American Aires Inc.

Management Discussion and Analysis

Form 51-102F1

For the year ended December 31, 2022

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of American Aires Inc. ("Aires" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2022. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2022, together with the notes thereto. Information contained herein is presented as at April 5, 2023, unless otherwise indicated.

Description of Business

The Company was incorporated on May 15, 2012 and organized under the laws of Ontario, Canada. The registered office of the Company is located at 400 Applewood Crescent, unit 100, Vaughan, Ontario, L4K 0C3.

The Company is currently engaged in the business of production, distribution and sales of electromagnetic protection devices. The Company currently has a full suite of consumer products under the brand name "Lifetune".

The Company was formed to conduct research, develop and distribute devices intended to protect persons from the harmful effects of electromagnetic radiation ("EMR" or "EMF") that are emitted by modern electronic devices. Since incorporation and until the end of 2020, the Company continued the research and development that was started by the AIRES Human Genome Research Foundation ("Aires Research") a not-for-profit foundation, founded by Mr. Igor Serov in 1998 to conduct research in various scientific areas, including controlling the harmful effects of EMR emissions. Mr. Igor Serov and Mr. Dimitry Serov established the Company to further develop the technology and to bring it to market. Neither the Company nor Aires Research are engaged in R&D activities at present, following the introduction of the latest suite of products in late 2020.

i. Principal markets

All of the Company's products are manufactured in Europe and sold primarily in North America and elsewhere throughout the world. The Company sells 100% of its products through the global platform Shopify Inc. ("Shopify"), catering to the entire world. The majority of orders originate from the USA and Canada. During the year ended December 31, 2022, 78% of sales were to the US customers, 9% to Canadian customers and the remaining customers are distributed widely throughout the world.

ii. Distribution methods

The Company utilizes warehousing and fulfillment services offered by ShipBob, Inc. ("**ShipBob**"). ShipBob receives and stores the Company's products at its location in Texas (USA) and at two new locations that the Company expanded to in 2022 - Altona (Australia) and Gorzów Wielkopolski (Poland). ShipBob receives instructions directly from Shopify with customer shipping and order details. ShipBob then picks, packs and ships out the order using a set of carriers which include global players such as DHL, FedEx, USPS and others. All of the orders are fulfilled by ShipBob.

iii. Description of Product

The Company has performed a rebranding of its product line as a result of the emergence of 5G. On January 7, 2020, the Company completed the design and development of five new key products specifically for the emergence of 5G cellular technology as consumers seek protection from the harmful effects of electromagnetic radiation. With the impact of Covid 19, the new products (except for Lifetune Flex) were launched in Q4 2020. The five products have been named Lifetune One, Lifetune Go, Lifetune Zone, Lifetune Zone Max and Lifetune Flex. The previous generation of products, including Air Shield Extreme, Aires Black Crystal, Aires Defender Infinity, Aires Defender Automotive, Air Shield Pro, Air Defender Pro and Air Guardian were discontinued at the same time and are no longer manufactured and distributed.

The five products that the Company offers for sale are all designed specifically to reduce the harmful effects of EMR emitted by technology and devices which has been proven to have a negative impact on human health:

- **Lifetune One** is the "stick it and forget it" solution for everyday electronics. With its adhesive backing, it attaches directly to any device or protective case, including smartphones, tablets, and headphones.
- **Lifetune Go** is a compact, wearable, and durable solution for personalized protection, designed with a small hole to be carried on keys, worn as a pendant, or carried in a purse or pocket.
- **Lifetune Zone** is an extensive solution for surrounding protection in confined areas. With a minimalistic design, but a great amount of power, the Zone can be placed on desks while working, next to a bed while sleeping, or relocated from room to room in a home or office as needed.
- **Lifetune Zone Max** is a wide-range solution to maximize the daily environment. With a sleek design and an extensive range of protection, Zone Max can be placed in the main living areas of homes or open spaces in offices.
- **Lifetune Flex (launched in Q4 2022)** is a versatile and resilient solution for customizable protection throughout the day and night. Designed for flexibility, whether you want to carry it with you or place it by your side, the Flex is your right-hand companion.

During the year ended December 31, 2022, 39% of sales were from Lifetune One, 18% from Lifetune Go, 14% from Lifetune Zone, 25% from Lifetune Zone Max and 4% from Lifetune Flex.

iv. Regulatory requirements

There are no regulatory approvals required to operate the Company's business or sell the Company's products directly to consumers.

v. Outsourced relationships

The Company engages various consultants to help manage certain aspects of the business, including accounting, legal and other professional services.

As mentioned above, the Company engaged ShipBob's warehousing and fulfillment services and Shopify's e-commerce platform and hosting services. The Company also engaged VaynerCommerce LLC, a US-based, recognized and award-winning marketing agency with a well-known list of customers such as: Indeed, Unilever, UNICEF and PepsiCo, among others. Furthermore, as described in more detail below, the Company engaged UAB Technano as manufacturing broker for the Company's products.

vi. Method of production/manufacturing processes

The production and manufacturing of the Company's products is overseen by the Company's senior management and fulfilled by UAB Technano, a manufacturing broker based in Lithuania. The broker's responsibility is to plan and purchase raw materials and components as well as book manufacturing cycles with the final assembly line that assembles the products. Once assembled, the final products are shipped directly to ShipBob warehouses.

vii. Customer base and sales channels

All products are sold through the Company's Shopify store where retail customers from around the world place their orders with a credit card or another form of payment.

viii. Intellectual property and patents

All the intellectual property, trademark, industrial design patents and utility patents for invention relating to the products offered by the Company are owned by the Company.

ix. Countries in which the Company operates

The Company sells its products to consumers around the world. Orders are fulfilled by ShipBob from warehouses located in the USA, Australia and Poland. The majority of marketing and advertising operations take place in the USA. The Company's headquarters are based in the Greater Toronto Area, Ontario, Canada.

x. Employees

There are currently 3 full-time employees and 2 full-time consultants forming the Company's management team. The bulk of the business is run with the use of professional services firms specialized in their respective fields.

xi. Product development

The Company is not currently engaged in R&D initiatives. Having completed the initial product development and heavy R&D stages, the Company has streamlined the process of manufacturing the five products currently available for sale with an established manufacturing process, managed by a third party and overseen by management. The Company's products have already reached a relatively mature stage and do not require further advancements at this time. R&D is possible if the Company seeks to expand its product offering in the future, but management currently intends to focus on scaling up the Company's sales channel for current products. There have been no changes in the manufacturing process and no changes are expected to be implemented, maintaining the process and product quality at the high level it is today.

xii. Pricing and cost structures

The Company's manufacturing arrangement with UAB Technano is structured on a prepaid basis. The Company advances an agreed-upon sum of money in return for an agreed quantity of product at an agreed price. As the manufacturer delivers the product, the balance of the prepayment decreases until another advance is made. The cost of major components is negotiated on a contract-by-contract basis and so is the final cost of the product. With respect to pricing for the final sale to the consumer, the Company retains control over the pricing it charges. There is no third party involved in the price-setting mechanism. In the event of a manufacturing cost increase, the Company has the ability to pass through the incremental costs to the consumer in the form of higher retail pricing.

xiii. Inventory safeguarding

ShipBob is a recognized and established player in the global eCommerce fulfillment segment. It is also a reputable US-based business with 30 fulfillment centers and partnerships with Amazon, Shopify, Shopify Plus, BigCommerce, eBay, SquareSpace and Walmart, among others. The shipments of inventory from the manufacturer arrive at ShipBob's locations and are confirmed with the Company by item SKU and quantity to ensure all records match. Annually, as part of the Company's audit, our independent auditor verifies the inventory numbers reported in ShipBob's system against the actual physical inventory stored at its locations.

