# INEO Tech Corp.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## As at and for the six months ended

## December 31, 2022 and 2021

## PREFACE

The following is a management's discussion and analysis ("MD&A") of INEO Tech Corp. (INEO), prepared as of February 22, 2023. This MD&A should be read in conjunction with the Company's interim condensed consolidated financial statements as at and for the six months ended December 31, 2022 and 2021.

INEO is a Canadian company, originally incorporated as Metron Capital Corp ("Metron") under the laws of the Province of British Columbia on March 4, 2008. On January 24, 2020, Metron completed a reverse takeover transaction with INEO Solutions Inc. ("INEO Solutions"), carried out by way of a share exchange ("RTO Transaction"). As part of the RTO Transaction, Metron changed its name to "INEO Tech Corp.". INEO Tech Corp. transacts all of its business through its wholly owned subsidiary INEO Solutions Inc.

The Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "**INEO"** and on the OTCQB Venture Market under the ticker symbol **"INEOF"**. The corporate head office and records office of the Company is located at 105 – 19130 24$^{th}$ Ave, Surrey, BC, V3Z 3S9.

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") – see note 2 of the financial statements for the six months ended December 31, 2022 and 2021 for further information. All dollar figures stated herein are expressed in Canadian dollars ($ or Cdn$), unless otherwise specified.

This MD&A contains forward-looking statements. See forward-looking statements below for further information. See section "Overall Performance and Discussion of Operations – Gross Profit and Gross Margin" for information on the calculation of Gross Profit and Gross Margin.

## FORWARD-LOOKING STATEMENTS

Certain information included in this MD&A may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements.

Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties, and other factors. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

It is the Company's policy that all forward-looking statements are based on the Company's beliefs and assumptions and are based on information available at the time these assumptions are made. The forward-looking statements contained herein are as of February 22, 2023 and are subject to change after this date, and the Company assumes no obligation to publicly update or revise the statements to reflect new events or circumstances, except as may be required pursuant to applicable laws. Although management believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate.

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors such as those described above and in "Risks and Uncertainties" below. The Company has no policy for updating forward looking information beyond the procedures required under applicable securities laws.

## BUSINESS OVERVIEW

INEO is the inventor and operator of the *INEO Media Network* for retailers which provides retail analytics and targeted advertising through its cloud-based IoT (Internet of Things) and AI (Artificial Intelligence) technology. INEO's Media Network is based on the Company's breakthrough product, the *INEO Welcoming Pedestal*, which is the first system that combines traditional retail security tag readers with digital advertising screens to target messages to shoppers as they enter and exit a retail establishment.

The combination of retail loss prevention with digital advertising is a key proprietary innovation that was patented by the Company shortly after its inception**.** This key innovation enables the Company to put bright, bold digital signage inside of loss prevention systems located at the front entrance of retail stores. The Company's technology displaces the antiquated, legacy retail loss prevention systems used by the vast majority of retailers to prevent theft, also known as Electronic Article Surveillance (EAS) systems. Traditionally, retailers have had limited choices for loss-prevention systems – which typically consist of a standalone tag-detection system at the front door of the retailer. INEO has patented and developed a system that replaces these legacy systems with a combined loss-prevention, digital signage and data-capture kiosk – the key component of the INEO *Media Network.*

The INEO *Media Network* consists of three pillars; *Data, Analytics & Advertising* (DAA). As part of its unique combination of patented technology, and its prime location at the front entrance of a retailer, the INEO *Media Network* is a valuable source of AI enabled *Data* - captured from all users that pass through the entry/exit of a retail establishment. The *Data* is then coupled with A*nalytics* processing to provide insight to the retailers to assist them with their decision-making processes. Finally, from its unique integration with the patented digital signage, the INEO *Media Network* provides a prime vehicle to display targeted *Advertising* directly to consumers as they enter into a retail establishment.

In addition to the *INEO Welcoming Pedestal*, the Company has extended its product line with three additional devices; the patent-pending *INEO Welcoming Pedestal DUO* (a pedestal with a screen on both sides); the *INEO Welcoming Player* (for additional locations throughout a retailer); and the patent-pending *INEO GATE* (a loss prevention pedestal with fixed messaging such as corporate identification).

