FORM 51-102F1
Management Discussion and Analysis

ARCpoint Inc.
For the period ended March 31, 2023

Date: May 17, 2023

The following Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of ARCpoint Inc. (formerly, RSI International Systems Inc.) ("**ARCpoint**" or the "**Company**", together with its subsidiaries, the "**Group**") for the period ended March 31, 2023 and is based on information available to May 17, 2023. This discussion and analysis is provided to assist readers to assess the Group's financial condition and financial performance, including its liquidity and capital resources, and should be read in conjunction with the Group's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2023 and the consolidated financial statements for the year ended December 31, 2022 and the related notes contained therein, (the "**financial statements**").

The Group's unaudited interim condensed consolidated financial statements and notes thereto as at March 31, 2023 and 2022 have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee, and are presented in United States ("US") dollars which is the functional currency of the Group. Certain dollar amounts in this MD&A have been rounded to the nearest hundred thousand dollars.

This MD&A was prepared by management of the Group and approved by its Board of Directors prior to its release. Unless otherwise stated, the Group has considered all information available to it through May 17, 2023 in preparing this MD&A. Additional information relating to the Group can be found on its website.

CORPORATE OVERVIEW

ARCpoint is a publicly traded health care company listed on the TSX Venture Exchange ("**TSXV**") under the symbol "ARC". The Company provides a US-based franchise system offering drug testing, alcohol screening, DNA and clinical lab testing, corporate wellness programs and employment and background screening and other services. ARCpoint Labs was founded in 1998 by Felix Mirando, offering drug and alcohol testing to small and medium-sized businesses in Greenville, South Carolina. In 2006, the franchise operations were launched and further expanded to a national presence in 2017. ARCpoint Group LLC (formerly known as "FJD LLC") ("**ARCGL**") was formed as a limited liability company under the Delaware Limited Liability Company Act on August 18, 2021. ARCGL completed a reorganization with ARCpoint Franchise Group LLC ("**AFG**" or "**ARCpoint Franchise**"), ARCpoint Corporate Labs LLC ("**ACL**" or "**ARCpoint Corporate Labs**"), AFG Services LLC ("**ASL**" or "**AFG Services**") and ARCpoint Holdings LLC ("**AHL**" or "**ARCpoint Holdings**", together with AFG, ACL, ASL, the "**ARCpoint Operating Subsidiaries**") on September 7, 2021, resulting in ARCGL becoming the sole shareholder of the ARCpoint Operating Subsidiaries. In October 2022, through a series of transactions that resulted in the reverse takeover of the Company by the members of ARCGL (the "**Transaction**"), the Company becomes the sole shareholder of ARCGL and the ARCpoint Operating Subsidiaries and changed its name from RSI International Systems Inc. to ARCpoint Inc. The Company received the final approval for the Transaction from TSXV on October 25, 2022. The Class A Subordinate Voting Shares of the Company ("**SVS**") are listed on the Exchange under the symbol "ARC", with trading on TSXV commenced at open of markets on October 27, 2022. The Proportionate Voting Shares of the Company ("**PVS**") are not listed for trading on TSXV but may be converted into TSXV-listed SVS under limited circumstances.

The Company owns 100% equity interest of ARCpoint Franchise, ARCpoint Corporate Labs, AFG Services, ARCpoint Holdings, ARCpoint Finance Corp. ("**ARCpoint Finco**"). ARCpoint Franchise, the franchisor of ARCpoint Lab business, was formed in February 2005. ARCpoint Holding was formed in July 2019 for the sole purpose of holding the Group's intellectual property, including the ARCpoint Trademarks. ARCpoint Corporate Labs was formed in July 2020 to own and operate ARCpoint's corporate lab in Greenville, South Carolina. AFG Services was formed in September 2020 to provide Support Services to ARCpoint Franchisees. In February 2022, ARCGL acquired a 60% interest in Achieve Behavioral Health Greenville, LLC ("**ABH Greenville**") expanding its business into providing support services for clinics which provide medication-assisted treatment that treats substance use addictions ("**ABH Clinics**"). In March 2022, ARCpoint Finco was formed for the sole purpose of completing the Transaction and a non-brokered private placement of subscription receipts conducted concurrently with the Transaction (the "**Private Placement**"). In August 2022, Total Reporting, LLC, a subsidiary of the Company newly formed under the laws of Delaware acquired certain business assets including the Total Reporting trademarks and other related intellectual property of Total Reporting from BlueLIne Services LLC, Total Reporting Franchising LLC and Total Reporting LLC. The Group plans to complete the integration of Total Reporting into its technology platform (the "**AFG Platform**") by the end of 2023, allowing the Group to become a full third-party administrator for B2B and public consumers.

