



AirIQ Inc.

Management’s Discussion and Analysis of Financial Condition and Results of Operations for the Three Months ended June 30, 2019

The following management’s discussion and analysis of the consolidated results of operations and financial condition of AirIQ Inc. (“AirIQ” or the “Company”) is made as of August 19, 2019 and should be read in conjunction with the consolidated financial statements as at and for the years ended March 31, 2019 and March 31, 2018 and accompanying notes. The accompanying consolidated condensed interim financial statements of AirIQ have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The accompanying consolidated condensed interim financial statements and this management’s discussion and analysis have been reviewed by the Company’s Audit Committee and approved by the Company’s Board of Directors.

The accompanying consolidated condensed interim financial statements include the accounts of AirIQ and its wholly-owned subsidiaries, AirIQ U.S. Holdings, Inc. (“AirIQ Holdings”), AirIQ U.S., Inc. (“AirIQ USA”), and AirIQ, LLC (“AirIQ LLC”). All inter-company balances and transactions have been eliminated on consolidation.

The accompanying consolidated condensed interim statements of comprehensive income are presented for the three months ended June 30, 2019 and include the operating results of AirIQ Inc. and its wholly-owned subsidiaries.

As used in this discussion and unless the context otherwise requires, or unless otherwise indicated, all references to “AirIQ”, the “Company”, “we”, “us”, “our”, or similar expressions, refer to AirIQ Inc. and its consolidated subsidiaries.

The preparation of financial statements and related disclosures in conformity with IFRS requires management to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and contingencies. Management bases its estimates on historical experience and on other assumptions that are believed, at the time, to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of AirIQ’s control. AirIQ evaluates such estimates and assumptions on a periodic basis.

Unless otherwise noted herein, all amounts are in thousands of Canadian dollars except share and per share information.

FORWARD-LOOKING STATEMENTS

Management’s discussion and analysis contains forward-looking information based on management’s best estimates and the current operating environment. These forward-looking statements are related to, but not limited to, AirIQ’s operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as “goal”, “anticipate”, “believe”, “expect”, “plan” or similar words suggesting future outcomes. These statements are based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including AirIQ’s

perception of historical trends, current conditions and expected future developments as well as other factors management believes are appropriate in the circumstances. Such forward-looking statements are as of the date which such statement is made and are subject to a number of known and unknown risks, uncertainties and other factors, which could cause actual results or events to differ materially from future results expressed, anticipated or implied by such forward-looking statements. Such factors include, but are not limited to, changes in market and competition, technological and competitive developments and potential downturns in economic conditions generally. Therefore, actual outcomes may differ materially from those expressed in such forward-looking statements. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. Other than as may be required by law, AirIQ disclaims any intention or obligation to update or revise any such forward-looking statements, whether as a result of such information, future events or otherwise.

COMPANY OVERVIEW

AirIQ was incorporated in 1997, and since that time has played a significant role in the North American telematics industry. It is listed on the TSX Venture Exchange ("TSXV") under the symbol "IQ". AirIQ is a supplier of asset management services and its office is located at 1815 Sandstone Manor, Unit 9, Pickering, Ontario, L1W 3W9, Canada.

The Company offers an intuitive web-based platform that provides fleet operators and vehicle owners with a suite of asset management solutions to reduce cost, improve efficiency and monitor, manage and protect their assets. Services are available online or via a mobile app, and include: instant vehicle locating, boundary notification, automated inventory reports, maintenance reminders, security alerts and vehicle disabling and unauthorized movement alerts.

For additional information on AirIQ and its products and services, please visit the Company's website at www.airiq.com. The information on AirIQ's website is not considered to be a part of this management's discussion and analysis.

BUSINESS REVIEW

The Company is focusing its efforts and resources on revenue growth and profitability by continuing to offer leading-edge technology solutions for existing and new customers. We continue to focus on recurring revenues, gross profits and improving cash-flows to build a sustainable business.

The Company filed a Notice of Intention to Make a Normal Course Issuer Bid (the "Bid") with the TSX Venture Exchange ("TSXV") commencing February 19, 2019 and ending on February 18, 2020. Pursuant to the Bid, the Company proposed to purchase through the facilities of the TSXV up to 1,491,447 common shares, representing approximately 5% of the then issued and outstanding common shares of the Company. As of the date hereof, no shares have been repurchased by the Company pursuant to the Bid.

Highlights of the quarter are as follows:

First Quarter Highlights:

- Total revenue of \$1,764 for this quarter increased by 65% or \$695 compared to \$1,069 for the prior quarter, and increased by 119% or \$957 compared to \$807 for same quarter in the prior year.
- Recurring revenue of \$700 for this quarter increased by 4% or \$24 compared to \$676 for the prior quarter, and increased by 4% or \$26 compared to \$674 for same quarter in the prior year.

