



AmericanAires Inc.

Management Discussion and Analysis

Form 51-102F1

For the year ended December 31, 2023

AMERICAN AIRES INC.
Management's Discussion and Analysis
For the year ended December 31, 2023
(Expressed in Canadian Dollars)

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, 2023. 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, 2023, together with the notes thereto. Information contained herein is presented as at April 11, 2024, 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. From inception to August 28, 2023, the Company was 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". Subsequent to August 28, 2023, the Company entered a partnership agreement ("Partnership Agreement") with HUCK Project LLC ("HUCK"), whereby HUCK became the Company's non-exclusive global retail-only distribution partner. With HUCK committing its resources to retail operations, the Company has shifted focus on new product development and engaging into larger and more lucrative original equipment manufacturer ("OEM") deals.

Notable changes to the Company's operating model in 2023:

On August 28, 2023, the Company announced a partnership agreement with HUCK Project LLC ("HUCK") whereby HUCK became the Company's non-exclusive global retail-only distribution partner. HUCK is a US-based digital marketing and advertising consulting and execution group. HUCK is a related party because it is controlled by the CEO of the Company. It was engaged in 2021 to devise the plan for and execute on brand development and sales growth initiatives.

This partnership agreement bears a two-fold rationale. Firstly, management believes that this outsourcing strategically positions the Company as a pure biotechnology firm. With HUCK committing its resources to retail operations, the Company plans to focus on R&D, new product development and engaging into larger and more lucrative Original Equipment Manufacturer ("OEM") deals. This new focus and royalty-based revenues are anticipated to re-shape the Company's operations and investor perception, improving the Company's valuation as it transforms from a working-capital heavy consumer product firm into an R&D-heavy entity with its business core rooted in deep technological and scientific expertise protected by patents. Secondly, by outsourcing retail operations to HUCK, the Company transfers the inventory financing burden over to HUCK, a US-based entity which is better positioned to source financing options to support the growing inventory investments.

The partnership agreement was largely an extension of the working relationships already established between the Company and HUCK as it has been managing day-to-day operations of the Company's Shopify store and overseeing the entire sales, marketing and advertising functions since 2021. The agreement also gives complete flexibility over partnership economics to the Company through a set of two royalties, both to be set monthly by the Company. All of the intellectual property, trademarks and patents, including the Shopify store remain with the Company. Please refer below for the key points of the agreement:

- The Company granted to HUCK a non-exclusive, sublicensable licence to make, use, advertise, sell, promote, manufacture, the intellectual property, and to offer the retail e-commerce services, worldwide.
- HUCK acquired from the Company all inventory of the Company (including current, in-transit and pending inventory) for the sum of \$684,038.

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- HUCK shall maintain sufficient inventory to ensure the ongoing operation of the Company's store in a commercially reasonable manner.
- The Company permits HUCK to submit orders directly to UAB Technano for the manufacture of Lifetune-branded products.
- HUCK shall pay to the Company a monthly royalty based upon sales by it of the Company's products. The royalty shall comprise a cash royalty portion and a special royalty portion based on the agreed upon pricing structure. The royalty amount is based on a tiered matrix structure and depends on the level of monthly sales reported by HUCK. The cash royalty varies between 5% to 30% and is payable to the Company on a monthly basis. The special royalty varies between 0% to 10% and can only be levied by prior agreement between the parties.
- HUCK shall reimburse the Company for any repayments made by the Company with respect to its e-commerce platform loan unless any portion is forgiven by the Company.

As of January 1, 2024, the Company has terminated the Partnership Agreement with HUCK. The combination of a stronger financial position, improved company valuation and feedback that the Company received from investors led the Company to believe that the primary objective of the partnership with HUCK, has been largely achieved. Both companies have retained a friendly relationship and agreed to all terms and conditions.

Notable changes in team structure in 2023:

i) The chief operating officer ("COO") resigned from the Company in the beginning of January 2023 to pursue other opportunities. The COO was with the Company since April 2018 and was responsible for the day-to-day operations, managing inventory production, shipments and maintaining relationships with key stakeholders. The COO tasks and responsibilities have been fully absorbed by the other members of the management team and there have been no disruptions to the operations of the Company as a result of COO's departure.

ii) On March 1, 2023, the Company appointed Mr. Josh Bruni as its new chief executive officer ("CEO"). The CEO previously served as chief revenue officer and since joining the Company in late 2021, Mr. Bruni has led the Company to record growth. Additionally, Mr. Bruni has assembled a talented supporting team, including a strong partnership with marketing agencies, to assist in executing his vision. Under Mr. Bruni's lead, the Company expanded its global reach outside of North America, shipping products to customers in over 60 countries.