INEO has a worldwide partnership agreement with Prosegur EAS USA Inc., a wholly owned subsidiary of Prosegur Compania de Seguridad (collectively "Prosegur"). Prosegur is a multi-national security solutions company headquartered in Madrid, Spain with a growing EAS business in the United States. As part of the partnership agreement, Prosegur will be responsible for funding, manufacturing, distribution, in-store setup and in-store maintenance of INEO's

Welcoming Systems, which Prosegur has branded as "EVO". INEO will be responsible for online provisioning, operating, and managing of the INEO *Media Network*. Under the terms of the agreement, Prosegur is also granted the right to fund and prosecute intellectual property rights and protection, on INEO's behalf, for the Company's proprietary patented technology.

***Business Model***

The Company generates revenue through: (a) Deploying INEO Welcoming System via direct sales to the retailer; (b) Deploying licensed INEO Welcoming Systems via channel sales through a distribution partner such as Prosegur; and (c) Ongoing sales to retailers of loss-prevention (EAS) systems & consumables and (d) Fabrication operations.

The range of monthly fees per store is dependent on the number of systems installed in the store. A small independent retailer may have a single door store entrance therefore only require one INEO Welcoming Pedestal and one GATE Pedestal. Conversely, a large retail store may have multiple door entrances, therefore it may end up deploying all of INEO's products including the *INEO DUO Pedestal*, the *Welcoming Pedestals*, *GATE Pedestals* and *Media Player*.

Depending on the retailer's choice, INEO may collect advertising revenue, a monthly Software-as-a-Service (SaaS) fee, or a combination of the two. Typically, a small independent retailer won't have the ability or expertise to sell the advertising themselves, in which case, INEO will sell the advertising and collect all the advertising revenue. A large retail chain, on the other hand, will typically have its own marketing team, expertise and co-op advertising budget and is able to sell the advertising on the screens by themselves. In this case, INEO will receive a SaaS fee for the delivery of ads to the digital screens, and for providing ongoing maintenance and support. Under this model, the retailer will control 100% of the advertising time on the *INEO Welcoming Pedestal.*

In the case of channel partnerships, such as Prosegur, the partner will fund all hardware and installation costs and the retailer will receive the *Welcoming Pedestal* free of charge. INEO will receive a SaaS fee for the delivery of ads to the digital screens, and for providing ongoing maintenance and support. Under this model, the retailer will control 100% of the advertising time on the *INEO Welcoming Pedestal*, selling the available advertising space to their vendors within their co-op marketing programs or utilizing the advertising space for their own services and products.

***Acquisitions***

Acquisitions have been a source of revenue, customers, and cash flow for the Company. INEO initially focused on acquiring a customer base in western Canada through the acquisitions of Provent Technology and Newman Loss Prevention Systems. These two tuck-in acquisitions provided the Company with retail customers for its initial testing and roll-out of the liquor store network of over 140 stores. INEO built its manufacturing capabilities and expertise through the acquisition of 3-Axis Manufacturing. On January 20, 2022, the Company acquired a US-based e-commerce company, Securitytags.com, to further expand its customer base. Through this acquisition, the Company has gained a customer base in the US through which to expand its network.

***Patents and Intellectual Property***

On January 15, 2018, the Company was granted Canadian patent 2,936,044, entitled "COMBINATION MEDIA DISPLAY AND ELECTRONIC ARTICLE SURVEILLANCE PEDESTAL", (the "Flashgate Patent"). The Flashgate Patent has a term of 20 years. The filing for the Canadian patent was done as a *Patent Cooperation Treaty* ("PCT") filing.

On April 23, 2020, the Company confirmed the United States Patent and Trademark Office ("USPTO") had granted Patent no. US 10,614,691, entitled "COMBINATION MEDIA DISPLAY AND ELECTRONIC ARTICLE SURVEILLANCE PEDESTAL" to INEO.