The Company is a corporation existing under the *Canada Business Corporations Act*. Its head office is located at 101 North Main Street, Suite 301, Greenville, South Carolina, US and its registered office is located at Suite 635, 333 Bay Street, Toronto, Ontario, Canada.

Principal Services and Revenues

<u>ARCpoint Lab Services</u>

The Group's principal services are the ARCpoint Lab Services which include the following:

1. Diagnostic testing – standard blood tests (including clinical wellness panels issues such as fatigue, weight loss, fertility and STDs), drug and alcohol testing, employment background screening, DNA testing, antigen, antibody, PCR Covid testing, and testing required for regulatory compliance (primarily directed toward businesses who fall under the U.S. Department of Transportation's ("**DOT**") rigid regulatory federal guidelines).

2. Intervention – Covid vaccine administration, annual flu vaccines, vaccines required to travel to specific international destinations, and wellness shots such as B12 injections.

3. Clinical Services and augmented care – physical examinations virtually administered to assist customers to meet the applicable employment and DOT requirements, augmented health services, and a subscription service that provides 24/7 access to a certified physician via telephone or other electronic device without a consultation fee.

The Group provides ARCpoint Lab Services directly to end customers through ARCpoint Labs and indirectly through ARCpoint franchisees.

The Group's core business is a franchise business. The Group's principal operating subsidiary, ARCpoint Franchise, contracts ARCpoint franchisees who provide ARCpoint Lab Services to businesses and individual customers pursuant to the terms of the franchise agreement between ARCpoint Franchise and each of the ARCpoint franchisees (the "**Franchise Agreement**"). ARCpoint Franchise and AFG Services provide support to ARCpoint franchisees during the term of the Franchise Agreement.

The Group's revenue is primarily derived from ARCpoint franchisees who pay an initial franchise fee, as well as royalties based on their sales. ARCpoint Franchise also receives rebates from supplies ARCpoint franchisees purchase from approved vendors. ARCpoint Franchisees are required to pay into ARCpoint Franchise's brand fund (the "**Brand Fund**"), which is used to market ARCpoint Lab Services, raise brand awareness and direct business to the ARCpoint franchisees.

ARCpoint franchisees provide revenue to ARCpoint Franchise in a number of ways. In addition to the initial franchise fee, ARCpoint franchisees pay a royalty to ARCpoint Franchise on all products and services provided to their customers. In addition, ARCpoint franchisees contribute a percentage of all sales to the Brand Fund.

ARCpoint Franchise does not sell products directly to consumers. However, it does sell testing equipment (including breath alcohol machines, alcohol monitoring equipment, screening kits, drug testing software, clinical testing software, scheduling software, and other management software tools, and testing supplies) to ARCpoint franchisees, or directs franchisees to purchase equipment from an approved third party.

<u>Support Services</u>

In addition to ARCpoint Lab Services, the Group provides support services to ARCpoint franchisees, third party businesses and physicians, and ABH Clinics through its subsidiaries AFG Services and ABH Greenville.

AFG Services was formed in September 2020 to provide a wide array of support services to ARCpoint franchisees which include: test requisitions, clinical oversight and review of results, skilled phone calls regarding infectious disease and panic values, clinical testing education and support, including on-demand email support for clinical questions, clinical education sessions, interactive educations and support phone calls and recommendations regarding tests and testing government approval status. AFG Services also provides support services to third-party businesses and physicians which include intake and management reviews, physician review of tests and prescriptions, drug and alcohol testing policy development and software services (integrated test ordering and management), compliance support, billing services and group purchasing capabilities (collectively, the "**AFG Support Services**").

AFG Support Services generates revenue from multiple streams. ARCpoint franchisees, purchase testing kits and supplies, pay for software and other technical support; a portion of fees collected for DOT physicals and other physician-supervised activities such as prescription and test result reviews are collected by AFG Services; and a per-use fee is charged by AFG Services for every test ordered on the AFG Platform.

BUSINESS HIGHLIGHTS

Commercial Updates

- The Group generated $1.7 million in revenues for the three months ended March 31, 2023 compared to $5.6 million for the three months ended March 31, 2022. This represented year-over-year decline of 69% consisting of:
  - Royalties and other franchise fees of $1.2 million in Q1 2023 compared to $2.5 million in Q1 2022;
  - Brand Fund revenue of $0.2 million in Q1 2023 compared to $0.6 million in Q1 2022;
  - Support and lab services of $0.4 million in Q1 2023 compared to $2.4 million in Q1 2022.