The Company's contractual obligations with ShipBob is governed by its terms of service agreement with ShipBob. ShipBob's services include: (a) providing technology solutions to support the receipt, counting, storage, picking and packaging of physical goods; (b) providing technology solutions to support the shipment of the goods by independent third-party carriers; and (c) access to ShipBob's proprietary platform and associated technology. ShipBob maintains detailed policies with respect to the goods lost in transit, damage claims and operations errors. If it is determined that ShipBob has made an error and lost inventory that they cannot account for, ShipBob will apply a credit for the manufacturing cost of the items lost. If it is determined that ShipBob has swapped orders (e.g., sent Customer A the package for Customer B and vice versa), ShipBob will credit the manufacturer's value of the products in the order and create reshipments to the proper recipients at their cost. In addition, ShipBob offers insurance up to $100 of the total retail value of each order as a courtesy. In general, the service agreement with ShipBob covers indemnities and remedies for errors.

ShipBob maintains detailed policies and procedures that provide reasonable assurance regarding safeguarding the Company's assets. Each warehouse is guarded by security guards at all times and there are cameras installed at each location with the video footage saved for up to 60 days. Each location performs detailed inventory counts on a quarterly basis and the results are shared with the Company. If any items are found missing, ShipBob reimburses the Company for the items lost. ShipBob maintains a controls assessment file which lists out the various controls at the organization and includes items such as access authorization, asset management, audit logging, business continuity, change management, cloud service, disaster recovery and many other areas. The Company is comfortable with the controls framework at ShipBob based on its review and assessment of controls.

As mentioned above in "Distribution Methods" and "Countries in which the Company operates", the Company has operations in Gorzów Wielkopolski, Poland. The Company acknowledges that Poland is an emerging market carrying higher operational risks compared to developed markets. With respect to legal and regulatory risks in Poland, there are weaknesses relating to political and policy uncertainties as well as slow structure reform progress. However, Poland's European Union membership and proper institutional oversight commonly exercised by Polish authorities mitigate these risks. As per the latest economic research and Country Risk Report published by Allianz Group in 2022[1], Poland is ranked as an overall medium risk for enterprise and has low political and business environment risks. The Polish business environment is well above average, despite a perceived deterioration over the past years. The World Bank Institute's annual Worldwide Governance Indicators surveys[2] suggest that the regulatory framework is generally business-friendly though a certain level of corruption is present and the legal framework has worsened since 2014. The Heritage Foundation's 2021 Index of Economic Freedom survey[3] assigns Poland rank 41 out of 184 economies, reflecting strong scores with regard to property rights, tax burden, trade freedom, investment freedom and financial freedom. However, weaknesses remain in particular with regard to judicial effectiveness. With respect to the movement and conversion of currency out of Poland, the Company sees minimal risks since Poland is a democratic country with an open market and a resilient banking sector overall. With respect to corruption, Poland is below the world average, but corruption is not insignificant. On the 2022 Corruption Perceptions Index of Transparency International[4], Poland scored 55 on a scale from 0 ("highly corrupt") to 100 ("highly clean"). When ranked by score, Poland ranked 45th among the 180 countries in the index, where the country ranked first is perceived to have the most honest public sector. Despite the corruption rankings, the Company acknowledges that Poland scores high on the business environment front and there are no major direct factors that may negatively impact or disrupt business operations. Lastly, with respect to risks surrounding access to assets, title and potential expropriation of assets, the Company acknowledges that some risks exist but are considered insignificant given Poland's continued openness to conducting fair business and its high scores on the business environment. Poland maintains a stable relationship with the rest of the European Union countries and the collective West and continues to be a trusted and reliable partner on the global scale.

The Company has also performed an assessment of the impact of the war in Ukraine on its proposed activities in Poland. Management believes that there are minimal uncertainties related to the war that could materially affect the Company's financial condition, future revenue, expenses or projects. The warehousing facility that the Company uses is located in the city of Gorzów Wielkopolski which is close to the border with Germany and far away from the eastern border with Ukraine. Poland is a member of NATO and is not an official party to the conflict. While Poland has shown solidarity with the collective West, its fellow NATO countries and their allies around the World about the need to support Ukraine in its fight against foreign aggression, Poland remains a neutral country to the conflict. A direct war between Russia and any of the NATO countries is considered unlikely. The Company primarily sells its products in the US, Canada and Australia, with the Poland location intended to supply Western Europe and therefore there is minimum exposure to Eastern Europe and little risk of lost revenues. There have been no

[1] To consult the full report, please visit: https://www.allianz.com/en/economic_research/publications/country-risk/poland.html.
[2] For more information, please visit https://databank.worldbank.org/source/worldwide-governance-indicators.
[3] For more information, please visit: https://www.heritage.org/index/
[4] For more information, please visit: https://www.transparency.org/en/cpi/2022

operational challenges with respect to the war in Ukraine. Poland is conveniently and centrally located in Europe and has access to the Baltic Sea. Since the start of the war in Ukraine, management has been following the situation in Europe closely and so far, has not seen any direct impact on ShipBob's warehousing facilities in Poland. Management considers Poland as a safe country to do business. Further, management has not identified any challenges relating to the flow of goods and funds that might not be as accessible as a result of the war. Poland remains open for business and is not a party to the conflict. The Company's products can be shipped freely to the rest of the European continent from Poland. Management believes that there are currently no financial reporting considerations including areas subject to significant judgment and measurement uncertainties relating to the war. When it comes to the Company's products to be stored in the warehousing facility in Poland, Management believes there is a very low risk of loss as a result of the war because of the reasons mentioned above. As a result, there has been no loss provisions set up. Management continues to monitor the situation closely and will adapt its plans swiftly as the situation unfolds.

Business Objectives and Milestones

Over the next twelve months, the Company plans to achieve continued revenue and gross margin growth with a focus on increasing revenues through market expansion, more effective advertising spending and cost reduction. The Company continues to see strong interest amongst influencers, celebrities and professional athletes and expects to further expand on and optimize these collaborative relationships as well as engage into new relationships to explore integration of the Company's products into other brands' offerings

Having enjoyed strong product demand in 2022, another critical objective for the Company remains building sufficient levels of inventory of final product based on predetermined sales plan and forecast. The Company expects to further improve its synchronisation between advertising spending, sales growth and inventory build to ensure consistent supply of product.

The Company will drive to further expand into English speaking markets that have demonstrated strong product-fit. Key markets include Australia, New Zealand, Ireland and the United Kingdom. The Company will leverage its Australia and EU-based fulfillment hubs allowing for reduced costs in and out of fulfillment centers and further support international expansion.

The Company is committed to expediting its path to profitability, recognizing the importance of financial resilience amid complex capital market conditions and global geopolitical dynamics. In the upcoming quarters, management will prioritize a balance between robust top-line growth, vigilant cost control, and targeted, disciplined advertising spending. To achieve its objectives and execute its business plan, the Company will require additional financing. The Company is actively seeking additional sources of liquidity.

Overall Performance and Highlights

Over the course of year 2022, the Company continued to build on the strength in demand and realized 2022 sales of $5.82 million, a 128% increase on a year-over-year ("YOY") basis. Consumer demand attests to the genuine market need for the Company's product offerings. This accomplishment highlights the Company's capacity to evolve and innovate. The success in this period underscores the team's commitment to our vision and further bolsters management's confidence in our ability to drive growth in a challenging and volatile market landscape. In addition, the Company has demonstrated a reduction in net loss and comprehensive loss in 2022 when compared to previous years and has also improved its gross margin. Please refer to sections "Selected Annual Information" and "Discussion of Operations" for additional details on the revenue growth, improved gross margins and other financial performance metrics.