iii) On March 1, 2023, the outgoing CEO, Mr. Dimitry Serov, took over the role of chief product officer ("CPO") and will continue in his role as president of the Company. Mr. Serov has built a solid operational foundation that has supported the rapid growth of the Company over the years. In addition, Mr. Serov led the development and launch of the Company's latest product, the Lifetune Flex. With this move, Mr. Serov will focus on full-time product development and supply chain management. Mr. Serov will continue to make efforts to reduce production time and costs and build relationships with new suppliers.

iv) On March 14, 2023, the Company announced the appointment of Jo-Anne Archibald, an experienced provider of corporate governance services, as corporate secretary of the Company. Ms. Archibald has over 30 years of experience working with private and public capital market companies, specifically in board governance, corporate secretarial services, investor relations, and consumer packaged goods marketing.

v) On April 21, 2023, the Company announced the resignation of one of its directors, Jacinto Vieira. The Company has a sufficient number of directors on its Board of Directors and therefore this resignation has not had any impact on its governance, operations and decision-making.

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Notable updates in technology and research in 2023:

i) On April 13, 2023, The Company announced the publication of a peer-reviewed research paper, titled "Computer Simulation of the Response of a Semiconductor Wafer with a Self-Affine Pattern in the Form of a System of Coupled Ring Grooves to Electromagnetic Radiation." The research was also presented in London, UK at the 7th International Congress on Information and Communication Technology (ICICT). The study demonstrates that the semiconductor wafer with a self-affine pattern, the core of Lifetune products, can modulate electromagnetic fields in a controllable and tunable way. The research results reveal that the unique pattern greatly impacts the electromagnetic field distribution in the wafer, changing both the strength and phase of the radiation. This pattern causes a customizable phase shift in the radiation based on wavelength, which can be adjusted by modifying the pattern's geometry. This research supports the findings that Lifetune products can modify electromagnetic fields (EMFs) to make them less harmful to living organisms, such as humans. The Company currently sells products designed to protect humans and other biological organisms from the harmful effects of long-term exposure to electromagnetic radiation (EMR) and EMFs produced by man-made technology, cellular, and wireless technologies. The research sets the Company's products apart from competitors, as it provides credible scientific evidence for the effectiveness of Lifetune technology.

ii) On April 27, 2023, the Company announced significant progress on a global technology patent that bolsters its intellectual property portfolio. The functional patent, titled "Method for Protecting Biological Objects from the Negative Influence of Technogenic Electromagnetic Radiation", focuses on safeguarding living organisms from harmful electromagnetic radiation without interfering with the functioning of electronic devices. After nearly four years of collaboration with multiple government patent offices and examiners, the patent has received Patent Pending status in the following jurisdictions – a) WIPO, which includes a total of 36 countries including all of the EU, b) Canada and c) USA. The patent describes the technology already integrated into the Company's current product lineup called Lifetune. The patent specifically describes a method that employs a fractal-matrix structure to generate a protective field surrounding the living organism. This structure, consisting of ring-shaped patterns forming a grid-like arrangement, functions as a converter, harmonizing and reorganizing electromagnetic radiation into a more coherent and biologically friendly form. The patent further describes a protective converter which can be placed directly on the living organism or between the organism and the radiation source, providing flexibility and versatility in delivering electromagnetic radiation protection. This patent and the Aires technology advances Aires' mission to enhance well-being and environmental safety through science-led innovation, education, and advocacy. This significant progress on the Company's global patent filing signifies a major milestone, showcasing its dedication to continuous innovation and development in the field of EMF protection. The Lifetune technology has been in the market for several years and this patent will help ensure its long-term success, while distinguishing the Company from competitors with less scientific rigor. The Company remains focused on providing advanced EMF protection solutions built on rigorous scientific research and development. The Company already holds over 20 patents and is committed to staying at the forefront of the industry through furthering its science and innovation.

Notable updates on business partnerships in 2023

On November 16, 2023, the Company entered into a partnership with Arizona-based wellness-tech firm, OMSLEEP. This OEM collaboration integrates Aires' Lifetune EMF modulation technology into OMSLEEP's soon-to-be-launched Om Mask, significantly enhancing its feature set and bolstering OMSLEEP's vision to deliver the best sleep experience. This represents a key milestone in Aires' evolution. The integration of the Company's EMF modulation technology into the Om Mask reflects management's strategic shift towards technology development and licensing across various business categories where bio-protection and bio-correction needs are evident. This collaboration signifies the Company's commitment to this larger vision and highlights the demand for and adaptability of our technology within many market sectors.