- The Group held cash and cash equivalents and Brand Fund restricted cash totaling $5.4 million at March 31, 2023, compared to $7.1 million at December 31, 2022.

- ARCpoint Labs locations totaled 134 by the end of March 31, 2023, each providing ongoing royalty and services revenue. This compares to 131 ARCpoint Labs locations that were operational at the end of 2022.

- Effective April 1, 2023, the Company enacted headcount reductions. The majority of these cuts took place at the upper management and executive levels, allowing the Company to continue to serve its franchisees with the same direct contacts. As part of the cost-cutting process, the Company has also undertaken a thorough audit of its operations and identified operational cost-saving measures. The headcount reductions resulted in one-time severance payments of $485,415.

Corporate Update

- On May 2, 2023, the board of directors of the Company appointed Zelong He (aka "Roger He") as a director to fill the vacancy left by Mark Orsmond who has resigned as a director of the Company to pursue other opportunities.

SELECTED FINANCIAL INFORMATION

The following table provides information for the three-month periods ended March 31, 2023 and 2022:

	For the period ended March 31, 2023	For the period ended March 31, 2022
Revenue	$ 1,712,825	$ 5,592,692
Cost of revenue	909,781	2,170,470
Gross income	803,044	3,422,222
Gross income margin	47%	61%
Expenses	2,771,243	2,009,582
Operating income (loss)	(1,968,199)	1,412,640
Other expenses	(124,645)	(516,276)
Taxes	-	(212,573)
Net income (loss) after tax	(2,092,844)	683,792
Basic earnings (loss) per unit	(0.02)	4.59
Diluted earnings (loss) per unit	(0.02)	4.08

Reconciliation of Net Income to Adjusted EBITDA

	For the period ended March 31, 2023	For the period ended March 31, 2022
Net income (loss)	$ (2,092,844)	$ 683,792
Finance expense (a)	125,868	165,546
Taxes	-	212,573
Depreciation and amortization	136,217	56,687
EBITDA	(1,830,759)	1,118,598
Share-based compensation (b)	36,292	-
Other income (c)	(1,223)	(1,268)
One-time legal, professional and related costs (d)	-	196,766
Brand Fund revenue and expenditure timing difference (e)	231,082	(227,921)
Change in fair value of warrant liability	-	351,998
Severance costs	485,415	-
Adjusted EBITDA	**$ (1,079,193)**	**$ 1,438,173**

(a) Finance expense comprised of interest on bank loans, notes payable and lease liabilities (see Financial Statements).
(b) Share-based compensation expense comprised of non-cash compensation (see Financial Statements).
(c) Other income (expenses) comprised of government assistance benefit received pertaining to the COVID-19 pandemic and interest on notes receivable (see Financial Statements, note 6).
(d) One-time legal and professional fees refer to expenses and other transactional costs incurred for financings and restructuring completed in 2022 and 2023 (see Financial Statements).
(e) The Group operates a Brand Fund established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Group and its franchisees. The Group reports contributions and expenditures on a gross basis on the Group's statement of profit and loss. Brand Fund contributions are recognized as revenue when invoiced, as the Group has full discretion on how and when the Brand Fund revenues are spent. Brand Fund revenue received may not equal advertising expenditures for the period due to timing of promotions and this difference is recognized to earnings. This adjustment is made to normalize for the timing difference of the Brand Fund revenues and Brand Fund expenditures.

QUARTERLY RESULTS

Selected Quarterly Financial Information

	For the three months ended			
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Net revenue	$ 1,712,825	$ 1,309,747	$ 1,711,204	$ 2,270,760
Net loss	$ (2,092,844)	$ (6,079,763)	$ (1,856,838)	$ (1,067,856)
Basic loss per unit	$ (0.02)	$ (0.08)	$ (12.47)	$ (7.17)
Diluted loss per unit	$ (0.02)	$ (0.08)	$ (12.47)	$ (7.17)

	For the three months ended			
	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Net revenue	$ 5,592,692	$ 5,844,873	$ 4,833,797	$ 3,153,764
Net income	$ 683,792	$ 1,457,515	$ 1,304,971	$ 624,679
Basic earnings per unit	$ 4.59	$ 9.79	$ 8.76	$ 35.97
Diluted earnings per unit	$ 4.08	$ 9.26	$ 8.67	$ 34.31