One August 3, 2022, the Company is granted Patent Protecting the INEO Welcoming System's Technology in Europe. Receiving this patent in Europe is a significant milestone for INEO as we continue to expand our reach into new global markets. With large industry players interested in our technology, this patent gives significant protection against any of our competitors coming out with similar technology in the European market.

The Company has also applied for additional patents including a patent for its Welcoming Gate system and a patent filing for its dual screen DUO Welcoming System. Both of these patent filings were done in Canada as a PCT filing.

**Significant Historical Events and Milestones**

On July 15, 2020, the Company launched and announced the commercial availability of the industry's first wireless INEO *Welcoming System*, which significantly simplified the installation process, reducing in-store installation time from over four hours down to less than one hour. The new wireless enabled INEO Welcoming System allows INEO to swap out and replace the retailers' legacy loss prevention systems with minimal disruption to store operations.

On January 7, 2021, the Company signed a Letter of Intent ("LOI") with Prosegur to distribute and expand INEO's *Media Network* in Prosegur's retail customers in North America, Latin America and Europe. Under the terms of the LOI, INEO grants Prosegur non-exclusive global distribution rights to secure, place and expand the INEO *Media Network* within Prosegur's retail customers.

On March 10, 2021, the Company closed its upsized best efforts marketed public offering (the "Public Offering") for aggregate proceeds of $7,003,638, resulting in issuance of 19,454,550 units at a price of $0.36 per unit (each a "Unit") consisting of one common share (a "Share") of the Company and one half of one Share purchase warrant (a "Warrant"). Each Warrant will be exercisable to a share of the Company for a period of 24 months following the closing of the offering.

On September 16, 2021, the Company began trading on the OTCQB Venture Market under the ticker symbol **"INEOF".** The OTCQB Venture Market, operated by OTC Markets Group Inc., is designed for early stage and developing U.S. and international companies to gain exposure to a wider network of investors.

On November 2, 2021, the Company signed a global agreement with Prosegur to manufacture, distribute and expand INEO's *Media Network*. Under the terms of the Agreement, Prosegur is granted distribution rights to sell, secure, place and expand the patented INEO *Media Network* under their own brand, Prosegur EVO ("EVO").

On November 23, 2021, the Company unveiled the INEO Welcoming G.A.T.E. pedestal designed to be a companion product within the patented INEO Welcoming System. The INEO Welcoming G.A.T.E. works in tandem with the INEO Welcoming Pedestal to provide loss prevention capabilities, video capture of loss prevention alarm events, and delivery of robust traffic analytics data.

On January 20, 2022, the Company acquired the assets of E-Commerce company, Securitytags.com from Vittage PTY Ltd., a leading Australian-based provider of Electronic Article Surveillance (EAS) anti-theft products for retailers. Under the terms of the purchase agreement, INEO has acquire the Securitytags.com domain name, website, inventory, customer list and social media accounts.

On March 30, 2022, the Company unveiled the INEO Media Player, the Company's next-generation Digital Out-Of-Home (DOOH) advertising system designed to be a companion product within the patented INEO Welcoming System. The INEO Media Player works in tandem with the INEO Welcoming Pedestal to provide another level of digital advertising within retail stores.

On April 6, 2022, INEO applied for an additional patent related to its INEO Welcoming Gate. The patent further increases the scope of the Company's patent portfolio to protect the INEO *Media Network.*

On June 7, 2022, INEO confirms a Strategic Advertisement Partnership with Western Media Group. This new partnership with Western Media will provide a large boost to our ad sales efforts. Western Media has already sold placements on the INEO Media Network to well respected national and regional brands. Working side by side with Western Media this will be a strong catalyst for the growth of INEO's advertising revenue.

On June 22, 2022, the Company launched its dual screen Welcoming System product. This results from a number of requests to provide a version that has a digital display screen on each side. The INEO Welcoming System Duo utilizes the same technology the Company has originally designed for the INEO Welcoming System.