- Hardware and other revenue of \$1,064 for this quarter increased by 171% or \$671 compared to \$393 for the prior quarter, and increased by 700% or \$931 compared to \$133 for same quarter in the prior year.
- Gross profit of \$735 for this quarter increased by 33% or \$182 compared to \$553 for the prior quarter, and increased by 49% or \$243 compared to \$492 for same quarter in the prior year.
- Quarterly gross margin of 42% for this quarter decreased by 10% compared to 52% for the prior quarter; and decreased by 19% compared to 61% for the same quarter in the prior year.
- Operating profits of \$310 for the quarter increased by 146% or \$184 compared to \$126 for the prior quarter; and increased by 121% or \$170 compared to \$140 for the same quarter in the prior year.
- Net income of \$161 for the quarter increased by 360% or \$126 compared to \$35 for the prior quarter; and increased by 64% or \$63 compared to \$98 for the same quarter in the prior year.
- Cash balance of \$811 for the quarter ended June 30, 2019 increased by 13% or \$94 compared to \$717 for the prior quarter; and increased by 19% or \$128 compared to \$683 for the same quarter in the prior year.
- Working capital of \$1,720 for the quarter ended June 30, 2019 increased by 53% or \$598 compared to \$1,122 for the prior quarter; and increased by 107% or \$891 compared to \$829 for the same quarter in the prior year. (Working capital has been calculated by netting current assets, excluding current costs of deferred revenues, and current liabilities, excluding deferred revenue that are non-cash items.)

SUBSEQUENT EVENT

Subsequent to the quarter end, on August 13, 2019, the Company entered into a settlement agreement with 2448609 Ontario Corp. (formerly Connected Telematics Corp.) in connection with the final settlement of all Earn-out payments due pursuant to an asset purchase agreement previously announced and entered into between the parties in December 2017. A settlement amount of \$35 was mutually agreed upon based on the First Earn-out amount calculated in December 2018, discounted in consideration of early payment, in full satisfaction of both the Second Earn-out and Third Earn-out payments and any and all future amounts due pursuant to the asset purchase agreement. A total of approximately \$30K was paid to 2448609 Ontario Corp. representing the settlement amount less permitted set-offs under the asset purchase agreement. Refer to *Commitments and Contingencies* below.

RESULTS OF OPERATIONS

Revenues

Total revenue consists of airtime services, hardware, components and miscellaneous parts, repair, warranties and sales related to lost units.

Revenue from airtime services are recognized as services over the life of the contract as services are provided; revenue from hardware, components and miscellaneous parts, repairs and lost unit sales that are independent of the provision of airtime services are recognized upon delivery; and revenue from hardware, components and miscellaneous parts and warranties sold as part of airtime service contracts are recorded as deferred revenue and recognized over the initial term of the service contract.

Total revenue for the three months ended June 30, 2019, increased \$957 or 119% to \$1,764 from \$807 for the three months ended June 30, 2018. The impact of the change in the U.S. to CAD dollar exchange rate was not material.

Recurring Revenues

Recurring revenue from service contracts of \$700 represents an increase of \$26 or 4% compared to \$674 for the three months ended June 30, 2018. Recurring revenue represented 40% of total revenue for the three months ended June 30, 2019 compared to 84% of total revenue for the three months ended June 30, 2018.

Hardware and Other Revenues

Included in the Company's revenues are:

- Sales of hardware units associated with service contracts of approximately \$980 during the three months ended June 30, 2019, compared to \$63 during the three months ended June 30, 2018.
- Sales of units that were sold without a fixed term service contract of approximately \$71 and \$59, respectively, during the three months ended June 30, 2019 and June 30, 2018 respectively.
- Miscellaneous parts, repair, warranty and lost unit sales of approximately \$13 during the three months ended June 30, 2019, compared to \$11 for the three months ended June 30, 2018.

Gross Profit

Overall, gross profit increased by 49% or \$243 to \$735 for the three months ended June 30, 2019 compared to \$492 for the three months ended June 30, 2018. Gross margin of 42% decreased compared to 61% in the same period in the prior year.

Equipment gross profits increased by approximately 2088% or \$188 to \$197 during the three months ended June 30, 2019 from \$9 for the three months ended June 30, 2018.

Service contract gross profits increased by approximately 11% or \$55 to \$538 for the three months ended June 30, 2019 from \$483 for the three months ended June 30, 2018.

Expenses and Other Items

Expenses include sales and marketing costs, general and administrative expenses and engineering and research expenses.

“Sales and marketing” expenses include all salaries and related costs of marketing, sales, client care, account management and other direct expenses such as advertising, marketing and sales support materials, trade show and other travel costs.

“Engineering and research” expenses consist of costs associated with acquired and internally developed software and device hardware, including fees to independent contractors and salaries and related expenses of personnel engaged in these activities.

“General and administrative” expenses include: salaries and related costs including finance, information technology and administrative personnel. In addition, general and administrative expenses include rent and occupancy costs, professional fees, insurance, investor relations, directors' fees, regulatory filing fees, travel and costs related to board of directors or committee activities.

Sales and marketing, research and development and general and administrative expenses totalled \$425 for the three months ended June 30, 2019 compared to \$352 for the three months ended June 30, 2018. Overall these expenses increased by \$73 for the three months ended June 30, 2019 when compared to the three months ended June 30, 2018.

Expense increases for the three months ended June 30, 2019 when compared to the three months ended June 30, 2018 occurred in the following areas: (a) wage and related expenses of approximately \$75, (b) computer operating expenses of \$11, (c) rent and maintenance expenses of \$4, and (d) other expense of \$25. These increases were offset by a decrease in: (a) consulting expenses of \$36, (b) commercial, officer and director insurance of \$1, (c) legal fees, audit and tax expenses of \$3, and (d) public reporting costs of \$2.

Interest and Other Financing Charges

Net interest expense for the three months ended June 30, 2019 was \$2, compared to \$nil for the three months ended June 30, 2018.

Interest charges include cash payments of \$nil related to the credit facility from the Royal Bank of Canada (three months ended June 30, 2018 - \$nil).

