Appulse Corporation

Management's Discussion and Analysis April 23, 2024

For the three months and year ended December 31, 2023

The following Management's Discussion and Analysis ("MD&A") reflects management's assessment of the consolidated financial and operating results of Appulse Corporation ("Appulse" or the "Corporation") for the year ended December 31, 2023. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2023 and 2022. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, all financial information is expressed in Canadian dollars. Additional information on the Corporation and its financial and operating results can be accessed through the SEDAR+Profile of Appulse Corporation at www.sedarplus.ca. The information contained in this MD&A is given as of April 23, 2024, unless otherwise stated.

Forward looking statements

Certain statements and other information included in this document constitute forward-looking information or forward-looking statements (collectively, "forward-looking statements") under applicable securities laws (such statements are often accompanied by words such as "anticipate", "forecast", "expect", "believe", "may", "will", "should", "estimate", "intend" or other similar words). All statements in this document, other than those relating to historical information or current conditions, are forward-looking statements, including, but not limited to, expectations related to: the continued access to markets for the Corporation's products; the stability of related financial systems; and the impact of international political unrest.

All the forward-looking statements are qualified by assumptions that are stated or inherent in such forward-looking statements, including the assumptions referred to below and elsewhere in this document. Although the Corporation believes that these assumptions are reasonable, the list is not exhaustive of the factors that may affect any of the forward-looking statements and the reader should not place an undue reliance on these assumptions and such forward-looking statements. The additional key assumptions that have been made include, among other things, with regard to all of the forward-looking statements: assumptions that future business, regulatory and industry conditions will be within the parameters expected by the Corporation, including with respect to the cost of labor and interest, exchange, and effective tax rates; assumptions with respect to the adequacy of our cash position and our ability to access our credit facilities for additional sources of financing as may be required.

Additional events or circumstances that could cause actual results to differ materially from those in all of the forward-looking statements include, but are not limited to: general economic, market and business conditions in Canada and the United States; governmental and regulatory requirements and actions by governmental authorities, including changes in government policy (including tariffs and trade restrictions), changes in environmental, tax and other laws or regulations and the interpretation thereof; political risks; the occurrence of a major environmental, or safety incident; security risks related to our systems; risks related to reputational loss; the ability to attract, engage and retain skilled employees; and other risk facts detailed from time to time in the Corporation's reports filed with the Canadian securities regulators.

The Corporation disclaims any intention or obligation to update or revise any forward-looking statements in this document as a result of new information or future events, except as may be required under applicable Canadian securities laws.

Operating structure and financial results summary

The financial operating results for the year ended December 31, 2023 include the activities of Appulse and its subsidiaries; Centrifuges Unlimited Inc. ("Centrifuges") (until its sale on November 1, 2023), Rolyn Oilfield Services Inc. ("Rolyn"), and Rolyn Oilfield Services (U.S.) Inc. ("Rolyn U.S.") (until its dissolution on December 20, 2023).

As previously reported, on September 18, 2023, Appulse announced entering into an arm's length Share Purchase Agreement (the "Agreement") to sell all of the issued and outstanding shares of its wholly owned subsidiary, Centrifuges Unlimited Inc. to GEA Canada Inc. (the "Transaction"). Centrifuges specialized in the sales, servicing and refurbishing of centrifuge equipment, serving both domestic and international markets, and offered full service industrial machining. Centrifuges was the Corporation's primary operating subsidiary.

On November 1, 2023 ("closing date"), the sale of Centrifuges to GEA Canada Inc. was closed for the base price of $10 million, inclusive of intercompany debt repayment and subject to customary net debt adjustments and working capital adjustments (up to $200,000 by which the estimated working capital exceeded $6.7 million), payable in cash. Pursuant to the Agreement, the Corporation received $9.25 million and $750,000 was withheld under an escrow agreement (receivable on November 1, 2025 hence classified as non-current asset) in support of standard indemnities provided under terms of the Agreement. Additionally, $104,982 was receivable in respect of a working capital adjustment that was collected subsequent to the year end.

Consistent with terms of the Transaction, the operations of Centrifuges have been classified as a discontinued operation in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Accordingly, the results of operations of Centrifuges were restated to reclassify the income as income from discontinued operation. All assets and liabilities of Centrifuges were transferred to the purchaser under terms of the Agreement on November 1, 2023 and therefore there are no assets or liabilities held for sale as at December 31, 2023.

As a result of the Transaction, the Corporation does not have any revenues from the sale or rental of centrifuge machines or the sale of parts after the closing date.

Concurrently with the Transaction, on the closing date, the Corporation settled its outstanding obligation with its primary bankers in the amount of approximately $1,100,000.

In early 2024, the Corporation deposited $400,000 with the Canada Revenue Agency related to its current obligations which include tax on the taxable capital gain from the sale of Centrifuges.

The balance of the funds from the Transaction of approximately $8,100,000 were placed on a series of interest-bearing investments for the short-term. The noted funds held in escrow also bear interest to the account of the Corporation.