Reconciliation of Quarterly Net Income (Loss) to Adjusted EBITDA

	For the three months ended			
	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Net loss	$ (2,092,844)	$ (6,079,763)	$ (1,856,838)	$ (1,067,856)
Finance expense (a)	125,868	197,517	172,938	171,320
Taxes	-	-	-	(212,573)
Depreciation and amortization	136,217	106,880	61,412	50,506
EBITDA	(1,830,759)	(5,775,366)	(1,622,488)	(1,058,603)
Share-based compensation (b)	36,292	981,737	-	-
Other income (c)	(1,223)	(1,035)	(681)	(354)
One-time legal, professional and related costs (d)	-	2,245,667	429,745	280,149
Impairment of property and equipment and ROU	-	262,488	19,299	-
Change in fair value of warrant liability	-	(962,367)	(1,067)	193,731
Conversion of debt	-	1,323,918	-	-
Brand Fund revenue and expenditure timing difference (e)	231,082	359,367	266,673	263,055
Reissuance of warrants	-	273,540	-	-
Severance costs	485,415	-	-	-
Adjusted EBITDA	**$ (1,079,193)**	**$ (1,292,050)**	**$ (908,519)**	**$ (322,022)**

	For the three months ended			
	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
Net income	$ 683,792	$ 1,457,515	$ 1,304,971	$ 624,679
Finance expense (a)	165,546	80,734	84,678	13,850
Taxes	212,573			
Depreciation and amortization	56,687	52,429	32,171	17,805
EBITDA	1,118,598	1,590,678	1,421,820	656,334
Other income (c)	(1,268)	-	-	(247,746)
One-time legal, professional and related costs (d)	196,766	136,635	166,065	26,483
Change in fair value of warrant liability	351,998	-	-	-
Brand Fund revenue and expenditure timing difference (e)	(227,921)	(285,875)	(97,114)	(31,865)
Adjusted EBITDA	**$ 1,438,173**	**$ 1,441,438**	**$ 1,490,771**	**$ 403,206**

(a) Finance expense comprised of interest on bank loans, notes payable and lease liabilities (see Financial Statements).
(b) Unit-based compensation expense comprised of non-cash compensation (see Financial Statements).
(c) Other income (expenses) comprised of government assistance benefit received pertaining to the COVID-19 pandemic and interest on notes receivable (see Financial Statements, note 6).
(d) One-time legal and professional fees refer to expenses and other transactional costs incurred for financings and restructuring completed in 2022 and 2023 (see Financial Statements).
(e) The Group operates a Brand Fund established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Group and its franchisees. The Group reports contributions and expenditures on a gross basis on the Group's statement of profit and loss. Brand Fund contributions are recognized as revenue when invoiced, as the Group has full discretion on how and when the Brand Fund revenues are spent. Brand Fund revenue received may not equal advertising expenditures for the period due to timing of promotions and this difference is recognized to earnings. This adjustment is made to normalize for the timing difference of the collection Brand Fund revenues and Brand Fund expenditures.

Results of Operations for the three months ended March 31, 2023 and 2022

The Group generated net loss of $2,092,844 for the three months ended March 31, 2023 (March 31, 2022 net income: $683,793). The most significant revenue streams were:

- Royalties and other franchise fees decreased to $1,169,926 (March 31, 2022: $2,545,899) and Brand Fund revenues decreased to $180,155 (March 31, 2022: $601,960) due to higher than seasonal revenues in Q1 2022. During the Q1 2022, high complexity PCR testing and low complexity rapid tests volumes were higher due to the Covid pandemic.
- Support and lab services revenue decreased to $362,744 (March 31, 2022: $2,444,833) as a result of the Group's decreased need for COVID-19 testing and other support services provided to franchisees.

The most significant expenses were:

- Support services of $310,881 (March 31, 2022: $1,643,365) decreased due to the decreased need for additional medical testing supplies, as well as clinical software and physician requisition services for franchisees.
- Brand Fund related expenses of $411,237 (March 31, 2022: $374,039) related to increased digital marketing and public relations.
- General and administrative expenses of $323,119 (March 31, 2022: $268,536) related to increased liability insurance and internal software expenses.
- Professional fees of $354,624 (March 31, 2022: $437,565) related to decreased legal and audit fees.
- Salaries and wages of $1,682,664 (March 31, 2022: $1,038,592) increased primarily due to wages provided for one-time severance payments paid in the period.
- Sales and marketing of $142,187 (March 31, 2022: $79,187) related to increased digital marketing and lead generations.
- Travel of $65,291 (March 31, 2022: $92,891) related to a decreased total number of employees travelling.