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Additional description of business

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, 2023, 79% of sales were to the US customers, 7% 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 Carrollton (Texas, USA), Altona (Australia), Gorzów Wielkopolski (Poland) and Brampton (Canada). 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 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 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, 2023, 70% of sales were from Lifetune One, 6% from Lifetune Go, 7% from Lifetune Zone, 7% from Lifetune Zone Max and 10% 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

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customers. 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, Poland and Canada. 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 is currently 1 full-time employee 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 currently not heavily 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 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.

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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 2023, the Company was able to successfully build 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.

Overall Performance and Highlights

The Company continued to build on the strength in demand and produced record sales of \$5.5 million for the period from January 1, 2023 to August 28, 2023, prior to entering into a partnership agreement with HUCK. For the remainder of the year, HUCK sales amounted to \$4.9 million and therefore the combined sales for the year ended December 31, 2023 were \$10.4 million, representing a 79% increase year-over-year ("YOY"). Consumer demand attests to the genuine market need for the product offerings. This accomplishment highlights the 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 its ability to drive growth in a challenging and volatile market landscape. In addition, the Combined information demonstrates significant reduction in core net loss compared to the prior year. Please refer to section "Discussion of Combined Operations" for additional details on the revenue growth and other financial performance metrics.

Key capital markets highlights

- On May 12, 2023, the Company closed a non-brokered private placement and issued an aggregate of 7,844,000 (784,400 post-conversion) units at a price of \$0.05 per unit for gross proceeds of \$392,000.
- On June 9, 2023, the Company converted \$1.29 million of its existing debt into a convertible debenture which bears interest at a rate of 12% per annum, payable semi-annually in arrears and with a maturity date of June 30, 2025.
- On June 15, 2023, the Company issued additional units of convertible debenture to arm's length investors for gross proceeds of \$325,000. On September 22, 2023 and September 25, 2023, the Company issued additional convertible debenture units to arm's length for gross proceeds of \$717,000. These transactions have provided the Company with a much needed cash injection to secure more inventory production in the times of rapidly growing sales.
- On September 26, 2023, the vast majority of the debenture holders converted their principal amount and accrued interest into the common shares of the Company. The total amount converted was \$1,885,188 in exchange for 20,946,530 common shares at \$0.09 per share. On October 12, 2023 and October 13, 2023, the remaining units were converted into the commons shares of the Company. The amount converted was

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\$512,197 for 5,691,076 commons shares at \$0.09 per share. This equity conversion has improved the Company's working capital position by substantially reducing its liabilities.

- On September 12, 2023, the Company performed a consolidation of its issued and outstanding share capital on the basis of one (1) new common share for every ten (10) outstanding common shares. The same 1:10 consolidation was performed for all outstanding warrants and stock options.

Discussion of Operations

Management notes that the table below only includes the financial results of the Company and excludes HUCK's financial results. As part of the partnership agreement, HUCK is responsible for all sales, inventory management, advertising and marketing for the period from August 29, 2023 to December 31, 2023. Management used IFRS 10 guidance to determine whether it has control over HUCK and based on a number of judgements determined that no control exists due to the Company not having exposure or rights to variable returns from its involvement with HUCK. As a result, the Company has not consolidated the financial results of this segment of HUCK's business in its financial statements.

<u>Revenue</u>	2023	2022	YOY %
Sales	\$ 5,499,689	\$ 5,822,140	-6%
Cost of sales	\$ (2,081,563)	\$ (2,211,890)	-6%
Gross margin	\$ 3,418,126	\$ 3,610,250	-5%
Gross margin %	62%	62%	
<u>Core expenses</u>			
Advertising and promotion	\$ (2,210,866)	\$ (2,443,604)	-10%
Marketing	\$ (1,307,692)	\$ (1,970,265)	-34%
Core Net Income (Loss)	\$ (100,432)	\$ (803,619)	-88%
<u>Overhead costs</u>			
Office and general	\$ (293,558)	\$ (363,818)	-19%
Consulting and payroll	\$ (1,149,230)	\$ (1,249,912)	-8%
Legal and professional	\$ (392,190)	\$ (283,864)	38%
Adjusted EBITDA	\$ (1,935,410)	\$ (2,701,213)	-28%
<u>Other</u>			
Cash royalty income	\$ 283,427	\$ -	N/A
Credit reimbursement income	\$ 197,183	\$ -	N/A
Stock-based compensation	\$ (554,744)	\$ (139,667)	297%
Interest charges	\$ (616,809)	\$ (502,089)	23%
Equity-based finance charge	\$ (953,444)	\$ (353,000)	170%
Consulting fees settled in shares (1)	\$ (782,057)	\$ -	N/A
Depreciation	\$ (137,958)	\$ (138,359)	0%
Foreign exchange settlement (2)	\$ (100,000)	\$ -	N/A
Sales tax provision (3)	\$ (146,707)	\$ (74,520)	97%
Net Income (Loss)	\$ (4,746,519)	\$ (3,908,848)	21%

