951,241	1,255,144
Consulting fees	695,250	766,348
Marketing Service	17,750	-
Share-based compensation	8,625	160,025
Total	1,672,866	2,181,517

As at December 31, 2023, $32,000 (2022 – $Nil) was included in accounts payable for fees and expenses owed to related parties.

Remuneration to key management personnel for the year ended December 31, 2023 was $951,241 compared to $1,255,144 for the same period in 2022. Salaries decreased due voluntary decrease of salary and the Company's decision to decrease commission payments effective Q4 2023. Consulting fees decreased compared to the same period in 2022 primarily due to the fees paid to the former CFO whose relationship terminated as of March 31, 2022. Share-based compensation decreased in the current year compared to same period in the prior year because there were no options granted in the current year whereas there were 84,285 options granted to officers in the prior year.

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 financial statements are, but not limited to the following:

- 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, and derivative liability - 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, 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 $Nil (2022 - $286,995) employee retention tax credit during the year ended December 31, 2023, which is included in other income in the consolidated 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 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 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 condensed consolidated 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, derivative liability, 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 34% of the Company's revenue (2022 - 32%) 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:

	December 31, 2023	December 31, 2022
Accounts receivables	$ 1,484,380	$ 3,642,594
Other receivables	83,996	46,343
Allowance for doubtful accounts	(175,283)	(315,199)
Total	$ 1,393,093	$ 3,373,738

During the year ended December 31, 2023, $121,695 (2022 - $224,795) of bad debt expense had been recognized in the consolidated statement of operating loss and comprehensive loss.

Aged trade receivable listing:

Days outstanding	December 31, 2023	December 31, 2022
Current	$ 885,831	$ 1,779,778
1 – 30	304,421	1,062,174
31 – 60	61,931	235,638
61 - 90	42,478	201,673
> 90	189,719	363,331
Total	$ 1,484,380	$ 3,642,594

The company's maximum exposure to credit risk is the combined carrying amount of its financial assets as at December 31, 2023 is $1,423,816 (2022 - $6,941,021).

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. During the year ended December 31, 2023, a vendor changed its terms with the Company from billing devices and device management subscriptions with a payment term of 36 months for three years to a payment term of 30 days for three years. 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 would not have a significant impact on profit and loss.

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.

Concentration risk

The Company derived revenue from one customer totaling 34% and 32% of the Company's total revenue for the year ended December 31, 2023 and 2022, respectively. At December 31, 2023 and 2022, one customer accounted for a total of 19% and 20% of total accounts receivable, respectively.

To manage the concentration of customer risk, the Company continuously looks for opportunities to diverse revenue streams and expand client base via marketing. All contracts with customers are signed for a term, and the Company ensures the customer needs are being met by building customer service relationships.

The Company has concentrations in the purchases with its suppliers. For the year ended December 31, 2023 and 2022, the two largest suppliers accounted for a total of 85% and 87% of total purchases, respectively.

To mitigate the concentration of vendor risk, the Company continuously looks for opportunities to build a supply chain in different geographic locations (Eastern Europe and Asia), and all vendors are selected after extensive due diligence and testing by the Company's QA team.

Off-Balance Sheet Arrangements

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

Correction of Error in prior year

During the year ended December 31, 2022, management identified that an error was made in the accounting of inventory and accounts payable as at December 31, 2021, which resulted in an understatement of $222,800 in cost of revenue, $152,047 inventory, and $752,831 in accounts payable in the financial report for the year ended December 31, 2021. The error also impacted the classification between current and long term payables as at December 31, 2021. The error has been corrected in the December 31, 2022 financial report by adjusting the balance of related accounts. The impact of the adjustment has also impacted December 31, 2023 statement of changes in shareholder's deficiency.

Summary impact on the equity position as at December 31, 2022:

	Originally reported December 31, 2021	**Adjustment Increase (decrease)**	**Restated December 31, 2021**
Accumulated deficit	7,029,401	600,784	7,630,185
Total Equity (deficiency)	**(227,356)**	**(600,784)**	**(828,140)**