Along with the Company's long-term strategy of disciplined geographic expansion, sales during 2022 continued to benefit from the launch of fulfillment centres in Australia and Europe in Q1 and Q2, respectively. Through reduced fulfillment time and cost, the new fulfillment centres had a net positive impact on sales in the respective regions.

(Expressed in Canadian Dollars)

The Australian location helped open up the Oceania geography while the location in Poland, having a much smaller footprint, still added to the growth in sales by increasing the Company's exposure to the European market.

Additionally, in Q4 2022, the Company launched its latest product, the Lifetune Flex, which expands the Company's EMF modulation technology lineup, known as Lifetune. The Lifetune Flex is a versatile addition to the current range of 4 products, carefully positioned to bridge the gap between personal protection and area protection categories. The Lifetune Flex builds on the Company's existing technology and its design allows for flexibility, serving as both a personal and area protection solution by offering a larger field of protection while maintaining a smaller size, making it ideal for use as a wearable. The new product integrates the powerful C28S microprocessor into a compact and durable form factor. The Lifetune Flex meets customers' demands for advanced EMF protection on the go and underscores the Company's commitment to continuous expansion of revenue streams and revenue growth.

On May 9, 2022, the Company confirmed that the Ontario Securities Commission (the "OSC") had issued a failure to file cease trade order against the Company ("CTO") which ordered that general trading, whether direct or indirect, of the securities of the Company cease. The Company experienced delays associated with the completion of its annual audit due to difficulties in obtaining third party shipping data from some of the Company's fulfillment centres and therefore failed to file its annual consolidated financial statements for the year ended December 31, 2021 by the filing deadline of May 2, 2022. The consolidated financial statements were eventually filed on November 1, 2022. The CTO has had a negative impact on the Company by way of leading to an inability to raise capital in the equity markets and therefore leading to shortages of inventory in the last two quarters of the year. The CTO was lifted in Q1 2023 as described in section "Events Occurring after the Reporting Date".

On November 2, 2022, the Company announced the resignation of Chris Irwin from the Board of Directors. Despite the resignation, his legal firm remains as the legal counsel of the Company.

On December 6, 2022, the Company announced the appointment of a full-time chief financial offer ("CFO"), Vitali Savitski, and as of that date the Company no longer uses the services of the Marrelli Group and its previous part-time CFO, Robert Suttie. Under the leadership of Mr. Savitski, the implementation of back-office realignments have commenced which highlights the Company's commitment to assembling a robust team capable of building a financial strategy to support sustainable growth as well as handling timely disclosure requirements for investors, capital markets, and regulators. This decisive action and clear vision for the future exemplify the Company's dedication to operational excellence.

Selected Annual Information

The selected financial information is derived from the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

	2022	**2021**	**2020**
Total revenue	5,822,140	2,553,061	2,313,656
Net loss and comprehensive loss for the year	(4,082,902)	(6,086,880)	(7,588,239)
Total assets	1,520,964	2,267,266	2,124,202
Total non-current financial liabilities	1,127,062	60,000	-

The Company's revenue has been trending upward since 2020. In 2022, sales increased substantially due to an effective advertising strategy, geographic expansion and the introduction of the new product. In 2021, sales increased due to the Company undertaking a major rebranding effort of its products to better align them with the emerging consumer trends. Please refer to "Discussion of Operations" for a more detailed discussion of revenues.

The Company's net loss and comprehensive loss ("net loss") has been improving since 2020. In 2022, net loss decreased by 33% YOY and is mainly attributed to the significant increase in the gross margin (211% increase YOY or $2.40 million), partially offset by the slight increase in expenses (including foreign exchange loss) (5% increase

YOY or $0.39 million). In 2021, net loss decreased by 20% YOY mainly due to the decrease in expenses (13% decrease YOY or $1.07 million) and increase in the gross margin (62% increase YOY or $0.44 million). The largest and most notable reduction of expenses in 2021 was in the stock-based compensation category. Please refer to "Discussion of Operations" for a more detailed discussion of expenses.

Total assets of the Company have decreased by $0.75 million in 2022 compared to a previous year primarily due to a decrease in the prepaid manufacturing deposits and other prepaid balances ($0.65 decrease YOY) and amortization of intangible assets ($0.13 million decrease YOY). Total non-current financial liabilities in 2022 represent the two promissory notes that the Company had entered into during the year to support its working capital needs and secure its inventory production and the Government of Canada CEBA loan of $60,000 which is due at the end of 2025. Please refer to "Discussion of Operations" for a more detailed discussion of operations.

Discussion of Operations

During the year ended December 31, 2022, the Company's sales increased 128% on a year-over-year ("YOY") basis to $5.82 million from $2.55 million in the previous year. The Company continued to enjoy the tailwinds from the advertising and promotion strategy revamp which commenced in August 2021 and remained on track for a continuous and gradual increase in advertising spending throughout 2022. The Company achieved this growth primarily through expanded spending on social media platforms and further spending on developing affiliate relationships to promote the Company's products. In addition, as mentioned in section "Overall Performance and Highlights" 2022 sales benefited from the launch of fulfillment centres in Australia and Europe in Q1 2022 and Q2 2022, respectively and from the launch of the new product in Q4 2022.

In terms of headwinds, revenues were negatively impacted by the shortage of inventory during the last two quarters of the year. Out of four products (excluding Lifetune Flex) generally available for sale, the Company was able to sell only two products that were available during the last two quarters of the year. The shortage of inventory was a direct result of the Company's inability to access capital markets to help it finance its growing working capital requirements as a result of strength in product demand.

Gross margin increased 211% YOY to $3.54 million from $1.14 million in the previous year on the back of stronger sales as well as margin improvements. Gross margin percentage was reported at 61% in 2022 versus 45% in the previous year as the Company focused further on optimization of manufacturing and fulfillment costs. The contributing factor to improving the gross margin was the launch of the fulfillment centres in Europe and Australia, as mentioned above.

Advertising and promotion expenses increased 79% YOY to $2.44 million as a result of a continued strategy of revamping the entire approach to advertising. The major focus of the management team during this process was to widen and deepen the relationship with affiliate partners as well as focus on more effective advertising campaigns. With more resources spent on broadening product awareness amongst both final consumers as well as influencers, the Company was able to better optimize advertising spending across its channels. By deepening and putting more resources behind partnerships, the Company was able to ensure higher conversion rates and greater success of the influencers promoting the Company's products, leading to a more fruitful and supportive long-term relationship. Overall, the advertising campaign oversight and reporting were improved to ensure a more accurate tracking of return on investment.

Marketing expenses have remained relatively stable with a modest 6% YOY increase to $1.97 million. The marketing expenses are based on contracts with a number of marketing agencies that provide services based on a fee as opposed to commissions.

Consulting fees have decreased 24% YOY to $0.81 million as a result of an overall cost optimization given the cease trade order ("CTO") issued against the Company on May 6, 2022 and a reduced need to engaged consultants in the investor relations space.

Interest charges have increased 435% YOY to $0.50 million as a result of taking on new debt during the year. During the year ended December 31, 2022, the Company entered into three new loan arrangements – (1) e-commerce platform loan, (2) promissory note and (3) grid promissory note. The three loans have collectively added $0.36 million of additional interest and royalty expense. In addition, the promissory note had resulted in equity-based finance charge of $0.35 million related to the fair value of the warrants issued in connection with the loan. The Company had also utilized its marketing loan to a fuller extent in 2022 and therefore incurred additional interest charges. The Company had to seek this additional debt financing as a result of the previously mentioned CTO which led to an inability to access the capital markets.