(1) "Consulting fees settled in shares" is presented as part of "Consulting fees" in audited financial statements

(2) "Foreign exchange settlement" is presented as part of "Office and general" in audited financial statements

(3) "Sales tax provision" is presented as part of "Cost of sales" in audited financial statements

(4) Terms like Core Net Income (Loss) and Adjusted EBITDA are non-GAAP measures and are reconciled to Net Income (Loss) which is a GAAP measure

The Company reported sales of \$5.5 million for the period from January 1, 2023 to August 28, 2023, prior to entering into a partnership agreement with HUCK. The 6% decrease YOY is solely attributable to comparing results for approximately eight months to a full year. If sales of the Company's products via the HUCK agreement for the remainder of the year (\$4.9 million) are included the combined result would be \$10.4 million, representing a 79% YOY increase. We 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 and 2023. This growth was achieved primarily through expanded spending on social media platforms and further spending on developing affiliate relationships to promote our products. Gross margin

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percentage was reported at 62% in 2023 which is consistent with prior year and exemplifies continued focus on optimization of manufacturing and fulfillment costs.

Post-transition to the partnership agreement (August 29, 2023 to December 31, 2023), the Company also recorded revenue of \$0.28 million from cash royalty charged to HUCK which represents a blended rate of 5.8% of the net sales (excluding shipping fee income) reported by HUCK during that period. In addition, \$0.2 million of e-commerce loan repayments that have been reimbursed by HUCK were recorded as income.

Advertising and promotion expenses decreased 10% YOY to \$2.2 million, solely as a result of excluding HUCK post-transition period from the results. Overall, the Company pursued 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, we were able to better optimize advertising spending across channels. By deepening and putting more resources behind partnerships, we were able to ensure higher conversion rates and greater success of the influencers promoting our 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 decreased 34% YOY to \$1.3 million, solely as a result of excluding HUCK post-transition period from the results. The marketing expenses are based on contracts with a number of marketing agencies that provide services based on a fee as opposed to commissions and therefore it is not expected to increase in the same proportion to sales.

Consulting and payroll expenses decreased 8% YOY to \$1.1 million as a result of overall cost optimization and offset by utilizing consultants in the investor relations space, given that the Company had resumed trading on the stock exchange. In addition, salaries and benefits have gone down due to a departure of COO in January 2023 and resignation of a customer service specialist in March 2023.

Legal and professional fees have increased 38% YOY to \$0.39 million. The professional fees include services performed by legal firms, bookkeepers and auditors. The increase is mainly attributed to using legal firms more in 2023 due to a private placement in May 2023 and various tranches of a convertible debenture issuances.

Office and general expenses (including rent and travel) have decreased 19% YOY to \$0.29 million as a result of overall 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.

Stock-based compensation has increased 297% YOY to \$0.55 million due to an increased need for such compensation amongst the staff and consultants in light of the Company resuming trading on the stock exchange. On October 19, 2023 and November 23, 2023, the Company cancelled previous stock options and re-issued new stock options to a number of directors, consultants and insiders. On October 19, 2023, the Company also issued restricted share units to management.

Interest charges have increased 23% YOY to \$0.62 million as a result of taking on new debt during the year. During the year ended December 31, 2023, the Company entered into a new loan with a related party, received two new tranches of e-commerce platform loan and issued convertible debenture units. The effect of taking on new debt has been partially offset by the Company paying off its marketing loan in full by the end of 2022 and also by not incurring any additional interest on its working capital loan. In addition, the Company converted a substantial portion of its grid promissory note into a convertible debenture therefore saving on the royalty payments. In addition, the entire balance of the convertible debenture was eventually converted into the shares of the Company. Please refer to the section "Liquidity and Capital Resources" for more details. Equity-based finance charge has increased 170% to \$0.95 million which relates to the value of warrants issued in connection with debt (the convertible debentures).