On July 26, 2022, the Company signed a Programmatic Partnership with Broadsign. This new programmatic advertising partnership with Broadsign solidifies INEO's position as a solutions provider in the DOOH advertising market focused on the retail segment.

On August 18, 2022, the Company signed a Strategic Partnership with Adapt Media. Partnering with Adapt Media is a major advancement for INEO's advertising pipeline due to Adapt's presence in the Toronto area and their strong national footprint. With Adapt Media's assistance, INEO will gain access to increased national advertising campaigns and a broader range of potential customers.

On October 19, 2022, INEO filed for a design patent in Canada for its INEO Welcoming Gate system, a companion system to the INEO Welcoming Pedestal. This patent has now been extended with a global priority filing to include the United States and Europe.

On November 17, 2022, the Company completed its Public Offering of units and Private Placement of units, and notes for total proceeds of C$2.74 million. The Offering was completed by way of a short-form prospectus filed in each of the Provinces of Canada. The Company intends to use the net proceeds from the Offering for the manufacturing and deployment of the INEO Welcoming System to existing and future customers, as well as for working capital and general corporate purposes.

December 30, 2022, INEO announced the addition of Eugene Syho to its board of directors and Audit Committee. Mr. Syho brings a wealth of finance, technology and public company experience to the Board of INEO. In conjunction with adding Eugene, the Company accept the resignation of Serge Gattesco from the INEO Board.

**Events subsequent to December 31, 2022**

On January 11, 2023, INEO debuted the first RFID (Radio Frequency Identification) enabled version of INEO's Welcoming System at the National Retail Federation's "NRF 2023 – Retail's Big Show. INEO was showcased at the Prosegur Security booth was a demo of the new system was on display. With RFID enabled systems not only do retailers know an item is being stolen, they also know exactly which item is being stolen.

On February 8, 2023, INEO added the Welcoming Greeter to its suite of retail Media Network products for retailers. The Welcoming Greeter is a stand-alone pedestal-based advertising display which delivers expanded messaging and increased advertising capabilities for retailers. INEO is now position with the most complete and comprehensive suite of Retail Media Network products for retailers, with systems build for every part of the retail store.

On February 22, 2023, the Company announced it has successfully completed installations in over 50 retail stores located in New York City, San Francisco, Los Angeles and cities in nine additional states including Tennessee, New Jersey, Pennsylvania, New Hampshire, Massachusetts, North Carolina, Virginia, Washington and Florida.

## OPERATIONAL HIGHLIGHTS

The following table highlights operational information for the quarter ended December 31, 2022 and 2021 and has been derived from the financial statements and should be read in conjunction with these statements and related notes.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **31-Dec-22** | 31-Dec-21 | **31-Dec-22** | 31-Dec-21 |
| Sales | **$ 386,425** | $ 256,987 | **$ 802,511** | $ 495,658 |
| Cost of Sales | **(205,215)** | (162,691) | **(413,655)** | (306,970) |
| Gross Profit | **181,210** | 94,296 | **$388,856** | $188,688 |
| Profit Margin | **46.89%** | 36.69% | **48.45%** | 38.07% |
| | | | | |
| Total Expenses | **(1,129,765)** | (859,950) | **(1,934,589)** | (1,689,898) |
| Other Income (Expenses) | **(33,152)** | 3,878 | **(26,588)** | 7,967 |
| Net loss and comprehensive loss | **(981,707)** | (761,776) | **(1,572,321)** | (1,493,242) |
| Basic and diluted loss per share | **(0.01)** | (0.01) | **(0.02)** | (0.02) |
| Weighted average number of common shares outstanding (basic and diluted) | **67,820,107** | 60,170,462 | **64,005,122** | 60,158,115 |
| EBITDA [(1):] | **$ (856,281)** | $ (669,711) | **$ (1,368,567)** | $ (583,969) |

[1] See section below Reconciliation of Net Loss to Adjusted EBITDA

The Company generated revenue of $386,425 for the quarter ended December 31, 2022, representing an increase of 50.4% compared to revenue of $256,987 for the quarter ended December 31, 2021. The Company attributes this continued growth to an increase in sales of additional loss prevention products as retailers continue putting the uncertainty of COVID-19 behind them and continue investing in their businesses again plus the start of revenue generation from advertising on the INEO *Media Network*. The combination of more customers, more screens available to advertisers, and more customers ordering more products resulted in a continued solid uplift versus the prior year's quarter.