Office and general expenses have decreased 52% YOY to $0.33 million as a result of cost optimization which led to a decrease in internet and computer costs, absence of recruitment costs for senior management, reduced membership fees and subscription dues. For the same reason, rent expense and travel expense have decreased by 67% and 40% YOY, respectively, due to Company switching over to a more affordable intelligent office space and the decreased need for travel overall.

Professional fees have remained relatively flat at 5% YOY increase to $0.28 million. The professional fees include services performed by the legal firms, bookkeepers and auditors. There was an 85% YOY increase in the accounting and audit fees as a result of a prolonged 2021 audit and the need to hire a new bookkeeping company. However, this increase was offset by a sizable 48% YOY decrease in legal fees due to a reduced need for legal services during the CTO period which led to an inability to raise capital through private placements.

Salaries and benefits have slightly declined by 2% YOY to $0.44 million due to a resignation of an in-house bookkeeper in the beginning of 2022 and partially offset by increases in employee benefits. Stock-based compensation declined by 88% YOY to $0.14 million due to an overall decreased need for such compensation amongst the staff and consultants and partially due to the CTO for almost eight months of the year.

Summary of Quarterly Results

The selected financial information is derived from the Company's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). Amounts are expressed in thousands of Canadian dollars, except for loss per share, which is rounded to the nearest cent.

	12/31/22	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21
Total Assets	1,521	1,251	2,243	2,119	2,267	2,863	2,932	3,328
Total Revenue	2,453	1,182	1,498	689	947	447	541	618
Net Loss	(328)	(1,322)	(963)	(1,470)	(1,421)	(1,597)	(1,121)	(1,948)
Net Loss per Share	(0.00)	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)

Sales are largely driven by the intensity and effectiveness of advertising campaigns, creating demand for the Company's products. Given the strong growth in 2022 caused by the revamp and re-focus of the Company's marketing and advertising strategy, it may be difficult to discern the impact of seasonality versus the impact of streamlined and targeted advertising. Management believes advertising is largely responsible for the changes in YOY and QOQ revenues. However, the Company also acknowledges that like any retailer operating in North America, it experiences seasonality during the year. This seasonality is mostly associated with the gifting season occurring in December due to Christmas and New Year holidays. As a result, the demand for the Company's product is stronger in the weeks leading up to December, which is why it is normal to experience stronger sales in October and November, resulting in much stronger Q4 sales. This should typically make Q4 a stronger sales quarter than Q1/Q2. Seasonality poses a risk for the Company's revenue as consumers typically spend less on purchases in Q1, post-holidays and, as such, the Company's revenues may face certain seasonal headwinds. Having said that, given the strong development on the marketing/advertising front and expected increases in advertising spending effectiveness, it is possible that the Company's sales may not reflect strong seasonality until the advertising budget reaches a more stable and constant stage.

Fourth Quarter

The Company achieved a record level of sales of $2.45 million in Q4 2022 which increased 159% on a quarter-over-quarter basis ("QOQ") compared to Q4 2021. The success is largely attributed to the revamped marketing and advertising strategy as was already mentioned in the previous sections. When compared to the previous quarters of 2022, high sales volumes are expected due to the seasonality. Management also acknowledges that there were headwinds related to inventory supply challenges during the last two quarters of the year.

In Q4 2022, net loss decreased by 77% QOQ to $0.33 million from $1.42 million in Q4 2021. The decrease in the net loss of $1.09 million is mainly attributed to the significant increase in the gross margin (203% increase QOQ or $1.44 million), partially offset by the increase in expenses (16% increase QOQ or $0.35 million). The QOQ increase in overall expenses is attributed mainly to the rise of targeted advertising and promotion expenses as part of the revenue growth strategy and offset by the decline in stock-based compensation, office and general expenses and consulting fees as part of the cost optimization efforts. Please refer to "Discussion of Operations" section above for a more detailed explanation of the variances in the different types of expenses.

Liquidity and Capital Resources

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- to maximize shareholder return through enhancing share value

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its operations. Information is provided to the Board of Directors of the Company. The Company is not subject to externally imposed capital requirements. The Company's capital management objectives, policies and processes have remained unchanged during the years ended December 31, 2022 and 2021.

The Company had a working capital deficiency $1,676,262 as at December 31, 2022 (2021 – working capital of $384,272) and cash and cash equivalent balance of $196,103 (December 31, 2021 - $275,696). The Company is actively seeking additional sources of liquidity required to fund operations until such point it is profitable.

As was discussed above in the "Overall Performance" section, the Company's sales were negatively impacted by the shortage of inventory. This shortage of inventory was a result of growing sales and lack of access of the Company to capital markets for equity financing due to the CTO. The Company expects to continue experiencing working capital deficiency which is expected to continue to negatively impact the Company's sales volumes as there is a time lag between inventory prepayment and delivery.

At this time, the Company is not generating sufficient cash from operations and, therefore it will be dependent on its ability to obtain equity or debt financing for growth. The Company may need additional capital and may raise additional funds should the Board of Directors deem it advisable.

The Company notes that cash flow from operations (when interest paid is factored in) is also negative, compounding the issue and contributing to future working capital deficiency. Furthermore, this lack of cashflow generation combined with restricted access to capital markets due to the CTO during 2022 is a risk to the Company's ability to repay its short-term and long-term debt and associated interest payments, which could result in a default and/or debt restructuring. While management is actively seeking external sources of financing in the form of short-term debt, inventory-based or revenue-based financing options, such options seem to be temporary in nature. Management acknowledges that the working capital deficiency is expected to be resolved via issuance of equity. An equity raise or several rounds of equity raises may be at risk given the ongoing macro developments, geopolitical tensions and overall capital market weakness. These negative market sentiment factors could adversely affect, limit or severely restrict the Company's ability to raise money through equity raise(s). Another source of risk for the Company is the potential inability to secure debt-based financing, which may even further restrict it`s ability or purchase inventory and could further negatively impact sales and profitability. The CTO was lifted in Q1/2023 as described in section "Events Occurring after the Reporting Date".

Debt and Equity Transactions in 2022

On January 13, 2022, the Company granted 500,000 options to a director of the Company exercisable at a price of $0.10 for a three-year term. A fair value of $33,000 was assigned to these options, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of $0.10, expected volatility of 130%, a risk-free rate of return of 1.21% and an expected life of 3 years. The options vested immediately upon grant.

On February 7, 2022, the Company entered into a loan agreement with a related party whereby the lender advanced $500,000 via a promissory note. The maturity date of the loan is May 7, 2024. The rate of interest is 12% per annum. The loan is secured by a general security interest over the assets of the Company. The Company has undertaken, among other things, to not sell, lease or otherwise dispose of its assets, other than in the normal course, without prior written consent of the note holder. In connection with this loan, the Company issued the lender share purchase warrants to purchase up to 5,000,000 common shares of the Company exercisable at a price of $0.10 per share for a period of three years from the date of issue. During the year ended December 31, 2022, the Company incurred interest expense of $53,753 (unpaid as at December 31, 2022) and a financing fee of $20,000 (deducted from initial disbursement) and both have been recorded as interest expense in the consolidated statements of loss and comprehensive loss. The unpaid interest has been added to the principal amount of the loan. A fair value of $353,000 was assigned to the warrants issued, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of $0.095, expected volatility of 130%, a risk-free rate of return of 1.43% and an expected life of 3 years. The fair value of warrants issued has been accounted for as an equity-based finance charge (as it is not related to raising capital) and expensed in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022.