The following table summarizes specific annual financial information for the past three years reflecting results associated with the Continuing Operations of Appulse and Discontinued Operation primarily related to the operations of Centrifuges:

Selected consolidated annual information:

(thousands except per share figures)

		2023	2022	2021
Total assets	$	9,000	10,386	10,355
Total non-current liabilities		(86)	(271)	(564)
Income (loss) per share -				
Basic and diluted income per share		0.11	0.02	0.05
Basic and diluted income (loss) per share – continuing operations		(0.01)	(0.01)	(0.01)
Basic and diluted income per share – discontinued operation		0.12	0.03	0.06

Results from Continuing Operations

		2023	2022	2021
Revenue	$	-	-	-
Loss attributed to equity shareholders		(102)	(192)	(138)

Results from Discontinued Operation

		2023	2022	2021
Revenue	$	10,371	10,452	9,233
Gain on sale of discontinued operation before taxes		1,446	-	-
Income attributed to equity shareholders		1,790	430	880

Fourth quarter and financial statement component review

Primary components of the Corporation's year-end consolidated financial statements are reviewed in the following paragraphs.

Revenue

As previously noted, the sale of Centrifuges, the Corporation's operating subsidiary, closed on November 1, 2023. Operating results for Centrifuges (discontinued operation) are only reflected up to October 31, 2023. The Corporation had no operating revenues or related costs subsequent to that date. Total revenues of Centrifuges for the year to October 31, 2023, were $10,371,000, comprised of parts and component sales ($5,702,000); Service ($1,636,000); machine sales ($2,889,000); and rentals ($144,000). Total gross margins were comparable to the prior period. Centrifuge's revenues, direct operating costs and administrative and financial costs are reflected in the financial statements of Appulse Corporation on a net basis as income from discontinued operation.

Revenues related to Appulse following November 1, 2023 relate only to interest income from deposits derived through proceeds from the sale of Centrifuges. The Corporation does not have any operating revenues after the sale of Centrifuges.

Cash and equivalents

Cash balances of $8,140,000 as at December 31, 2023 are maintained through a schedule of interest-bearing investments under the facilities of the Royal Bank of Canada. It is management's opinion that interest from these investments will significantly reduce the impact of ongoing administration costs while investigation of future investment avenues continue.

Other receivable including funds held in escrow

The Corporation had other receivables as at December 31, 2023, primarily related to the sale of Centrifuges, comprised of; $750,000 (2022 - $nil) held in escrow (receivable on November 1, 2025 hence classified as non-current asset); $104,982 (2022 - $nil) being an additional working capital adjustment; and $6,000 (2022 - $nil) due from an employee. Management expects these other receivables to be collected in full.

Payables

As at December 31, 2023, the Corporation's accounts payable and accrued liabilities totaled $239,276 compared to $1,809,116 as at December 31, 2022. The reduction is a result of selling Centrifuges during the year and the related assets and liabilities.

Effect of disposal on the consolidated financial position of the Company

Since Centrifuges was the Corporation’s only operating subsidiary, a majority of the Corporation’s assets and liabilities were reflected in the books of Centrifuges and were disposed with the sale of Centrifuges.

The table below provides the carrying amount of those assets and liabilities as at October 31, 2023 and a calculation of gain on sale of Centrifuges:

	2023 **$**
Property and equipment	(817,817)
Prepaid expenses and deposits	(61,472)
Inventories	(7,236,485)
Accounts receivable	(2,188,631)
Cash and cash equivalents	(584,528)
Bank indebtedness	166,940
Accounts payable and accrued liabilities	1,707,680
Income tax payable	59,366
Deferred tax liability	64,054
Deferred revenue	531,736
Net assets and liabilities	(8,359,157)
Cash consideration	10,000,000
Less: Legal and other costs incurred	(300,235)
	9,699,765
Add: Other receivable arising from working capital adjustment	104,982
Net consideration receivable	9,804,747
Gain on sale of Centrifuges	1,445,590

Financial instruments, liquidity, and risk management

(a) Risk management

The Corporation’s activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk. This note presents information about the Corporation’s exposure to each of the above risks, the Corporation’s objectives, policies and processes for measuring and managing risk, and the Corporation’s management of capital. Further quantitative disclosures are included throughout the consolidated financial statements. The Corporation employs risk management strategies and polices to ensure that any exposures to risk are in compliance with the Corporation’s business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation’s risk management framework, management has the responsibility to administer and monitor these risks.

(b) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, other receivables, bank indebtedness, accounts payable and accrued liabilities, and customer deposits approximate their carrying values due to the short-term maturity of those instruments.

(c) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation’s cash, accounts receivable and other receivables.

The Corporation’s maximum exposure to credit risk associated with financial assets is in relation to cash and cash equivalents, accounts receivable and other receivables and is equivalent to their carrying amounts.

The Corporation manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

As at December 31, 2023, the Corporation had no trade accounts receivable following the disposal of Centrifuges.