Depreciation and Amortization

Amortization for the three months ended June 30, 2019 was \$106, compared with \$54 for the three months ended June 30, 2018.

Foreign Exchange

For the three months ended June 30, 2019, the Company recorded a foreign exchange loss of \$34 compared to a gain of \$17 for the three months ended June 30, 2018.

Stock Based Compensation

For the three months ended June 30, 2019, the Company recorded a stock-based compensation expense of \$7 compared to \$5 for the three months ended June 30, 2018.

Impairment of Long-Lived Assets

The charge for impairment of long-lived assets for the three months ended June 30, 2019 was \$nil, compared to \$nil for the three months ended June 30, 2018.

Net Income

The Company generated net income for the three months ended June 30, 2019 of \$161 or \$0.01 per share, compared to net income of \$98 or \$nil per share for the three months ended June 30, 2018, an increase of \$63 or 64%.

The increase in net income for the three months ended June 30, 2019 when compared to the three months ended June 30, 2018 can be attributed to an increase in gross profits of \$243 (see *Gross Profit* above). This increase was offset by: (a) an expense increase of approximately \$73 (see *Expenses and Other Items* above), (b) an increase in amortization of approximately \$52 (see *Depreciation and Amortization* above), (c) an increase in foreign exchange loss of approximately \$51 (see *Foreign Exchange* above), (d) an increase in stock based compensation expense of \$2, and (e) an increase in interest expense of approximately \$2 (see *Interest and Other Financing Charges* above).

Summary of Quarterly Results

The information in the table below has been derived from the Company's consolidated condensed interim financial statements.

For the three months ended	30-June-2019	31-Mar-2019	31-Dec-2018	30-Sep-2018
Recurring revenues ⁽¹⁾	\$700	\$676	\$681	\$691
Hardware and other revenues ⁽¹⁾	\$1,064	\$393	\$102	\$332
Total revenues ⁽¹⁾	\$1,764	\$1,069	\$783	\$1,023
Gross profit	\$735	\$553	\$501	\$561
Gross profit %	42%	52%	64%	55%
Expenses ⁽²⁾	\$425	\$427	\$438	\$407
Operating profit ⁽³⁾	\$310	\$126	\$63	\$154
Other expenses ⁽⁴⁾	\$149	\$91	\$32	\$87
Total net income (loss)	\$161	\$35	\$31	\$67
Income per share, basic and diluted	\$0.01	\$0.00	\$0.00	\$0.01 ⁽⁵⁾

For the three months ended	30-June-2018	31-Mar-2018	31-Dec-2017	30-Sep-2017
Recurring revenues ⁽¹⁾	\$674	\$616	\$557	\$512
Hardware and other revenues ⁽¹⁾	\$133	\$257	\$263	\$262
Total revenues ⁽¹⁾	\$807	\$873	\$820	\$774
Gross profit	\$492	\$515	\$502	\$462
Gross profit %	61%	59%	61%	60%
Expenses ⁽²⁾	\$352	\$382	\$360	\$357
Operating profit ⁽³⁾	\$140	\$133	\$142	\$105
Other expenses ⁽⁴⁾	\$42	\$146	\$60	\$82
Total net income (loss)	\$98	(\$13)	\$82	\$23
Income per share, basic and diluted	\$0.00	\$0.01	\$0.00	\$0.00

(1) Revenues for before March 31, 2018 are preadoption of IFRS 15 and have not been restated.

(2) Excludes share-based compensation and foreign exchange.

(3) Operating profit represents earnings before interest, depreciation and amortization, impairment of long-lived assets, share-based compensation and foreign exchange gain or loss.

(4) Includes non-cash notional charges such as interest, depreciation and amortization, impairment of long-lived assets, share-based compensation and foreign exchange gains or losses.

(5) Represents earnings per share for the six months ended September 30, 2018

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

The Company generated approximately \$228 cash from operating activities during the three months ended June 30, 2019; \$276 generated from operations and \$48 used for working capital. This compares with cash generated of approximately \$225 from operating activities during the three months ended June 30, 2018; \$187 generated from operations and \$38 generated from working capital.

Proceeds from equipment sold in connection with service contracts are recorded as deferred revenue and recognized over the expected life of the equipment on a straight-line basis.

Deferred revenue totaled \$950 as at June 30, 2019 and \$394 as at June 30, 2018.

As at June 30, 2019, the Company had cash on hand of \$811, and positive working capital of \$1,730. Working capital is defined as total current assets, excluding current costs of deferred revenues, less total current liabilities, excluding deferred revenue. Both costs of deferred revenues and deferred revenues are non-cash items.

Investing activities

Investing activities related to additions to software, rental units and property, plant and equipment for the three months ended June 30, 2019 totaled approximately \$127 of cash used compared with approximately \$69 of cash used for the three months ended June 30, 2018. The Company spent approximately \$75 on software development related to the integration of new hardware onto its existing platform, upgrade of customer interfaces and development of new solution features.

Financing activities

Credit Facility

On December 15, 2014 the Company announced the establishment of a revolving demand facility with Royal Bank of Canada (“RBC”). The credit facility is a standard operating line with certain covenants, including a first priority general security over the Company’s assets. As at June 30, 2019, \$nil (June 30, 2018 - \$nil) has been drawn from the credit facility. The Company paid RBC a total of approximately \$nil related to interest on the credit facility during the three months ended June 30, 2019 (June 30, 2018 - \$nil) which is included in interest expense in the accompanying consolidated condensed interim statements of income and comprehensive income.