On February 11, 2022, the Company issued 491,228 common shares in exchange for services provided to the Company, valued at $46,667.

On February 18, 2022, the Company granted 850,000 options to a consultant exercisable at a price of $0.10 for a three-year term. A fair value of $60,000 was assigned to these options, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of $0.095 expected volatility of 130%, a risk-free rate of return of 1.57% and an expected life of 3 years. The options vested immediately upon grant. These options were exercised during the year and the Company issued 850,000 common shares for proceeds of $85,000. On exercise, $60,000 was transferred from contributed surplus to share capital.

On March 15, March 24 and April 5, 2022, the Company closed three tranches of a non-brokered private placement and issued an aggregate of 3,050,000 units at a price of $0.10 per unit for gross proceeds of $305,000. Each unit comprises one common share and one common share purchase warrant which entitles the holder to purchase one common share for a period of thirty-six months from the closing of the offering. The 3,050,000 warrants issued have an exercise price of $0.10 and a three-year term. A fair value of $180,000 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of between $0.07 and $0.095, expected volatility of 130%, a risk-free rate of return of between 1.82% to 2.40% and an expected life of 3 years. Cash costs of issue amounted to $46,400 in aggregate. In addition, the Company issued 244,000 finders warrants exercisable for $0.10 per warrant with identical terms as the non-brokered private placement warrants above. A fair value of $14,000 was assigned to these warrants, estimated using the Black-Scholes valuation model with the following assumptions: dividend yield 0%, share price of between $0.07 and $0.095, expected volatility of 130%, a risk-free rate of return of between 1.82% to 2.40% and an expected life of 3 years.

The Company issued a grid promissory note dated May 26, 2022, amended on August 12, 2022 and December 7, 2022 with an arm's length lender for advances up to $500,000 (in $100,000 increments as needed). The loan matures on February 28, 2024 and bears interest at a rate of 8% per annum. In addition, the Company has agreed to pay a monthly royalty of 3.5% of net sales for every $100,000 loaned, subject to a maximum monthly royalty of $10,000 per $100,000. The royalty will exist until the loan is repaid in full. During the year ended December 31, 2022, the Company incurred interest expense of $12,716 ($11,291 unpaid as at December 31, 2022) and royalty expense of $210,000 ($119,738 unpaid as at December 31, 2022) and both have been recorded as interest expense in the consolidated statements of loss and comprehensive loss.

The Company received a series of working capital advances on January 19, April 13, June 14 and October 4, 2022 from its e-commerce service provider. Under the terms of the agreements, the Company shall remit amounts totaling $886,850 as full repayment for principal and implied interest on the advances. Payments are required to be made daily based on a percentage (varies between 8% and 17% depending on the advance) of the Company's daily sales until such time that the advances are repaid in full. The financing charge related to the paid portion of the loan has been recorded as interest expense in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022. The annualized interest rate on these advances is upwards of 27%. The exact interest amount and therefore rate cannot be determined as there is insufficient information to amortize repayments made between principal and interest. The Company recognized interest expense totaling $61,919 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022

On June 17, 2022 the Company entered into a revenue share agreement with a previous lender whereby on June 29, 2022 it received an advance of $543,887, comprising a new advance of $500,000 and the unpaid balance of the 2021 advance of $43,887. This total amount repayable was $608,887 resulting in a financing charge of $65,000. Repayments were made on a daily basis based on 20% of the Company's sales. The advance and finance charge were repaid in full by November 21, 2022. The annualized interest rate on this advance is upwards of 30%. The exact interest amount and therefore rate cannot be determined as there is insufficient information to amortize repayments between principal and interest. The Company recognized interest expense totaling $67,458 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022 (2021 - $12,144).

Throughout 2022, the Company entered into a series of working capital loan facility agreements whereby the lender pays select invoices on the Company's behalf, with the ensuing debt repayable after a period of up to 120 days, in 30 day increments at the approval of the lender. Ensuing debt bears interest at a rate of 1% for each 30-day period. During the year ended December 31, 2022, the lender paid invoices on behalf of the Company amounting to US$370,926/CAD$471,027 (2021 - US$1,303,076/CAD $1,648,084) for which the Company made repayments of both principal and interest totaling US$480,654/CAD$625,764 (2021 - US $927,099/CAD $1,153,085). Invoices paid by the lender on behalf of the Company have been included within changes in accounts payable and accrued liabilities in the consolidated statements of cash flows. The Company recognized interest expense totaling $30,351 in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2022 (2021 - $81,490).

(Expressed in Canadian Dollars)

Events Occurring after the Reporting Date

On January 24, 2023, the Company entered into a loan agreement with a related party whereby the lender agreed to advance $150,000 to the Company. The rate of interest is 12% per annum and the loan is due on July 24, 2024 unless further extended by the lender for the additional three months. The CEO of the lending party is also an officer of the Company.

On March 13, 2023, the Company announced that it has been successful in its application to the Ontario Securities Commission, Alberta Securities Commission and British Columbia Securities Commission to revoke the failure-to-file cease trade order issued by the Ontario Securities Commission on May 6, 2022. As a result, the Company has resumed trading on the stock exchange.

In view of the Company's stock being under a cease trade from May 6, 2022 to March 13, 2023 the Board of Directors is seeking legal advice with respect to extending the expiry dates of all warrants and options that expired during this period or are unexpired.

On March 1, 2023, the Company appointed a new chief executive officer ("CEO"). The outgoing CEO has taken over the role of the chief product officer and will continue in his role as president.

On March 14, 2023, the Company announced an appointment of a new corporate secretary, Canadian Corporate Board Advisory Services.

On March 21, 2023 the Company announced its intention to raise $2,500,000 through the issuance of 50,000,000 units of the company for $0.05 each, comprising one common share and one common share warrant.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.

Transactions Between Related Parties

Remuneration of key management personnel of the Company was as follows:

	2022	2021
Remuneration for key management	$ 841,158	$ 758,898
Stock-based compensation	$ 33,000	$ 790,559

The Company defines key management as the Company's directors and officers of the Company.

As at December 31, 2022, amounts due to key management for remuneration totaled $54,408 (December 31, 2021- $23,847). Included in prepaid and sundry receivables is $nil (December 31, 2021 - $10,000), pertaining to expense advances.

During the year ended December 31, 2022, the Company expensed $75,678 (2021 - $63,950) to Marrelli Support Services Inc., DSA Corporate Services Inc. and DSA Filing Services Limited ("Marrelli Group") for acting as chief financial officer, regulatory filing and corporate secretarial services.

As of December 31, 2022, the Marrelli Group was owed $nil (2021 - $21,040). As of December 6, 2022, the Company no longer uses the services of the Marrelli Group and has appointed a new chief financial officer.

During the year ended December 31, 2022, the Company expensed $101,081 (2021 - $76,040) for legal services provided by a firm, a partner of which was a director of the Company. As at December 31, 2022, $82,270 (2021 - $42,938) was included in accounts payable and accrued liabilities. On November 2, 2022, this director resigned from his position but his firm continues to provide legal services to the Company.

During the year ended December 31, 2022, the Company expensed $659,243 (2021 - $nil) for digital marketing services provided by a firm controlled by an officer of the Company. As at December 31, 2022, $162,771 (December 31, 2021 - $nil) was included in accounts payable and accrued liabilities in connection with these services.