LIQUIDITY AND CAPITAL RESOURCES

Capital Management

The capital managed by the Group includes unitholders' equity as described in the statements of unitholders' equity. The Group's objectives of capital management are to create long-term value and economic returns for its unitholders. It does this by seeking to maximize the availability of financing to fund the growth and development of its operations, and to support the working capital required to maintain its ability to continue as a going concern. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its assets, seeking to limit unitholder dilution and optimize its cost of capital while maintaining an acceptable level of risk. To maintain or adjust its capital structure, the Group considers all sources of finance reasonably available to it, including but not limited to issuance of new capital. The Group is not subject to any externally imposed capital requirements. The Group's overall strategy with respect to management of capital at March 31, 2023 remains fundamentally unchanged from the previous year.

As of March 31, 2023, the Group had cash of approximately $4.8 million (December 31, 2022: $6.0 million) and Brand Fund restricted cash of $0.8 million (December 31, 2022: $1.1 million). The Group's working capital at March 31, 2023 was $2.4 million compared to working capital of $4.3 million at December 31, 2022. During the three-month period ended March 31, 2023, the Group had negative cash flows from operating activities. Management expects to have sufficient capital to fund ongoing franchise expansion, support the expansion of ABH Clinics and complete the integration of its AFG Platform activities in the short-term. Management expects that the Group will continue to fund further long-term development activities through equity financing and available cash.

The financial statements have been prepared by management on the basis of accounting principles applicable to a going concern, which assumes that the Group will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The application of the going concern concept is dependent upon the Group's ability to generate future profitable operations and/or obtain additional financing to pay its liabilities and to meet its commitments.

Management believes the going concern assumption to be appropriate for the financial statements. If the going concern assumption were not appropriate for the financial statements, adjustments may be necessary to the carrying value of assets and liabilities, reported expenses, and the statement of financial position classifications used.

Cash Flows

Cash provided by (used in) for the period ended:		March 31, 2023		March 31, 2022
Operating activities	$	(1,151,384)	$	1,823,414
Investing activities		(44,633)		(254,820)
Financing activities		(230,780)		(237,155)
Increase (decrease) in cash	**$**	**(1,426,797)**	**$**	**1,331,439**

The Group generated negative cash flows from its operating activities during the three months ended March 31, 2023 of approximately $1.2 million which is attributable to the net change in the Group's working capital items and negative Adjusted EBITDA generated in the period.

The Group received approximately $16,000 in the repayment of notes and provided approximately $60,000 in additional notes issued.

The Group used approximately $81,000 for lease payments that were made and $150,000 in convertible notes repayments.

Off-Statement of Financial Position Arrangements

The Group does not have any special purpose entities nor is it a party to any transactions or arrangements that would be excluded from the statement of financial position.

Capital Resources and Other Commitments

There were no capital or other commitments at the current or prior year end in addition to the lease commitments disclosed in the Group's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2023.

Off-Balance Sheet Arrangements

As at March 31, 2023, the Group did not have any off-balance sheet transactions.

RELATED PARTY TRANSACTIONS

The Group's related parties include key management personnel and companies related by way of directors or unitholders in common. Key management compensation for the three months ended March 31, 2023 and 2022 is as follows:

		Three months ended March 31,		
		2023		2022
Professional fees	$	60,457	$	-
Salaries and wages		232,173		402,616
Share based compensation		34,917		-
	$	**327,547**	**$**	**402,616**

As of March 31, 2023, the Group owed $1.7 million (December 31, 2022 - $1,671,243) to an associate and a director of the Group for loans provided to the Group. The amount owed consists of two loans, one that is unsecured, with interest of 2.4% per annum and will be repaid as a balloon payment before or at January 1, 2026 and the other being unsecured with interest of 1.88% per annum with a maturity date of April 26, 2031.

SHARE CAPITAL

The Company is authorized to issue unlimited SVS and PVS, both with no par value. As of March 31, 2023, 27,300,744 SVS and 123,894 PVS were issued and outstanding. The following table shows the detailed number of shares outstanding and exercisable as of March 31, 2023 and at the date of this report.

Total Outstanding as of:	March 31, 2023	Date of this report	Exercise price range
Class A Subordinate Voting Shares (“SVS”)	27,300,744	27,300,744	
Class B Proportionate Voting Shares (“PVS”)	123,894	123,894	
SVS Options	861,554	841,554	$0.25 - $0.45
SVS Warrants	7,462,219	7,462,219	$0.1625 - 0.675
SVS RSUs	353,000	353,000	