The Corporation had other receivables as at December 31, 2023, as detailed in a previous section of this report.

As at December 31, 2022, substantially all of the Corporation’s accounts receivable were due from purchasers of centrifuge service, parts or refurbished machines, and were subject to normal industry credit risk.

(d) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Corporation’s approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due.

The maturity profile of the Corporation's financial liabilities as at December 31, 2023 and 2022 is provided below:

As at December 31, 2023	**Within 1 year $**	**1 to 5 years $**	**Greater than 5 years $**	**Total $**
Accounts payable and accrued liabilities	239,276	-	-	239,276
	239,276	-	-	239,276

As at December 31, 2022	**Within 1 year $**	**1 to 5 years $**	**Greater than 5 years $**	**Total**
Bank indebtedness	1,240,724	-	-	1,240,724
Accounts payable and accrued liabilities	1,809,116	-	-	1,809,116
Lease liability (undiscounted)	329,619	207,414	-	537,033
	3,379,459	207,414	-	3,586,873

(e) Market risk

Market risk is the risk that changes in market prices – e.g., foreign exchange rates, interest rates and equity prices – will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates.

As at December 31, 2023, the Corporation had little to no exposure to market risk following the disposal of Centrifuges.

As at December 31, 2022, the Corporation was exposed to interest rate and cash flow risks to the extent that changes in market interest rates would impact its bank indebtedness under the floating rate credit facilities.

Foreign currency risk

The Corporation was exposed to currency price risk on sales denominated in U.S. dollars to the extent that the receipt of payment of the U.S. denominated accounts receivable were subject to fluctuations in the related foreign exchange rate. In addition, foreign currency risk existed on purchases of inventories for sale to the extent that the payment of foreign denominated accounts payable were subject to fluctuations in the foreign exchange rate.

As at December 31, 2023, the Corporation had the following amounts in US dollar (amounts stated are in equivalent Canadian dollars): cash and cash equivalents $nil (2022 - $339,073), accounts receivable $nil (2022 - $193,059) and accounts payable and accrued liabilities $nil (2022 - $572,958).

The net effect of each 5% change in foreign exchange would have had a $Nil impact (2022 - $17,900) on net income and comprehensive income. The Corporation had no assets or liabilities denominated in foreign currency at December 31, 2023. As at December 31, 2023 and 2022, the Corporation had no forward exchange rate contracts in place.

Share capital and Stock options

14,242,304 common shares of the Corporation were outstanding at December 31, 2022. In January 2023, 242,000 common shares were issued pursuant to the exercise of options and a further exercise of 138,000 options in November of 2023 resulted in outstanding share capital of 14,622,304 common shares at December 31, 2023.

In March, 2024, 150,000 stock options were exercised resulting in outstanding share capital of 14,772,304 common shares as at the date of this report. A total of 245,000 stock options currently remain outstanding.

Contractual obligations and contingencies

Under terms of the agreement for the sale of Centrifuges, $750,000 of the purchase price was withheld (receivable on November 1, 2025 hence classified as non-current asset) and placed under terms of an escrow agreement in support of indemnities provided under the transaction. The escrow agreement expires November 1, 2025.

Related party transactions

During the year ended December 31, 2023, inventory purchases of $13,462 (2022 - $19,064) were made from a company controlled by a director of the Corporation; this amount is recorded in cost of sales. Both the 2023 and 2022 inventory purchase amounts totaling $32,526 were settled prior to December 31, 2023. As at December 31, 2023, the Corporation has a balance of $54,600 (2022 - $204,239) that is payable to the director’s Corporation which is included in accounts payable and accrued liabilities and is in respect of inventory purchased in prior years. The amounts in accounts payable and accrued liabilities are not interest bearing and are due on demand.

Key management personnel include executive officers (including presidential and chief financial officer positions) and directors. Executive officers compensation paid during the year ended December 31, 2023 was comprised of salaries of $446,330 (2022 - $352,937) and benefits of $3,408 (2022 - $5,253) of which $72,000 (2022 - $67,000) is presented in general and administration expenses of continuing operations and $374,330 (2022 - $285,937) is presented in general and administration expenses of discontinued operation. The director’s remuneration for the year amounted to $13,000 (2022- $14,000) and is presented in general and administration expenses of continuing operations.

Off balance sheet arrangements

The Corporation does not have any financial or contractual arrangements that would significantly impact the Corporation's financial position or operating results other than those reflected in the consolidated financial statements.

Outlook

As noted in this report, the sale of Centrifuges represented a significant change to the Corporation's financial structure and future focus.

At the time of writing this report, management and the Board of Directors are reviewing potential investment alternatives with a particular focus on maintaining a strong financial position and realizing the benefits available through the effective application of our public corporate structure.

While maintaining a conservative administrative cost base, future course alternatives will focus on the clear goal of providing maximum value for all shareholders.

Additional information

Additional information relating to Appulse Corporation can be accessed on the SEDAR + profile of Appulse Corporation at www.sedarplus.ca.