On February 7, 2022, the Company obtained a $500,000 loan from a lender whose president is also a director of the Company. Interest of $53,753 for the year was expensed but remains unpaid and has been added to the principal value of the loan. Further details have been provided in the 'Debt and Equity Transactions in 2022' paragraph above.

The above noted transactions are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

Critical Accounting Estimates

The preparation of consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant assumptions management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions, relate to, but are not limited to, the following:

Income Taxes and Recovery of Deferred Tax Assets

The measurement of income taxes payable and deferred income tax assets and liabilities requires judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements. Deferred tax assets require management to assess the likelihood that the Company will generate taxable income in future periods in order to utilize recognized deferred tax assets. As at December 31, 2022 and 2021 no deferred tax assets were recognized, as it is uncertain when sufficient taxable income will be available to realize the deferred tax assets.

Fair Value of Options and Warrants

Estimating fair value for granted stock options and warrants issued requires using of a valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Sales Refunds

The Company maintains a provision for sales refunds based on historical sales experience.

Going Concern

Significant judgments are used in the Company's assessment of its ability to continue as a going concern.

Useful Life of Property and Equipment and Intellectual Property

Depreciation of property and equipment and intellectual property with finite lives are dependent upon estimates of useful lives which are determined through the exercise of judgment.

Functional and Reporting Currencies

Due to the growth of the Company and the volume of foreign transactions, it has been concluded in 2022 that the functional currency of the Company is US Dollars while the presentation currency is Canadian Dollars. Management also assessed this in prior years and concluded that the amount was immaterial to change the presentation of the financial statements. As a result of this change in 2022, the foreign exchange loss has been presented as part of other comprehensive loss in the consolidated statements of loss and comprehensive loss. The consolidated statements of financial position and changes in shareholders' equity also reflect accumulated other comprehensive loss as part of the equity section. The Company deems prior year foreign exchange loss as immaterial and therefore has chosen to present this change on a prospective basis.

The Company's consolidated financial statements have been translated into its presentation currency according to IAS 21 on the following basis:

(a) assets and liabilities are translated to Canadian dollars at the closing rate at the date of the statement of financial position;

(b) income and expenses for each statement presenting profit or loss and other comprehensive income or loss are translated at exchange rates at the dates of the transactions;

(c) all resulting exchange differences are recognised in other comprehensive income or loss.

The Company presents its consolidated financial statements in Canadian currency because its shares are listed on a Canadian stock exchange and its shareholders and sources of financing are largely Canadian based.

Financial Instruments and Other Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI") and fair value through profit and loss ("FVTPL").

Financial assets other than cash and cash equivalents are all classified and measured at amortized cost. Cash and cash equivalents are measured at fair value. All financial liabilities are classified and measured at amortized cost.

Financial Risk Factors

The Company's business is subject to certain risks, including but not restricted to risks related to: market risk for securities, future financing risks; going-concern risks; global economy risks; use of proceeds risks; volatility of the Company's share price following a listing on a public exchange and the lack of trading history for the Common Shares; increased costs of being a publicly traded company; limited operating history in an evolving industry and history of losses; lack of brand development; expectations with respect to advancement in technologies; currency fluctuations; interest rates; taxes on the Company and its products; liabilities that are uninsured or uninsurable; economic conditions, dependence on management and conflicts of interest; intellectual property rights; attracting and retaining quality employees; key personnel risk; management of growth; expansion risk; breach of confidential information; competition within the technology industry; corporate matters; issuance of debt; third party credit; short term investments; shares reserved for issuance; credit risk; liquidity risk; interest rate risk; and described from time to time in the Company's documents filed with Canadian securities regulatory authorities; and other factors beyond the Company's control.

(Expressed in Canadian Dollars)

Fair Values

The carrying value of all of the Company's financial instruments (assets and liabilities) approximate their fair values due to the short-term maturity of these financial instruments.

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate risk). Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and prepaid and sundry receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents are in accounts at reputable financial institutions, from which the risk of loss is remote. The Company's customer base is well diversified with no reliance on any one client. Sundry receivables consist primarily of advances to the Company's supplier of its electromagnetic protection devices. The Company has a long relationship with the supplier and assess the risk of loss as low.

Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they become due or can only do so at excessive cost. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether due to the general state of the economy or conditions specific to the Company. As at December 31, 2022, the Company had cash and cash equivalents of $196,103 (2021 - $275,696) to settle current liabilities of $2,792,190 (2021 - $1,358,919). The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity. As the Company does not yet generate profits, managing liquidity risk is dependent upon the ability to secure additional financing, controlling expenses, and preserving cash. The following table shows the remaining contractual maturities of financial liabilities as at December 31, 2022 and 2021, including the estimated interest and royalty payments of $587,772 (2021 - $97,809). It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

December 31, 2022	Carrying amount	Contractual cash flows	Current	Long term
Accounts payable & accrued liabilities	$1,896,033	$ 1,896,033	$ 1,896,033	$ -
Government loan	60,000	60,000		66,000
Current Loans	654,880	672,180	672,180	-
Long term loans	1,067,062	1,637,644	359,738	1,277,906

December 31, 2021	Carrying amount	Contractual cash flows	Current	Long term
Accounts payable & accrued liabilities	$ 649,047	$ 649,047	$ 649,047	$ -
Government loan	60,000	60,000	-	66,000
Other Loans	703,044	800,853	800,853	-

Market Risks

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(i) Interest Rate Risk

The Company's borrowings are at fixed rates of interest. Although it is not exposed to interest rate risk on its current borrowings, because of its heavy reliance on borrowing there is a risk that future costs of borrowing will increase if interest rates rise further.

(ii) Foreign Exchange Risk

The Company's functional currency is the United States Dollar and it transacts all its sales and major purchases primarily in that currency. To fund its operations, the Company maintains United States Dollar, Canadian Dollar and Euro denominated bank accounts, containing sufficient funds to support monthly forecasted cash outflows. Management does not hedge its foreign exchange risk. As at December 31, 2022, a 5% fluctuation in the foreign exchange rate would have an impact of approximately $43,837 (December 31, 2021 - $34,616) in the Company's consolidated statements of loss and comprehensive loss.

Risks and Uncertainties

The success of the Company is dependent, among other things, on obtaining sufficient funding to enable the Company to develop its business. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in delay or indefinite postponement of inventory purchasing which could severely restrict the Company's sales. The Company will require new capital to continue to operate its business, and there is no assurance that capital will be available when needed, if at all. It is likely such additional capital will be raised through the issuance of additional equity, which will result in dilution to the Company's shareholders.

Certain directors or proposed directors of the Company are also directors, officers or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

The Company does not have a historical track record of operating upon which investors may rely. Consequently, investors will have to rely on the expertise of the Company's management. The Company does not have a history of earnings or the provision of return on investment, and there is no assurance that it will produce revenue, operate profitably or provide a return on investment in the future.