RISK AND UNCERTAINTIES

COVID-19 Risks
The ongoing COVID-19 pandemic, including continued uncertainty as to its extent and duration, local and international developments and the effect of the pandemic on the broader global economy and capital markets may have a negative effect on the Group. The COVID-19 pandemic and actions that have been, and may be, taken by governmental authorities in response thereto has resulted, and may continue to result in, among other things: an overall slowdown in the global economy; a decrease in global demand for commodities; increased volatility in financial and commodity markets; disruptions to global supply chains; inflationary pressures; labour shortages; significant impacts to the workforce; reductions in trade volumes; temporary operational restrictions on gatherings of individuals, as well as shelter-in-place declarations and quarantine orders; business closures and travel bans; political and economic instability; and civil unrest. Increases in COVID-19 activity positively impacts the Group’s results and lower COVID-19 activity has significant impacts on the Group’s ability to generate and/or sustain its revenues given the percentage of Group revenue is influenced by COVID-19 testing. A long-term economic downturn could affect the Group’s ability to raise capital in the future. Management continues to monitor the situation.

Economic & Geopolitical Risks
Global financial conditions have, at various times in the past and may, in the future, experience extreme volatility. Many industries, including the health care industry, are impacted by volatile market conditions. Global financial conditions may be subject to sudden and rapid destabilizations in response to economic shocks or other events, such as the continued impacts of the COVID-19 pandemic and the hostilities involving Russia and Ukraine. A slowdown in the financial markets or other economic conditions, including adverse changes in consumer spending, employment rates, business conditions, inflation, fluctuations in fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Group’s financial condition and prospects. Future economic shocks may be precipitated by a number of causes, including government debt levels, fluctuations in the price of oil and other commodities, the volatility of commodity prices, geopolitical instability, changes in laws or governments, war, terrorism, the volatility of currency exchanges, inflation or deflation, the devaluation and volatility of global stock markets, pandemics and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Group’s ability to obtain equity or debt financing in the future on terms favourable to the Group or at all. In such an event, the Group’s operations and financial condition could be adversely impacted.

Global Economic Conditions
Current global economic conditions could have a negative effect on the Group’s business and results of operations. Market disruptions have included extreme volatility in securities prices, as well as diminished liquidity and credit availability. An economic crisis may adversely affect the Group in a variety of ways. Access to credit facilities or the capital markets may be severely restricted, which may preclude the Group from raising funds required for operations and to fund continued expansion. It may be more difficult for the Group to complete strategic transaction with third parties. Financial and credit market turmoil could also negatively impact suppliers, customers and creditors with whom the Group does business.

Such developments could decrease the Group’s ability to source, produce and distribute its products or obtain financing and could expose it to risk that one of its suppliers or customers will be unable to meet their obligations under agreements with them. If economic conditions worsen, it is possible these factors could significantly impact the Group’s financial conditions.

In addition, the COVID-19 pandemic has created a dramatic slowdown in the global economy. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak. There can be no assurance that the Group will not be further impacted by adverse consequences that may be brought about by the COVID-19 pandemic on global financial markets which may reduce unit prices and financial liquidity, thereby severely limit the financing capital available.

Going Concern
As of March 31, 2023 the Group had cash and cash equivalents of $4,576,812 and Brand Fund restricted cash of $802,836 which alleviates substantial doubt about the Group's ability to continue as a going concern.

The Group believes its current cash position and revenue from customers would provide sufficient resources to fund the Group's existing operations for the foreseeable future. However, the Group may need additional capital to operate the business if: market conditions change; the Group's business plans or assumptions change; the Group makes significant acquisitions; the Group needs to make significant increases in capital expenditures or working capital; the Group is not able to obtain sufficient credit; or the Group needs to continue to provide financial support to its subsidiaries.

Key Personnel
The Group is dependent upon the continued availability and commitment of its management, whose contributions to immediate and future operations are of significant importance. The loss of any such management could negatively affect the Group's business operations. From time to time, the Group will also need to identify and retain additional skilled management to efficiently operate its business. Recruiting and retaining qualified personnel is critical to the Group's success and there can be no assurance of its ability to attract and retain such personnel. If it is not successful in attracting and training qualified personnel, the Group's ability to execute its business model and growth strategy could be affected, which could have a material and adverse impact on its profitability, results of operations and financial condition.

Dependence on Management Team
The Group will depend on certain key senior managers to oversee the core marketing, business development, operational and financing activities and who have developed key relationships in the industry. Their loss or departure in the short-term would have an adverse effect on the Group's future performance.

Investors must rely on the judgment, experience, ability and good faith of the Group, and its directors, officers, employees and affiliates and their consultants and advisors and, in part, on their continuing ability to hire and retain knowledgeable personnel in exercising this responsibility. Directors and officers of the Group are not required to devote all of their business time and attention to the Group's business.