As of August 19, 2019, AirIQ has a total of 29,828,947 common shares issued and outstanding.

Contractual Obligations

June 30, 2019: Payments due by period

	Total	2020	2021	2022	2023	2024
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,186	1,186	—	—	—	—
Lease Obligation	111	15	20	22	26	28
	1,297	1,201	20	22	26	28

June 30, 2018: Payments due by period

	Total	2019	2020	2021	2022	2023
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	418	418	—	—	—	—
Operating leases	41	18	18	5	—	—
	459	436	18	5	—	—

COMMITMENTS AND CONTINGENCIES

Commitments

On December 8, 2017, the Company entered into an asset purchase agreement for the purchase of certain assets of Connected Telematics Corp. (“Connected”). The purchased assets included customer contracts and approximately 2,000 GPS devices. The purchase price for the acquisition included an initial cash payment of \$90 plus potential performance based earn-outs on the first, second and third anniversaries of the transaction (the “Earn-Outs”) equal to the recurring revenue of the month immediately preceding the anniversary of the acquired business times a factor of 1.33. The Earn-Outs are payable in cash and/or common stock of AirIQ, in its sole discretion, and any share issuances shall be subject to approval of the TSX Venture Exchange. In the event any common shares of the Company are issued in connection with the Earn-Outs, the share price will be calculated using the Company’s volume weighted average price of the common shares for the twenty (20) days prior to the calculation date. The Company calculated the First Earn-Out Amount based on the monthly recurring revenues of Connected as of December 8, 2018, less any setoffs as permitted under the asset purchase agreement, and amounts owed by Connected to AirIQ. As a result, a \$10 impairment charge was recognized, and no amounts were paid or due to Connected in respect of the First Earn-out. The Company recognized an impairment charge of \$102 for the entire purchase amount in March 2018. As at June 30, 2019, no Earn-Outs are due or payable and the Company elected to accrue \$35 in other expenses for future Earn-Out amounts (June 30, 2018 - \$nil).

Subsequent to the quarter end, on August 13, 2019, the Company entered into a settlement agreement with 2448609 Ontario Corp. (formerly Connected Telematics Corp.) in connection with the final settlement of all Earn-out payments due pursuant to an asset purchase agreement previously announced and entered into between the parties in December 2017. A settlement amount of \$35 was mutually agreed upon based on the First Earn-out amount calculated in December 2018, discounted in consideration of early payment, in full satisfaction of both the Second Earn-out and Third Earn-out payments and any and all future amounts due pursuant to the asset purchase agreement. A total of approximately \$30K was paid to 2448609 Ontario Corp. representing the settlement amount less permitted set-offs under the asset purchase agreement.

The transaction did not constitute a business combination as the acquired assets did not meet the definition of a business under IFRS 3, Business Combinations, as substantially all of the fair value of the gross assets acquired was concentrated in the customer contracts. As a result, the transaction is accounted for as an asset acquisition with the Company identified as the acquirer and the equity consideration accounted for in accordance with IFRS 2, Share-based Payment, measured at fair value. Related transaction costs were capitalized as part of the cost of the asset acquisition.

The Company entered into an asset purchase agreement with Timeout Studios Inc. (“Timeout”) on May 31, 2016, for the purchase of certain software assets in the aggregate amount of \$60 and included in software additions (Note 6). Pursuant to the terms of the asset purchase agreement, the Company executed a promissory note in favor of Timeout in the principal amount of \$45, payable in equal monthly installments of \$2.50 from June 2016 to May 2017, and \$1.25 each month from June 2017 to May 2018. An additional earn-out was contemplated under the terms of the asset purchase agreement provided that the acquired assets result in certain revenue objectives in the first twelve months following the acquisition. These objectives have not been met. Therefore, no additional consideration is required. As at June 30, 2019, the principal amount outstanding on the promissory note is \$nil (three months ended June 30, 2018 - \$nil).

The Company entered into a new 60-month office contract on April 1, 2019. At inception of this contract, the Company assessed this contract contained as lease under the new IFRS 16 standards. At commencement, the Company recognized the right-of-use asset and lease liability based on the present value of the lease payments discounted by AirIQ’s incremental borrowing rate. A depreciation charge for right-of-use assets is recorded in depreciation and an interest expense on lease obligations is recorded in interest expense in the income statement.

	Right-of-use Asset	Lease Obligations
	\$	\$
Balance at April 1, 2019	—	—
Additions	116	116
Amortization	(6)	—
Payments	—	(7)
Interest	—	2
Balance at June 30, 2019	110	111
Current	—	19
Non-current	—	92

As of June 30, 2019 and June 30, 2018, there are no annual lease payments under a capital lease.

The Company is party to certain management contracts. The Company has minimum contractual commitments with these contracts of \$130, all due within one year. Included is a contractual commitment to pay a consultant \$100 on termination of the consulting contract by the Company without cause or in the event of a “change of control” as defined in the consulting agreement; provided however in no event shall the Company be required to pay more than \$100 if both events shall occur simultaneously. As a triggering event has not occurred, no provision has been made with respect to this commitment. In addition, included in the management contracts is a contractual commitment to pay an employee approximately \$43 on termination of the employee by the Company without cause in the event of a “change of control” (as defined in the employment agreement) occurring within one (1) year of such “change of control”. As a triggering event has not occurred, no provision has been made with respect to this commitment.