Dependence on Outsourced Manufacturing Relationships

As the Company engages and relies solely on UAB Technano, a third-party manufacturing broker, to manufacture its products, there are certain risks associated with an outsourced manufacturing model. These risks include but are not limited by the following:

1) In the event that the manufacturing broker experiences issues with procuring raw materials and components required for production, the production timeline and delivery of the completed products may be significantly delayed;

2) In the event that the manufacturing broker is not able to receive timey allocation of the production line required to assemble and pack the product, the production and delivery of such units may be significantly delayed;

3) In the event that the manufacturing broker experiences delays when shipping the products to the Company, the delivery of the products may be significantly delayed.; and

4) In the event that the manufacturing broker ceases its operations for any reason such as financial hardship or any other significant development that restricts its ability to continue manufacturing the Company's product, or the Company's relationship with the manufacturing broker breaks down – there may be a significant uncertainty with respect to the timing of inventory supply which could materially delay or prevent the supply of the Company's products to its customers and harm the Company's reputation. In this event, the Company may be forced to engage an alternative, arm's-length manufacturing broker to replace UAB Technano to produce the Company's products. While the process of setting up manufacturing with a new broker may take a significant amount of time, given the complexity of the manufacturing process – the Company's management believes that the components used in the production and the production methods employed are generally available components and production methods that are well understood and widely utilized in the global arena of high-tech manufacturing. UAB Technano is the Company's preferred manufacturing broker given its reliability and long-standing working relationship with the Company, but the Company is not bound or limited to this particular broker.

Management of the Company has always been involved and will continue being involved in the manufacturing process. Management constantly communicates with UAB Technano to ensure production is carried out as set out in the terms of the manufacturing agreement and any manufacturing issues, if raised, are dealt with promptly. The Company, however, is not physically involved in the manufacturing process as UAB Technano is a separate and unrelated party with which the Company has a professional working relationship.

As part of its agreement, UAB Technano is responsible for carrying out quality control procedures to ensure the final product is free of defects. Any products that don`t pass the final quality inspection by UAB Technano are discarded at their expense and not the Company's. In the event of any quality issues – UAB Technano and the Company consult together and work alongside each other to resolve any issues in the manufacturing process. Quality inspection is performed at each step of the production process of components and raw materials. In the event of a significant quality issue, the Company may either get involved in the manufacturing process by advising UAB Technano of the required changes or choose to work with an alternative manufacturing broker if quality issues are not resolved to the Company's satisfaction.

Shipment details from UAB Technano include the item's name and quantity at the time of shipment. Those details are then verified against the count performed by the unrelated, receiving party – ShipBob's warehouse staff.

UAB Technano is an arm's-length manufacturing broker with which the Company has a market-based contractual agreement to procure required components and to assemble all of the Company's products. The Company advances an agreed amount of funds as a prepayment for inventory and then the broker provides final and completely assembled and packed product to the Company. Once the product is shipped and in the hands of the shipping company, the Company assumes ownership for the product in transit and the funds advanced balance held with UAB Technano is reduced by the sum equal to the pre-agreed price per product, multiplied by the product's quantity.

UAB Technano is not responsible or liable for any production delays from a legal or financial perspective. In the event the production or delivery of the final product to the Company is delayed for any reasons, it is the Company that bears responsibility for such a delay and there is no recourse to the manufacturing broker. As such, there is a potential risk that if the manufacturing broker is not be able to complete production of the Company's product on a timely basis the Company's inventory position and consequently the Company's sales may be negatively and severely impacted.

Procurement of raw materials and components as well as the actual manufacturing of products and storage of the final products is the complete responsibility of UAB Technano up until the point at which the responsibility is transferred to the shipping company. The Company uses globally recognized logistic companies such as DHL and

FedEx. Once the products are in the hands of the shipper, the liability is transferred on to the shipper. Once the final product leaves UAB Technano's warehouse, they are no longer held responsible for any loss or damage to the products.

During all stages of production, from storing the raw materials, to the final assembly of the product, to storage of the final product, UAB Technano is liable for any loss of product. UAB Technano confirmed to have appropriate insurance coverage in place to cover the damage resulting from a partial or complete loss of product or components.

Once the product leaves UAB Technano's warehouse, the value of the shipment in transit is insured by the respective shipper's (DHL or FedEx) insurance policy while it`s being transported to the ShipBob destination warehouse. Once the product arrives at the ShipBob's destination warehouse, ShipBob is responsible for the storage of the product and, as such, is liable for product loss, with such liability covered by ShipBob's insurance policy. Liability for the production, safe storage, and transportation of the final product lies, at all times, with the third parties that the Company engages for the production, transportation, warehousing and delivery to end-users (UAB Technano – shipping companies – ShipBob). As a result, the Company does not have insurance coverage in place to cover product loss.

UAB Technano is not liable for any production delays associated with disruptions to the manufacturing and the Company does not have any insurance coverage in place to cover production disruption. As such, in the event of disruptions to manufacturing, the Company is exposed to the risk associated with delays in inventory replenishment which could severely and negatively impact the Company's sales.

Risks associated with manufacturing in Lithuania

Lithuania joined the European Union as a member in 2004, however, its level of economic development is lower when compared to some of the more developed EU counties such as Germany or France, for example. To date, management has not experienced any noticeable differences or issues with its products being manufactured in Lithuania, as part of an ongoing relationships with UAB Technano since 2017. The Company purchases final goods manufactured by UAB Technano and as such has no operations, related parties or employees in the country. As detailed in the previous section, final products are shipped out of Lithuania using services of global carriers with appropriate insurance coverage to protect the Company in case of a product loss.

Lithuania, being an emerging market may present certain risks to the Company as the physical manufacturing of final product by UAB Technano takes places in Lithuania. Management acknowledges that manufacturing activities could be disrupted if unforeseen events take place in the country and impact UAB Technano's ability to manufacture. Such disruption could result in significant production delays and/or a complete loss of manufactured inventory held with UAB Technano in the most extreme event, which is more likely to occur in an emerging market when compared to Canada. Prepaid Inventory expense, the funds transferred to UAB Technano, for future production and the final product in possession of the shipping partner (DHL or FedEx) are the only assets exposed to such risks.

The Company is exposed to significant political and economic risk resulting from manufacturing all of its products through an outsourced relationship in a developing country. These risks may have a significant impact on the ability of the Company to carry on business operations to an extent that if a negative event takes place and affects UAB Technano's ability to continue production or its ability to ship final products to the Company, the Company's sales may be negatively and significantly impacted by such a delay and/or could lead to a loss of prepaid Inventory balance as noted above. Such risks may include but are not limited to:

- regulatory risks that investors normally would not expect in Canada in connection with local corporate, customs, contract, and other laws;
- unusual terms, import and export and border control risks which could restrict movement of final products to the Company or increase their cost;

- political factors, including political instability and arbitrary or sudden changes to laws;
- the legal and regulatory framework in the foreign jurisdiction which may increase the likelihood that laws will not be enforced, and judgments will not be upheld;
- corruption, bribery, civil unrest and economic uncertainty, which may negatively impact and disrupt business operations of UAB Technano within the country and in turn negatively impact the Company's sales through reduced supply of inventory; and
- potential expropriation or nationalization of assets i.e the prepaid Inventory balance held with UAB Technano.

One recent development that has affected countries world-wide has been persistently high inflation, a risk factor especially sensitive in the less economically developed countries. Management acknowledges that there is risk stemming from high inflation which may lead to cost of products increasing. One of the mitigating options of higher product costs at the disposal of management would be to increase prices to the end user.

Another longer-term mitigating strategy that management could deploy to protect the continuity of the Company's ability to manufacture its products would be to engage with manufacturing brokers and/or manufacturing partners located in China or in a more stable jurisdiction, such as USA, should the need for this arise or geopolitical risk associated with Lithuania increase dramatically.

Risks related to intellectual property, product obsolescence, product liability and scientific uncertainty

The Company recognizes the existence of risks related to intellectual property, product obsolescence, product liability and scientific uncertainty. The Company's products are dependent upon technologies which are susceptible to rapid and substantial changes. There can be no assurance that the Company's products will not be seriously affected by, or become obsolete as a result of, such technological changes. Further, as technology continuously advances over time, the Company's products will need to catch up to the expectations of the modern world and there can be no assurance that the Company's efforts will result in viable commercial products as originally conceived by the Company.