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Fourth Quarter

In this quarter the Company did not record any sales or related costs as these had been transferred to HUCK. During this period, the Company recorded royalty revenue of \$169K which represents 4.5% on \$3.73 million (excluding shipping fee income) sales by HUCK. The sales are a 4th quarter record showing an increase of 53% on a quarter-over-quarter basis ("QOQ") compared to Q4 2022. 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 2023, high sales volumes are expected due to the seasonality. The following are the major highlights from the fourth quarter:

- Issuance of stock options to directors, insiders and consultants in the amount of \$44,444 (vested amount)
- Issuance of restricted share units to management in the amount of \$510,300 (vested amount)
- Settlement of \$810,648 debt to consultants and management by issuing 12,009,600 common shares
- Conversion of \$512,197 convertible debenture for 5,691,076 commons shares at \$0.09 per share

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"). The table below excludes the financial results of HUCK.

	2023		2022		2021		2020	
Total revenue	\$	5,980,298	\$	5,822,140	\$	2,553,061	\$	2,313,656
Net loss and comprehensive loss for the year	\$	(4,782,513)	\$	(4,082,902)	\$	(6,086,880)	\$	(7,588,239)
Total assets	\$	349,458	\$	1,520,964	\$	2,267,266	\$	2,124,202
Total non-current financial liabilities	\$	60,000	\$	1,127,062	\$	60,000		-

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"). The table below excludes the financial results of HUCK. Amounts are expressed in thousands of Canadian dollars, except for loss per share, which is rounded to the nearest cent.

	12/31/23		9/30/23		6/30/23		3/31/23		12/31/22		9/30/22		6/30/22		3/31/22	
Total Assets	\$	349	\$	1,330	\$	1,488	\$	1,327	\$	1,521	\$	1,251	\$	2,243	\$	2,119
Total Revenue	\$	169	\$	2,399	\$	1,926	\$	1,487	\$	2,453	\$	1,182	\$	1,498	\$	689
Net Loss	\$	(1,709)	\$	(235)	\$	(1,941)	\$	(861)	\$	25	\$	(1,273)	\$	(949)	\$	(1,712)
Net Loss per Share	\$	(0.03)	\$	(0.01)	\$	(0.10)	\$	(0.04)	\$	0.00	\$	(0.08)	\$	(0.06)	\$	(0.11)

Sales are largely driven by the intensity and effectiveness of advertising campaigns, creating demand for the Company's products. Given the strong growth in 2023 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 or Q3. 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

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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.

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 year ended December 31, 2023.

At this time, the Company is not generating sufficient cash from operations and, therefore it will be dependent on 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. This lack of cashflow generation restricts 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 are temporary in nature. Management acknowledges that the working capital deficiency could 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 its ability to purchase inventory and could further negatively impact sales and profitability.

Debt and Equity Transactions in 2023

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 was due on July 24, 2024 unless further extended by the lender for an additional three months. The CEO of the lending party is also an officer of the Company. The loan was primarily used to purchase inventory, positively impacting the sales towards the end of Q1 2023 and beyond. The entire balance of the loan was converted into a convertible debenture on June 9, 2023.

On May 12, 2023, the Company closed a non-brokered private placement and issued an aggregate of 7,844,000 (784,400 post-consolidation) units at a price of \$0.05 per unit for gross proceeds of \$392,000. 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 twenty-four months from the closing of the offering. The 7,844,000 (784,400 post-consolidation) warrants issued have an exercise price of \$0.05 (\$0.50 post-consolidation) and a two-year term. A fair value of \$289,723 was assigned to these warrants. Cash costs of issue amounted to \$23,076 in aggregate. In addition, the

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Company issued 459,520 (45,952 post-consolidation) finder's warrants exercisable for \$0.05 (\$0.50 post-consolidation) per warrant with identical terms as the non-brokered private placement warrants above. A fair value of \$16,973 was assigned to these warrants.

On June 9, 2023, the Company issued convertible debentures ("debentures") in the amount of \$1,293,000 which bear interest at a rate of 12% per annum, payable semi-annually in arrears on the last day of June and December in each year, with the first interest payment payable on June 30, 2023. The maturity date is June 30, 2025. The debentures are convertible into common shares of the Company at the market price of the common shares at the time of conversion, determined by the most recent closing price on the day of conversion, at the option of the holders at any time prior to maturity. The convertible debentures were issued in units and each unit comprises \$1,000 of principal and 20,000 common share purchase warrants (2,000 post-consolidation). Each warrant shall entitle the holder thereof to acquire one common share at an exercise price of \$0.05 (\$0.50 post-consolidation) until June 30, 2025. In addition, the debentures are secured by all of the assets of the Company. The original tranches ("original tranche") of this debenture were issued in-kind as part of the conversion of the promissory note payable, grid promissory note payable and loan payable. The total amount converted of \$1,293,000 equated to 1,293 debenture units of which 734 units were issued to the related parties (lenders of the previously held promissory note payable and loan payable) and 559 units were issued to the arm's length investors (lenders of the previously held grid promissory note).