The Company has a profit-sharing plan to incentivize employees, officers and designated consultants of the Company to meet specific goals and objectives. The current profit sharing plan approved by the Board includes a profit sharing pool equal ten percent (10%) of the pre-bonus operating profits generated by the Company calculated annually commencing April 1, 2019, subject to meeting certain criteria related to operating profits in each fiscal year. A prorated portion of the bonus pool has been accrued. Payments under the profit-sharing plan shall be determined annually by the Board of Directors and the Chief Executive Officer following release of the Company’s March 31st fiscal year end results.

Contingencies

The Company, in the course of its normal operations, is subject to claims, lawsuits, patent infringement claims and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its consolidated financial position.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Related parties include the Board of Directors and officers, and enterprises that are controlled by these individuals, as well as certain person performing similar functions.

The following is a summary of the Company's related party transactions for the three months ended June 30, 2019 and 2018:

a) Key Management Compensation

Key management personnel compensation is comprised of:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
	\$	\$
Salary, consulting fees and benefits	53	45
Share-based payments	1	5
	54	50

(b) Related Party Transactions

During the three months ended June 30, 2019, \$4 was expensed for directors' fees and stock-based compensation (June 30, 2018 - \$9).

AirIQ owed a company controlled by a former director \$36 at June 30, 2019 (June 30, 2018 - \$36) which is included in accounts payable and accrued liabilities. AirIQ is also owed \$36 from the related company of the former director and/or its controlling shareholder at June 30, 2019 (June 30, 2018 - \$36) which is included in trade and other receivables. These amounts are unsecured, non-interest bearing and due on demand.

OUTSTANDING SECURITIES DATA

	Authorized	Issued and Outstanding as at 30-Jun-2019	Issued and Outstanding as at 19-Aug-2019
Common shares	unlimited	29,828,947	29,828,947
Warrants	n/a	—	—
Stock options	n/a	2,196,127	2,196,127

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant estimates and assumptions made by management in the preparation of the Company's accompanying consolidated condensed interim financial statements are outlined below.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate 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 share option, volatility, forfeiture rate and dividend yield and making assumptions about them.

Warranty

The Company uses historical warranty claim information, as well as recent trends that might suggest that post-cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives, as well as parts and labour costs. Actual claims costs may differ from management's estimates depending upon whether the actual claims costs were significantly different than the estimates.

Judgment in Determining Asset Acquisition vs. Business Combination

The determination of whether a transaction meets the definition of a business combination or constitutes an asset acquisition under IFRS 3 is disclosed in note 13(a) to the accompanying consolidated condensed interim financial statements.

Recognition and Valuation of Deferred Taxes

The Company assesses the recoverability of deferred income tax assets, including expected periods of reversal of temporary differences and expectations of future taxable income at the end of each reporting period.

Impairment

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful Lives of Depreciable Assets

Management reviews the useful lives of depreciable assets including software, rental units, property, plant and equipment and customer contracts at each reporting date based on the expected utility of the assets to the Company. Actual results may vary due to technical obsolescence. Details of the software, rental units and property, plant and equipment are provided in note 6 to the accompanying consolidated condensed interim financial statements.

Inventories

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, future realization of the carrying amounts of inventory assets is affected by price changes in different market segments. Details of the inventory balances are provided in note 5 to the accompanying consolidated condensed interim financial statements.

Determination of fair values of assets acquired in business combinations

The assets acquired in business combinations are all initially recorded at fair market value. Determination of fair value included assessments of discounted cash flows for the assets acquired and expected to be derived from the use of these assets.

Revenue recognition

The Company offers certain arrangements whereby a customer can purchase products and services together. Pursuant to IFRS 15, the products and the related services are distinct and should be recognized separately. Where such multiple-element arrangements exist, the amount of revenue allocated to each element is based upon the fair values of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately. When the fair value cannot be determined based on when it was sold separately, the Company uses the residual method to determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction. Any discounts identified as part of a multi-element arrangement are proportionately allocated to all separately identifiable components, unless there is observable evidence that the discount relates to only one of the performance obligations in a contract. Revenues related to the sale of hardware are recognized at the time of sale, and revenues for monitoring and supporting services are recognized over the term of the contracted service period with amounts prepaid by customers accounted for as deferred revenues.

Legal claims and contingencies

In accordance with IFRS, the Company recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable, and the amount of costs of the transfer can be

estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases, following developments in the legal proceedings, and at each reporting date in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of the litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

RECENT ACCOUNTING DEVELOPMENTS

Summary of Significant Accounting Policies

Except as described below, the accounting policies applied to the accompanying consolidated condensed interim financial statements are the same as those applied to the Company's audited annual financial statements and notes thereto for the year ended March 31, 2019 and 2018.

The following changes in accounting policies were adopted in the Company's consolidated condensed interim financial statements at and for the three months ended June 30, 2019.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

In the adoption of IFRS 16, the Company has elected to apply the modified retrospective approach whereby the financial statements of prior periods presented were not restated. The cumulative effect of initially applying IFRS 16 as an adjustment to the opening equity at April 1, 2019 was \$nil, as the Company had no outstanding lease contracts as of March 31, 2019.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

A lease liability is initially measured at the present value of the unpaid lease payments discounted using the interest rate implicit in the lease or if that rate cannot be reliably determined, the Company's incremental borrowing rate. Subsequently, the Company measures a lease liability at amortized cost using the effective interest method. It is then remeasured to reflect revised in-substance fixed lease payments. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

All the components of the lease liability are required to be discounted to reflect the present value of the payments. The discount rate to use is the rate implicit in the lease, unless this cannot readily be determined, in which case the lessee's incremental borrowing rate is used instead. The definition of the lessee's incremental borrowing rate states that the rate should represent what the lessee would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. Significant judgment is required to estimate an incremental borrowing rate in the context of a right-of-use asset.