Development of New Franchisees
The Group's success will depend, in part, on its ability to develop, introduce and market new franchisees and innovative new products and services these franchisees offer to the public. In the event that there is a shift in consumer demand, the Group must meet such demand through new and innovative products and services. The Group's ability to develop, market and produce new franchisees and products is subject to it having substantial capital. There is no assurance that the Group will be able to develop new and innovative products or have the capital necessary to develop such products.

Need to Manage Growth
The Group could experience rapid growth in revenues, personnel, complexity of administration and in other areas. There can be no assurance that the Group will be able to manage the impact that growth could place on the Group's administrative infrastructure, systems and controls. If the Group is unable to manage future growth effectively, the Group's business, operations and operating results and financial condition may be materially adversely affected.

The Group intends to pursue acquisitions of, and investment in, selected businesses as a core component of its growth strategy. Any future acquisition or investment may result in the use of significant amounts of cash, dilutive issuances of equity securities, or the incurrence of additional indebtedness. The Group cannot assure stakeholders that the Group's acquisitions will be successful and will not adversely affect the Group's business, result of operations or financials condition.

Litigation
The Group may from time to time become party to claims and litigation proceedings, which may include those generally related to contract disputes. Such matters are subject to many uncertainties and the Group cannot predict with any assurances the outcome and ultimate financial impact from any such claims or proceedings. There can be no guarantee that actions that may be brought against the Group in the future will be resolved in its favour or that the insurance the Group carries will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to the Group.

Trademark Protection
ARCpoint holds its registered trademarks (the "Marks") through its subsidiary, ARCpoint Holdings. The Group has filed all required affidavits and renewals. There are no effective adverse material determinations of the United States Patent and Trademark Office (USPTO), the Trademark Trial and Appeal Board, or the trademark administrator of any state or any court. There are no pending infringement, opposition, or cancellation proceedings.

The Group has granted the franchisees of ARCpoint Franchise Group an exclusive license for the use and sublicense of those Marks to pursuant to an interGroup license agreement dated August 12, 2019. The trademark license is perpetual in duration and may be terminated upon a material breach (by engaging in any activity which damages the Marks or the goodwill of the System) not remedied after 30 days' written notice. If the trademark license is terminated, the Group has agreed to license the use of the Marks directly to franchisees until each Franchise Agreement expires or is otherwise terminated.

<u>*Smaller Companies*</u>
Market perception of junior companies may change, potentially affecting the value of investors' holdings and the ability of the Group to raise further funds through the issue of further common shares or otherwise. The share price of publicly traded smaller companies can be highly volatile. The value of the common shares may go down as well as up and, in particular, the share price may be subject to sudden and large falls in value given the restricted marketability of the common shares.

Outlook

As the Group continues to expand, the future liquidity of the Group will be affected principally by the level of its operations and by its ability to raise the adequate capital through the capital markets or other means. The Group will be required to raise additional funding in order to meet its long-term business objectives. The Group is aware of the current conditions in the financial markets and has taken significant steps to adapt our business model to reduce capital requirements going forward. The Group will continue to evaluate its funding requirements on a go forward basis in an effort to meet its future development and growth initiatives.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Group considers that the carrying amount of its financial assets and financial liabilities, with a short-term maturity and demand nature, and recognized at amortized cost in the financial statements approximates their fair value of these instruments.

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1, that are observable either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

The Group's financial assets and liabilities carried at amortized cost are considered Level 2 instruments, because while observable prices and inputs are available, they are not quoted in an active market.

The estimated fair value of the Class A SVS options, warrants and RSUs were determined using a Black-Scholes model with Level 3 inputs. Inherent in this model are assumptions related to expected life (term), expected stock price, volatility, risk-free interest rate and dividend yield. The Group estimates the volatility of its options, warrants and RSUs based on implied volatility from historical volatility of select peer companies' Class A common stock that matches the expected remaining life of the warrants. The risk-free interest rate is based on the Canadian zero-coupon yield curve on the grant date for a maturity similar to the expected remaining life of the options, warrants and RSUs. The expected life of the options, warrants and RSUs is assumed to be equivalent to their remaining contractual term. The dividend rate is based on the historical rate, which the Group anticipates remaining at zero.

Financial Instrument Risk Exposure

The Group's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. These risks arise from the normal course of operations and all transactions are undertaken to support the Group's ability to continue. Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates the financial risks in co-operation with the Group's operating units. The Group's overall risk management program seeks to minimize potential adverse effects on the Group's financial performance, in the context of its general capital management objectives (Note 17).

a) Credit Risk

The Group's financial instruments that are exposed to concentrations of credit risk are primarily cash. Credit risk pertaining to cash relates primarily to deposits in banks that, at times, exceed the federally insured limit of $250,000. Management does not believe a significant risk of concentration exists with respect to these balances at March 31, 2023.

b) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group constantly monitors its operations and cash flows to ensure that current and future obligations will be met when due.

c) Currency Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency.