On June 15, 2023, the Company issued additional 325 debenture units at the same terms as described above to the arm's length investors, for total gross proceeds of \$325,000 ("Tranche 1"). The Company paid \$19,500 in finder's fee as part of this financing which has been recorded as interest expense in the consolidated statements of loss and comprehensive loss.

On September 22, 2023 and September 25, 2023, the Company issued additional 717 debenture units at the same terms as described above to the arm's length investors, for total gross proceeds of \$717,000 ("Tranche 2"). The Company paid \$11,100 in finder's fee as part of this financing which has been recorded as interest expense in the consolidated statements of loss and comprehensive loss.

On September 26, 2023, the vast majority of the debenture holders converted their principal amount and accrued interest into the common shares of the Company. The total amount converted was \$1,885,188 in exchange for 20,946,530 common shares at \$0.09 per share. On October 12, 2023 and October 13, 2023, the remaining units were converted into the common shares of the Company. The amount converted was \$512,197 for 5,691,076 common shares at \$0.09 per share.

In connection with the original tranche and Tranche 1, the Company issued 32,360,000 (3,236,000 post-consolidation) common share purchase warrants exercisable at a price of \$0.05 per share (\$0.50 post-consolidation) for a period of two years from the date of issue. A fair value of \$851,849 was assigned to the warrants. In connection with Tranche 2, the Company issued 1,434,000 common share purchase warrants exercisable at a price of \$0.50 per share for a period of two years from the date of issue. A fair value of \$101,595 was assigned to the warrants issued. The fair value of warrants issued for this transaction 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, 2023.

Transactions Between Related Parties

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

Year Ended December 31	2023	2022
Remuneration paid to key management	\$ 875,183	\$ 841,158
Stock-based compensation	\$ 536,358	\$ 33,000

The Company defines key management as the Company's directors and officers. As at December 31, 2023, amounts due to key management for remuneration totaled \$234,830 (2022- \$54,408). Stock-based compensation in the table above relates to the restricted share unit issuance to the management team as well as the stock options

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issued to one of the directors on October 19, 2023. The Company issued 8,100,000 restricted shares representing a value of \$850,500 or \$0.105 per share. As part of this issuance, 50% vested immediately on October 19, 2023 and the remainder will vest one year after issuance. With respect to this award, the Company recognized \$510,300 as stock-based compensation in 2023 which comprises \$425,250 for the vested portion and \$85,050 for the amortization of the unvested portion. The stock options issued to one of the directors were valued at \$26,058 using the Black-Scholes model.

On February 7, 2022, the Company obtained a \$500,000 loan from a lender whose president is also an officer of the Company. Interest of \$24,822 for the year ended December 31, 2023 was expensed and the entire balance of the loan was converted into a convertible debenture on June 9, 2023.

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 CEO of the lending party is also an officer of the Company. Interest of \$6,263 for the year ended December 31, 2023 was expensed and the entire balance of the loan was converted into a convertible debenture on June 9, 2023.

On June 9, 2023, convertible debenture units were issued to the lenders of the promissory note payable and loan payable as part of the loan conversion process. Both lenders are related parties as described in the paragraphs above. As of December 31, 2023, none of the outstanding convertible debenture units are held by the related parties as those units were fully converted into the common shares of the Company on September 26, 2023. The total amount converted by the related parties was \$760,303 at \$0.09 per share for 8,447,814 common shares. Interest of \$26,303 on the convertible debenture held by related parties for the year ended December 31, 2023 was expensed.

During the year ended December 31, 2023, the Company expensed \$616,743 (2022 - \$659,243) for digital marketing services provided by a firm controlled by an officer of the Company. As at December 31, 2023, \$nil (2022 - \$195,666) was included in accounts payable and accrued liabilities in connection with these services.

During the year ended December 31, 2023, the Company expensed \$nil (2022 - \$101,081) for legal services provided by a firm, a partner of which was a director of the Company. As at December 31, 2023, \$131,507 (2022 - \$82,270) 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, 2023, the Company expensed \$nil (2022 - \$75,678) 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, 2023, the Marrelli Group was owed \$nil (2022 - \$nil). As of December 6, 2022, the Company no longer uses the services of the Marrelli Group.

On August 28, 2023, the Company entered into a partnership agreement with HUCK Project LLC which is a firm controlled by an officer of the Company. The Company has undertaken a number of related party transactions with HUCK on August 28, 2023 and during the period from August 29, 2023 to December 31, 2023. Refer to Sales and Licensing Agreement section of this document.