There is a risk that competing products with more appealing features may be developed and may use technologies not yet incorporated in the Company's products. The occurrence of any of these events could negatively impact interest in the Company's products and thus limit the potential revenues to be generated by the Company and make the products obsolete.

The ability of the Company to maintain or increase sales will depend in part on its ability to maintain and grow its brand equity through the use of its registered domain names and intellectual property. A loss of any of these may result in the Company's brand equity being diminished and thus a loss of potential customers. As protection, the Company usually requires its employees and independent contractors to enter into confidentiality agreements. However, it cannot be assured that the obligations therein will be maintained and honoured. In spite of confidentiality agreements and other methods of protecting trade secrets, the Company's proprietary information could become known to or independently developed by competitors.

Further, the Company's competitors may have been granted patents protecting various product features, including methods and designs. If the Company's products employ these processes, or other subject matter that is claimed under competitors' patents, or if other companies obtain patents claiming subject matter that the Company uses, those companies may bring infringement actions against us. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. In addition, because patent applications can take many years to issue, there may be applications now pending of which the Company is unaware, which might later result in issued patents that the Company's products may infringe. If any of the Company's products infringes a valid patent, it could be prevented from distributing that particular product, unless and until it can obtain a license or redesign the product in question to avoid infringement. A license may not be available or may require payment of substantial royalties. Additionally, the Company may not be successful in any attempt to redesign the infringing product. Infringement and other intellectual property claims, with or without merit, can be expensive and time-consuming to litigate, and the Company may not have the financial and human resources to defend itself against any infringement suits that may be brought against it. Moreover, due to the differences in foreign design, trademark, trade dress, copyright and/or other laws concerning proprietary rights, the Company's intellectual property may not receive the same degree of protection in foreign countries as it would in Canada. The Company's failure to possess, obtain or maintain adequate protection of its intellectual property rights for any reason in these jurisdictions could have a material adverse effect on its business, results of operations and financial condition.

Dependence on Key Employees

The Company's business and operations are dependent on retaining the services of a small number of key employees. The success of the Company is, and will continue to be, to a significant extent, dependent on the expertise and experience of these employees. The loss of one or more of these employees could have a materially adverse effect on the Company. The Company does not maintain insurance on any of its key employees.

The Company has a strong management team with significant experience in the development of EMR technology. The founder of the Company, Mr. Igor Serov, is well respected in the industry and has won numerous awards for his research and development in the field of EMR technology. Mr. Igor Serov is a valuable asset for management and other development team members. Accountability and oversight of the Company rests with the Board. The Board consists of the ideal mix of technology and capital market expertise so as to drive the value and performance of the Company from both a development standpoint and a shareholder value perspective. The Company will continue to evaluate and potentially expanded its management team to oversee the business development activities of the Company and perform all core functions.

Competitive Conditions

The markets for the Company's products are competitive and rapidly changing, and a number of companies offer products similar to the Company's products and target similar customers. The Company believes its ability to compete depends upon many factors within and outside its control, including the overall competitiveness and appeal of its products relative to the competitors' offerings; product functionality, performance, price and reliability; customer service and support; sales and marketing efforts; and the introduction of new products and services by competitors.

At the global level, there are companies with similar products on the market. Some examples of competitors include: Pong, Sar Shield and Bodywell. However, the Company does not intend to focus on technology or products that other companies use or are developing.

Potential Dilution

The issue of common shares of the Company upon the exercise of the options and warrants will dilute the ownership interest of the Company's current shareholders. The Company may also issue additional options and warrants or additional common shares from time to time in the future. If it does, the ownership interest of the Company's then current shareholders will also be diluted.

Current Global Financial Conditions and Trends

Securities of technology companies in public markets have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in Canada and globally, and market perceptions of the attractiveness of particular industries. The price of the securities of Companies in the technology sector are also significantly affected by proposed and newly enacted laws and regulations, currency exchange fluctuation and the political environment in the local, provincial and federal jurisdictions in which the Company does business. The economy remains in a period of volatility, primarily driven by the worldwide impact of the war in Ukraine and an uncertain socioeconomic and political climate in the United States, Asia and Europe. Significant volatility is expected in the near to mid term, the potential impact of which upon the Company is unknown at this time.

Management's Responsibility for Financial Information

The Company's consolidated financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The financial statements were prepared by the Company's management in accordance with International Financial Reporting Standards (IFRS). The financial statements include certain amounts based on the use of estimates and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

Forward Looking Statements

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities laws (forward-looking information being collectively hereinafter referred to as "forward-looking statements"). Such forward-looking statements are based on expectations, estimates and projections as at the date of this MD&A. Any statements that involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often but not always using phrases such as "expects", "is expected", "anticipates", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends", or variations of such words and phrases (including negative and grammatical variations), or stating that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements and are intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements and information concerning: the intentions, plans and future actions of the Company; statements relating to the business and future activities of the Company after the date of this MD&A; market position, ability to compete and future financial or operating performance of the Company after the date of this MD&A; anticipated developments in operations of the Company; the timing and amount of funding required to execute the Company's business plans; capital expenditures; the effect on the Company of any changes to existing or new legislation or policy or government regulation; the length of time required to obtain permits, certifications and approvals; the availability of labour; estimated budgets; currency fluctuations; requirements for additional capital; limitations on insurance coverage; the timing and possible outcome of litigation in future periods; the timing and possible outcome of regulatory and permitting matters; goals; strategies; future growth; the adequacy of financial resources; and other events or conditions that may occur in the future.

Forward-looking statements are based on the beliefs of the Company's management, as well as on assumptions, which such management believes to be reasonable based on information available at the time such statements were made. However, by their nature, forward-looking statements are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements are subject to a variety of risks, uncertainties and other factors which could cause actual results, performance or achievements to differ from those expressed or implied by the forward-looking statements, including, without limitation, related to the following: operational risks; regulation; evolving markets; industry growth; uncertainty of new business models; speed of introduction of products to the marketplace; undetected flaws; risks of operation in urban areas; marketing risks; geographical expansion; limited operating history; substantial capital requirements; history of losses; reliance on management and key employees; management of growth; risk associated with foreign operations in other countries; risks associated with acquisitions; electronic communication security risks; insurance coverage; tax risk; currency fluctuations; conflicts of interest; competitive markets; uncertainty and adverse changes in the economy; reliance on components and raw materials; change in technology; quality of products; maintenance of technology infrastructure; privacy protection; product defects; legal proceedings; reliance on business partners; protection of intellectual property rights; infringement by the Company of intellectual property rights; resale of shares; market for securities; dividends; and global financial conditions.

The lists of risk factors set out in this MD&A or in the Company's other public disclosure documents are not exhaustive of the factors that may affect any forward-looking statements of the Company. Forward-looking statements are statements about the future and are inherently uncertain. Actual results could differ materially from those projected in the forward-looking statements as a result of the matters set out in this MD&A generally and certain economic and business factors, some of which may be beyond the control of the Company. In addition, the global financial and credit markets have experienced significant debt and equity market and commodity price volatility which could have a particularly significant, detrimental and unpredictable effect on forward-looking statements. The Company does not intend, and does not assume any obligation, to update any forward-looking statements, other than as required by applicable law. For all of these reasons, the Company's securityholders should not place undue reliance on forward-looking statements.

Additional Information

Additional information relating to the Company is available on its website www.airestech.com or on www.sedar.ca.