The Group is exposed to foreign currency risk on fluctuations related to cash and accounts payable and accrued liabilities that are denominated in Canadian dollars ("CAD"). At March 31, 2023, the Group holds cash of C$5,048,266 (December 31, 2022 - $5,102,863) in CAD bank accounts. A 1% change in foreign exchange rates would have an effect of C$50,483 (December 31, 2022 - $51,029) on foreign currency. During the period ended March 31, 2023, the Company had a foreign exchange gain of $304 (March 31, 2022 - $Nil).

NON-IFRS AND OTHER FINANCIAL MEASURES

This MD&A also refers to the following non-IFRS measures:

"EBITDA" is comprised as income (loss) less interest, income tax and depreciation and amortization. Management believes that EBITDA is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Group. See "Reconciliation of Net (Loss) / Income to Adjusted EBITDA" for a quantitative reconciliation of EBITDA to the most directly comparable financial measure.

"Adjusted EBITDA" is comprised as income (loss) less interest, income tax, depreciation, amortization, share-based compensation, Brand Fund revenue and expense timing difference, change in fair value of warrant liability, foreign exchange gain (loss) and other income / expenses not attributable to the operations of the Group. Management believes that EBITDA is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Group. See "Reconciliation of Net (Loss) / Income to Adjusted EBITDA" for a quantitative reconciliation of Adjusted EBITDA to the most directly comparable financial measure.

"Gross Profit" is comprised as the Group's revenues less cost of sales. Management believes that Gross Profit is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Group. See "Selected Financial Information" for a quantitative reconciliation of Gross Profit to the most directly comparable financial measure.

This MD&A refers to "Gross Profit Margin" which is a non-IFRS ratio. Gross Profit Margin is comprised of Gross Profit expressed as a percentage of the Group's revenues. Management believes that Gross Profit Margin is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Group.

This MD&A refers to "Adjusted EBITDA Margin" which is a non-IFRS ratio. Adjusted EBITDA Margin is comprised of Adjusted EBITDA expressed as a percentage of the Group's revenues. Management believes that Adjusted EBITDA Margin is a useful indicator for investors, and is used by management, in evaluating the operating performance of the Group.

Such non-IFRS measures and non-IFRS ratios do not have a standardized meaning under IFRS and may not be comparable to a similar measure disclosed by other issuers.

CAUTIONARY STATEMENT

This MD&A contains "forward-looking information" and "forward-looking statements" (collectively, "**forward-looking information**") within the meaning of applicable securities laws. Forward-looking information may relate to the Group's financial outlook and anticipated events or results and may include information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. Particularly, information regarding our expectations of future results, performance, achievements, prospects or opportunities or the markets in which we operate and the impact of the ongoing global supply chain constraints of medical supplies components as well as the COVID-19 pandemic declared by the World Health Organization on March 11, 2020 (the "**COVID-19 Pandemic**") thereon is forward-looking information.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", “might”, “will”, “will be taken”, “occur” or “be achieved”, the negative of these terms and similar terminology. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management’s expectations, estimates and projections regarding future events or circumstances based on currently available information.

This forward-looking information includes, among other things, statements relating to: expectations regarding industry trends and challenges; overall market growth rates and our growth rates and growth strategies; addressable markets for our franchisees; the achievement of advances in and expansion of our offerings and franchisees; expectations regarding our revenue and the revenue generation potential of our products, services and other solutions; our business plans and strategies; our competitive position in our industry; the Group is actively evaluating several other M&A opportunities along with additional strategic growth initiatives; the Group’s continued investment in the research and development of new products as well as the continuous enhancement of the Group’s existing products and software applications offering.

The forward-looking information contained herein is based on our opinions, estimates and assumptions considering our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances based on currently available information. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of our ability to build our market share and enter new markets; our ability to retain key personnel; our ability to fund and execute on our short term plans including, but not limited to, expansion of ABH Clinics and completion of the integration of our AFG Platform activities; our ability to continue investing in research and development to support our growth; our ability to fund long term development activities through equity financing and available cash; our ability to obtain and maintain existing financing on acceptable terms; interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management’s expectations.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that we considered appropriate and reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information.

If any of these risks or uncertainties materialize, or if the opinions, estimates, or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above should be considered carefully by prospective investors.

Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. No forward-looking statement is a guarantee of future results. Accordingly, you should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this MD&A represents our expectations as of the date of hereof (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.