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.

Sales and License Agreement

On August 28, 2023, the Company entered into a partnership agreement ("Partnership Agreement") with HUCK Project LLC ("HUCK"), whereby HUCK became the Company's non-exclusive global retail-only distribution partner.

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HUCK is a US-based digital marketing firm that is owned by a director and officer of Company and is therefore a related party.

As per the Partnership Agreement, the Company transferred the operation of its e-commerce site to HUCK, including advertising and marketing activities and, without limitation, the duty to reimburse the Company for all outstanding costs, debts, liabilities, and payments associated with the Company's obligations related to or otherwise associated with the e-commerce site. Proceeds from revenues from the sale of all products as well as expenses related to the cost of goods sold, marketing, advertising, commissions are the responsibility of HUCK subsequent to August 28, 2023. HUCK also undertook to maintain sufficient inventory to ensure the ongoing operation of the e-commerce site in a commercially reasonable manner. In return, the Company is entitled to receive royalty by way of a cash royalty, payable each month, and special royalty, which can only be levied upon prior agreement of both parties. The cash royalty amount is calculated on HUCK's tiered monthly sales in US\$ using a royalty range for each tier. The actual percentage rate applied from within the royalty range is at the discretion of management.

As part of the agreement HUCK also undertook to reimburse the Company for repayments made by it towards its e-commerce platform loan from September 29, 2023.

At the end of day on August 28, 2023 and during the period from August 29, 2023 to December 31, 2023, the Company recorded the following related party transactions with HUCK as per the Partnership Agreement:

- Transfer of existing inventory on hand and prepaid inventory in transit to HUCK on August 28, 2023 in the amount of \$684,038. The value of existing inventory transferred was \$159,215 and the value of inventory in transit was \$524,823. As a result of this transfer, there remains a \$nil balance of inventory on hand and \$22,847 in manufacturing deposits. The manufacturing deposits balance is part of the prepaid and sundry receivable balance on the consolidated statements of financial position.
- During the period from August 29, 2023 to December 31, 2023, the Company made two additional payments for inventory on behalf of HUCK in the amount of \$688,008.
- During the period from August 29, 2023 to December 31, 2023, the Company paid various expenses which belong to HUCK as per the Partnership Agreement in the amount of \$667,337. These were for marketing, advertising, commissions, shipping, fulfillment, consulting and other fees.
- During the period from August 29, 2023 to December 31, 2023, HUCK paid various expenses which belong to the Company in the amount of \$348,252. These were for marketing, advertising and other, which were incurred prior to August 28, 2023.
- During the period from August 29, 2023 to September 30, 2023, HUCK reimbursed the Company \$197,183 representing the Company's repayments of its e-commerce platform loan and this has been recorded as income and charged to HUCK.
- During the period from August 29, 2023 to December 31, 2023, the Company collected \$4,897,704 in sales proceeds (inclusive of sales tax and shipping fees) on behalf of HUCK. In the same time period, the Company transferred \$2,510,658 to HUCK in settlement of this payable balance.
- During the period from August 29, 2023 to December 31, 2023, HUCK reported total net sales of \$4,874,704 (exclusive of tax and shipping fee income) and the Company accrued cash royalty in the amount of \$283,427 and no special royalty. In November 2023, the Company provided a rebate of \$17,773 on the previous royalty charged to HUCK based on holistic review of HUCK's sales activity. Please refer to the table below for the breakdown of the cash royalty by month.

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Cash Royalty Income						
<u>Year 2023</u>	<u>Net Sales (CAD)</u>	<u>Rate</u>	<u>Royalty</u>	<u>Rebate</u>	<u>Net Royalty</u>	
August (August 29 to August 31)	\$ 128,463	10%	\$ 12,846	\$ -	\$ 12,846	
September	\$ 1,020,753	10%	\$ 102,075	\$ -	\$ 102,075	
October	\$ 926,880	5%	\$ 46,344	\$ -	\$ 46,344	
November	\$ 1,988,119	5%	\$ 99,406	\$ 17,773	\$ 81,633	
December	\$ 810,576	5%	\$ 40,529	\$ -	\$ 40,529	
					\$ 283,427	

- The table below provides a summary of all the transactions with HUCK during the year ended December 31, 2023. The net payable balance of \$215,305 has been included in the accounts payable and accrued liabilities balance on the consolidated statements of financial position as at December 31, 2023.