Variable non-lease costs such as, property taxes, maintenance, and other non-lease costs, are not included in the calculation of the right-of-use asset or lease liability.

As permitted by IFRS 16, the Company has elected to not to recognize lease liabilities and right-of-use assets for short-term or low value assets.

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company has adopted the new standard effective April 1, 2019, however there is no material impact on the Company's financial statements.

Standards, Amendments and Interpretations Not Yet Effective

IAS 1 – Presentation of Financial Statements (“IAS 1”) and **IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors** (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

NON-IFRS MEASURES

Certain non-IFRS measures are presented in this management's discussion and analysis of the consolidated results of operations and financial condition of AirIQ Inc., including, but not limited to "Operating Profit", which is defined as earnings before interest, depreciation and amortization, impairment of long-lived assets, share-based compensation and foreign exchange gains or losses. These measures do not have any standardized meaning prescribed by IFRS and differ from measures determined in accordance with IFRS. The amounts presented may not be comparable with amounts presented by other companies. These non-IFRS measures are intended to provide additional information regarding the Company's financial performance and should not be construed as an alternative to net income or to cash flows from operating activities (as determined in accordance with IFRS) or as a measure of liquidity.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash, trade and other receivables, accounts payable and accrued liabilities, promissory notes and obligations under finance lease. The Company does not utilize derivative financial instruments to manage various types of risks related to the accompanying consolidated condensed interim financial instruments.

The Company faces currency risk related to the variations in exchange rates between U.S. and Canadian currencies which may affect the Company's operating and financial results. The Company's consolidated activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers in foreign currencies and the purchases of services and raw materials from suppliers invoiced in foreign currencies.

The Company is also exposed to credit risk from customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade accounts receivable in order to mitigate any possible credit losses.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents and marketable securities in excess of anticipated needs.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management feels that the Company is not currently subject to significant interest rate risk as the Company currently does not have any interest-bearing debt.

Further details related to the Company's financial instruments and risk management approach are set out in Note 3, *Summary of Significant Accounting Policies - Financial Instruments*, to the Company's consolidated financial statements as at and for the years ended March 31, 2019 and March 31, 2018.

RISK FACTORS

There are certain risks inherent in an investment in the securities of AirIQ and in the activities of the Company, including the following, which investors should carefully consider before investing in securities of AirIQ. This description of risks does not include all possible risks, and there may be other risks of which the Company is not currently aware.

Financing Requirements

AirIQ may require additional financing in order to support expansion, develop new or enhanced services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. The ability of AirIQ to arrange such financing will depend in part upon the success of AirIQ's existing and new service offerings and competing technological and market developments. There can be no assurance that AirIQ will be successful in its efforts to arrange additional financing on terms satisfactory to AirIQ. Any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictive covenants. If additional funds are raised through the issuance of equity securities, the percentage ownership of the shareholders of AirIQ will be reduced, shareholders may experience additional dilution in net book value per share, or such equity securities may have rights, preferences or privileges senior to those of the holders of AirIQ's common shares. If adequate funds are not available on acceptable terms, AirIQ may be unable to develop or enhance its services and products, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on AirIQ's business, financial condition and operating results.

Dependence on Wireless Carriers

AirIQ depends on wireless networks owned and controlled by others. If AirIQ's customers do not have continued access to sufficient capacity on reliable networks, AirIQ may be unable to deliver services and AirIQ's revenue may decrease. AirIQ's financial condition could be harmed if its wireless carriers were to increase the prices of their services.

Operating Results

AirIQ has incurred significant losses to date. Consequently, there is no assurance that AirIQ will achieve profitability in the future or that AirIQ will be able to generate sufficient cash from operations, or to raise sufficient financing to fund its operations. Operating results of AirIQ could be materially adversely affected by general economic and other conditions affecting the timing of customer demand and specifically the development of the GPS, wireless communication and Internet information markets.

Client Concentration; Dependence on Large Projects

AirIQ has derived, and believes that it will continue to derive, a significant portion of its revenues from a limited number of large client contracts. The loss of any large client could have a material adverse effect on AirIQ's business, financial condition and results of operation. In addition, revenues from a large client may constitute a significant portion of AirIQ's total revenues in a particular quarter. The cancellation or a significant reduction in orders from these clients could have a material adverse effect on AirIQ's business, financial condition and results of operations.

Fluctuations in Quarterly Operating Results

AirIQ's quarterly revenues and operating results may fluctuate significantly from quarter to quarter due to a number of factors, many of which are outside its control, including the following:

- delays in market acceptance or implementation by customers of AirIQ's products or services;
- delays or restrictions in supply of materials
- changes in demand by a customer's customers for existing and additional services;
- changes in or cancellations of AirIQ's agreements with wireless carriers;
- introduction of new products or services by AirIQ or its competitors;
- changes in AirIQ's pricing policies or those of its competitors or suppliers;
- changes in AirIQ's mix of sources of revenues; and
- changes in accounting standards, including standards relating to revenue recognition, business combinations and share-based payments.

AirIQ's expense levels are based, in part, on its expectation of future revenues. As a result, any shortfall in revenues relative to AirIQ's expectations could cause significant changes in AirIQ's operating results from quarter to quarter.