<u>Due from HUCK</u>	<u>December 31, 2023</u>
Inventory on hand and prepaid inventory transfer to HUCK on August 28, 2023	\$ 684,038
Subsequent inventory purchase paid by the Company on behalf of HUCK	688,008
Cash royalty	283,427
Subsequent HUCK related expenses paid by the Company	667,337
Credit reimbursement	197,183
Subtotal	\$ 2,519,993
<u>Due to HUCK</u>	<u>December 31, 2023</u>
Sales proceeds received by the Company and payable to HUCK	\$ 4,897,704
Transfer of sales proceeds to HUCK	(2,510,658)
Subsequent Company related expenses paid by HUCK	348,252
Subtotal	\$ 2,735,298
Net Payable Balance	\$ 215,305

Management used IFRS 10 guidance to determine whether it has control over HUCK and based on a number of judgements determined that no control exists due to the Company not having exposure or rights to variable returns from its involvement with HUCK. As a result, the Company has not consolidated the financial results of this segment of HUCK's business in its financial statements.

Events Occurring after the Reporting Date

As of January 1, 2024, the Company has terminated the Partnership Agreement with HUCK. The combination of stronger financial position, improved company valuation and feedback that the Company received from investors led the management of the Company to believe that the primary objective of the partnership with HUCK, announced on August 28, 2023, has been largely achieved. Both companies have retained a friendly relationship and agreed to all terms and conditions.

On February 16, 2024, the Company closed a non-brokered private placement of 26,666,663 units of the Company at a price of \$0.15 per unit for aggregate gross proceeds of approximately \$4,000,000. Each unit is comprised of one common share in the Company and one common share purchase warrant being exercisable into one common share at a price of \$0.25 per share for a period of 24 months from closing of the offering.

On February 29, 2024, the Company announced its regionally-exclusive distribution partnership with a Taiwan-based arms-length tech health & wellness firm, Pürland Co., Ltd. ("Pürland"). This distribution collaboration highlights ubiquity of demand for Aires' Lifetune EMF modulation technology and supports management's commitment to building Lifetune into a global brand.

On March 20, 2024, the Company announced the appointment of Jamie Cochran to the Company's Board of Directors who will replace the outgoing director, Ruslan Elensky.

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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.

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, 2023 and 2022 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.

Sales Taxes

The Company operates globally and uses its best efforts to comply with sales tax regimes of the many countries which its products are sold. Because of different laws and regulations estimates of sales taxes payable are made which may differ materially from the actual requirement upon filing.

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.

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Functional and Reporting Currencies

Due to the growth of the Company and the volume of foreign transactions, it was concluded in 2022 that the functional currency of the Company is US Dollars whereas 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, 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'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 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.

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.

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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. Prepaid expenses consist primarily of advances to the Company's supplier of its electromagnetic protection devices and prepaid insurance. 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 \$29,366 (2022 - \$196,103) to settle current liabilities of \$2,384,913 (2021 - \$2,792,190). 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, 2023 and 2022. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

December 31, 2023	Carrying amount	Contractual cash flows	Current	Long term
Accounts payable & accrued liabilities	\$ 2,097,619	\$ 2,097,619	\$ 2,097,619	\$ -
Government loan	60,000	66,000	-	66,000
Current loans	287,294	308,627	308,627	-
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	66,000	-	66,000
Current loans	654,880	672,180	672,180	-
Long-term loans	1,067,062	1,637,644	359,738	1,277,906

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 and Canadian Dollar denominated bank accounts. Management does not hedge its foreign exchange risk. As at December 31, 2023, a

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5% fluctuation in the foreign exchange rate would have an impact of approximately \$49,944 (December 31, 2022 - \$43,837) 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. 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 operations 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

The Company relies solely on UAB Technano for manufacturing its products, introducing risks including delayed production due to raw material shortages or assembly line allocation issues, potential delays in shipping, and uncertainties if the broker ceases operations. While UAB Technano is preferred for its reliability, the Company may engage alternative brokers if necessary.

Management maintains oversight of the manufacturing process, ensuring adherence to quality standards, although physically uninvolved. UAB Technano conducts quality inspections at each production step, with any defects addressed jointly with the Company. Shipment details are verified by ShipBob upon receipt.

UAB Technano manages procurement, production, and storage until product shipment. Liability transfers to shippers upon dispatch, with insurance covering transit. ShipBob assumes responsibility upon arrival, ensuring storage safety. The Company lacks insurance for production disruptions, leaving sales vulnerable to inventory delays.

Risks associated with manufacturing in Lithuania

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 finished goods manufactured by UAB Technano and as such has no operations, related parties or employees in the country. As detailed in a 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 the finished 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

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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.

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 stay abreast with 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.

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 has a strong management team with significant experience in the development of EMR technology. 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.

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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 the Middle East 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

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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.sedarplus.ca.