Lapses in Coverage

Wireless networks and GPS occasionally suffer lapses in coverage due to obstructions blocking the transmission of data to and from vehicles. Such lapses could make AirIQ's services less reliable and useful, and customer satisfaction could suffer, which may result in loss of customers as well as litigation. AirIQ's financial condition could be seriously harmed if it were to suffer operational or technical failures. If wireless carriers do not expand coverage, AirIQ may be unable to offer its services to additional areas. There are a limited number of wireless carriers offering services compatible with AirIQ's service. AirIQ's existing agreements with wireless carriers may be terminated at the end of their respective contract periods. Termination of a wireless carrier's contract with AirIQ could require AirIQ to incur additional costs relating to obtaining alternative coverage from another wireless carrier outside its primary coverage area or AirIQ may be unable to replace the coverage at all, causing a complete loss of service to AirIQ's customers in such coverage areas. Wireless carriers are continually updating their infrastructure and, in turn, shutting down older, slower networks. An example is the sunset of the 2G wireless network which had a negative impact on the Company's revenues, gross profits and net income, as some customers canceled their services with the Company as a result of the sunset. There can be no assurances that future wireless sunsets will not negatively impact the Company's revenues, profits and income.

Rapid Technological Change; Delays in Introduction of New Services and Products

GPS, wireless communication and Internet information industries are characterized by rapid technological change, changes in client requirements, frequent new service and product introductions and enhancements, and emerging industry standards. The introduction of services and products embodying new technologies and the emergence of new industry standards and practices can render existing services and products obsolete and unmarketable. Also, products and services that address the GPS, wireless communication and Internet information markets are likely to contain undetected errors or defects, especially when first introduced or when new versions are introduced. AirIQ's services may not be free from errors or defects, which could result in the cancellation or disruption of AirIQ's services. This would damage AirIQ's reputation and result in lost revenues, diverted development resources and increased service and warranty costs. AirIQ's future success will depend, in part, on its ability to develop leading technologies, enhance its existing services, enter new markets, develop new services that address the increasingly sophisticated and varied needs of its prospective customers, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of new services or enhanced versions of existing services entails significant technical risks. There can be no assurance that AirIQ will be successful in effectively using new technologies, adapting its services to emerging industry standards, developing, introducing and marketing service enhancements, or new services, or that it will not experience difficulties that could delay or prevent the successful development, introduction or marketing of these services, or that its new service enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. If AirIQ is unable to develop and introduce new services or enhancements of existing services in a timely manner in response to changing market conditions or customer requirements, or if new services do not achieve market acceptance, AirIQ's business, financial condition and operating results will be materially adversely affected.

Risk of Infringement

AirIQ may in the future receive notices of claims of infringement of other parties' proprietary rights. There can be no assurance that claims for infringement or invalidity (or claims for indemnification

resulting from infringement claims) will not be asserted or prosecuted against AirIQ. Any such claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources or require AirIQ to enter into royalty or licensing agreements. There can be no assurance that such licenses would be available on reasonable terms, if at all, and the assertion or prosecution of any such claims could have a material adverse effect on AirIQ's business, financial condition and operating results.

Product Liability Claims

AirIQ may be subject to claims for damages related to errors and malfunctions of AirIQ's hardware components or their installation. A product liability claim could seriously harm AirIQ's business because of the costs of defending against this type of lawsuit, diversion of employees' time and attention, and potential damage to AirIQ's reputation. Some of AirIQ's agreements with its customers contain provisions designed to limit exposure to potential product liability claims. Limitation of liability provisions contained in AirIQ's agreements may not be enforceable under the laws of some jurisdictions. As a result, AirIQ could be required to pay substantial amounts of damages in settlement or upon the determination of any such type of claims.

Supply Arrangements

AirIQ has established a number of relationships with major suppliers and service providers for critical components of AirIQ's products and services. AirIQ will continue to seek out similar arrangements in the future. There can be no assurance that any such partnerships or arrangements will be maintained, and that if such relationships are maintained, they will be successful or profitable, or that AirIQ will develop any new such relationships. Reliance on such relationships exposes AirIQ to risks arising from such third parties' integrity, reputation, solvency or operations, as well as product and/or service quality, quantity, delivery, security, privacy, availability or suitability, over which AirIQ has no control, and which may have a material adverse effect on AirIQ's business, financial condition and results of operations.

The Company relies on certain key suppliers for the manufacturing of new in-vehicle devices and the delivery of wireless network services. No assurances can be given that the Company will not experience delays or other difficulties in sourcing sufficient devices or wireless network services to meet the Company's needs.

Dependence on Key Personnel

AirIQ's success will depend in large part upon the continued services of a number of key employees. The loss of the services of one or more of AirIQ's key personnel could have a material adverse effect on AirIQ and its business, financial condition and operating results. In addition, if one or more of AirIQ's key employees resigns from AirIQ to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on AirIQ's business, financial condition and operating results. In the event of the loss of any such personnel, there can be no assurances that AirIQ would be able to prevent the unauthorized disclosure or use of its technical knowledge, practices or procedures by such personnel.

Government Regulations and Standards

In addition to regulations applicable to businesses in general, AirIQ may also be subject to direct regulation by governmental agencies, including the Canadian Radio-Television and Telecommunications Commission (the "CRTC") in Canada and the FCC and Department of Defense in the United States. These regulations may impose licensing requirements or safety standards with respect to human exposure to electromagnetic radiation and signal leakage. A number of legislative and regulatory proposals under consideration by federal, state, provincial, local and foreign governmental

organizations may lead to laws or regulations concerning various aspects of the Internet, wireless communications and GPS technology, including on-line content, user privacy, taxation, access charges and liability for third-party activities. Additionally, it is uncertain how existing laws governing issues such as the use of AirIQ's systems or services by its customers or taxation on the use of wireless networks, intellectual property, libel, user privacy and property ownership, will be applied to AirIQ's services. The adoption of new laws or the application of existing laws may expose AirIQ to significant liabilities, additional operational requirements, or restrictions on the use of AirIQ's system or services, which could decrease the demand for AirIQ's services and increase AirIQ's costs of doing business. Wireless carriers who supply AirIQ with airtime are subject to regulation by CRTC in Canada and by the FCC in the United States and regulations that affect them could also increase AirIQ's costs or limit the provision of AirIQ's services.

Litigation

In the course of its business, AirIQ is involved in various claims and lawsuits seeking damages and other forms of relief. AirIQ cannot predict with any certainty the outcome of such claims and lawsuits and as such, there can be no assurance that results will not negatively impact the business, financial condition and operations of the Company.

Management of Growth

AirIQ's financial condition has placed significant demands on its management and other resources. AirIQ's ability to manage this effectively will require it to continue to develop and improve its operational, financial and other internal systems, and to train, motivate and manage its employees. If AirIQ is unable to manage its financial condition effectively, such inability could have a material adverse effect on the quality of AirIQ's services, its ability to retain key personnel and its operating results.

Global Positioning System Technology

AirIQ's services rely on signals from GPS satellites built and maintained by the U.S. Department of Defense. GPS satellites and their ground support systems are subject to electronic and mechanical failures and sabotage. If one or more satellites malfunction, there could be a substantial delay before they are repaired or replaced, if at all, and AirIQ's services may cease and customer satisfaction would suffer. In addition, the U.S. government could decide not to continue to operate and maintain GPS satellites over a long period of time or to charge for the use of GPS. Furthermore, because of ever-increasing commercial applications of GPS, other agencies may become involved in the regulation of the use of GPS in the future. If any of the foregoing factors affect GPS, such as by affecting the availability and pricing of GPS technology, AirIQ's business could suffer.

System Failure

Any disruption in AirIQ's services, information systems or communications networks could result in the inability of AirIQ's customers to receive AirIQ's services for an indeterminate period of time. Any disruption to AirIQ's services could cause AirIQ to lose customers or revenue, or face litigation, or could cause customer service or repair work that would involve substantial costs and distract management from AirIQ's business.

Segregation of Duties

Certain duties within the Company's accounting and finance departments are not properly segregated due to the small number of individuals employed in these areas. These deficiencies may be considered to be a significant deficiency in internal control, or a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

Foreign Currency Risk

The Company is exposed to foreign currency risk as a result of exporting most of its products and services to the United States and selling them in U.S. dollars. The Company's exposure to foreign currency fluctuations is partially hedged by purchasing certain hardware devices, wireless services and supplies in U.S. dollars. The Company monitors its foreign exchange exposure and will consider forward exchange contracts for any significant exposure. To date, the Company has not entered into forward exchange contracts.

Political Uncertainty

The Company's products are primarily sourced through suppliers in the United States, however many products and/or components are manufactured in China. The current political uncertainty surrounding trade disputes, rising tariffs and the adoption of protectionist measures could result in increases of the cost of the Company's products, which would have a negative impact on the Company's sales and gross profits. Additionally, there are similar concerns related to the new United States-Mexico-Canada (USMCA) trade agreement.

Mergers and Acquisitions

The success of the Company depends on achieving certain strategic objectives, which may include mergers, acquisitions, joint ventures and restructurings. With respect to any such activities, the Company may not achieve expected returns and other benefits as a result of various factors, including integration and collaboration challenges, such as personnel and technology. In addition, the Company may not achieve anticipated cost savings from restructuring actions, which could result in lower margin rates.

DISCLOSURE PROCEDURES AND CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis of the consolidated results of operations and financial condition, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities law.

Based on that evaluation, management has concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. However, as a result of control weaknesses noted below, management has concluded that the disclosure controls are not effective. Any material weaknesses identified have not resulted, either individually or collectively in any adjustments to the Company's interim or annual financial statements.

Internal Controls over Financial Reporting

Management of the Company is responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

The Company has identified control deficiencies within its accounting and financial function and its financial information systems over segregation of duties.

Specifically, certain duties are not properly segregated due to the small number of individuals employed in this area. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated with such lack of segregation are not significant enough to justify the expense associated with adding a number of employees to clearly segregate duties.

During the documentation and assessment of the design of its internal controls, management identified certain areas where internal controls should be enhanced including inventory management and revenue recognition. Management has been enhancing its internal controls, some of which include program change and access controls over certain financial reporting related IT software and applications, and the sufficiency of the Company's financial reporting processes. Management is also aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company utilizes, and will continue to utilize, outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size.

Management is of the opinion that none of these control deficiencies has resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. At the present time, the Chief Executive Officer and Chief Financial Officer oversee all material transactions and related accounting records. In addition, the Audit Committee reviews the financial statements and key risks of the Company and queries management about significant transactions on a quarterly basis.

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Additional information relating to the Company can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval (SEDAR), located at www.sedar.com.