The Company generated Gross Profit of $181,210 for the quarter ended December 31, 2022, representing an increase of 92.2% compared to gross profit of $94,296 for the quarter ended December 31, 2021. The Company attributes this growth to the higher margin contributed by increasing sales of INEO loss prevention products.

The Company generated Gross Margin of 46.9% for the quarter ended December 31, 2022, compared to Gross Margin of 36.7% for the quarter ended December 31, 2021.

Total Expenses increased 31.4% to $1,129,765 for the quarter ended December 31, 2022, compared to $859,950 for the quarter ended December 31, 2021. Total expenses are consistent with management expectations.

### Reconciliation of Net Loss to Adjusted EBITDA

Management uses Adjusted EBITDA as a supplemental measure of operating results and believes that this measure provides useful supplemental information to investors. Readers are cautioned that EBITDA (earnings before interest, taxes, depreciation and amortization), does not have standardized meanings prescribed by IFRS and is considered a non-IFRS measure. EBITDA is a useful supplemental measure of the Company's performance prior to consideration of how operations are financed or how results are taxed or how depreciation and amortization affects results. EBITDA is not intended to represent net earnings calculated in accordance with IFRS.

Adjusted EBITDA for the quarter and six months ended December 31, 2022 and December 31, 2021 was as follows:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **31-Dec-22** | 31-Dec-21 | **31-Dec-22** | 31-Dec-21 |
| Net loss for the period | **$ (981,707)** | $ (761,776) | **$ (1,572,321)** | $ (731,466) |
| Amortization | **56,211** | 39,477 | **99,941** | 36,850 |
| Interest expense | **27,672** | 6,907 | **35,027** | 6,769 |
| Stock Compensation | **41,543** | 45,682 | **68,786** | 103,878 |
| Adjusted EBITDA | **$ (856,281)** | $ (669,711) | **$ (1,368,567)** | $ (583,969) |

## OUTLOOK

The overall outlook for INEO remains positive. The Company is now actively deploying systems and ramping up its installation locations with contracted customers across North America. INEO is landing wins with large retailers, expanding its location footprint and ramping up its revenues. In particular, the Company is making significant progress with a major retail partner in the United States with systems having been installed across eight states in the eastern part of the United States. The Company is planning on expanding to retail locations across the western United States with this major retail partner in the coming months.

INEO's key objectives for fiscal 2023 are as follows:

- Increase revenues through the deployment of systems to INEO's two leading retail customers.
- Expand the INEO Media Network, in key geographical markets across North America and Central America
- Support Prosegur with its growth and initiatives with key retailers across the globe, including converting large retail customers from trialing the Welcoming System to fully contracted customer roll-outs.

INEO's technology has been proven out and has been validated by a global partnership with Prosegur. INEO has created a healthy sales pipeline consisting of both direct sales customers and Prosegur's customers, including grocery, home hardware, apparel and wholesale club retail chains from North America, Central and South America and Europe. INEO has seeded the market with trial systems and expects to convert these trials into full scale roll-outs in the coming quarters.

As retailers continue to invest in retail tech for improving the customer experience, advertising and analytics are becoming increasingly important in the modern retail environment. INEO is well positioned to take advantage of these trends with market leading technology and programmatic advertising partners which will enhance the Company's future growth. INEO's current focus is to continue to accelerate its customer deployments to a create critical mass of systems on the INEO Media Network.

Despite the current challenging macroeconomic environment INEO is experiencing an increase in its sales activity leading to increased quarterly revenue over the past year. We look forward to announcing new customer wins in the coming quarters leading to substantial expansion of INEO's Media Network.

## DISCUSSION OF OPERATIONS

### Sales

The following table summarizes sales information for the years ended December 31, 2022 and 2021 has been derived from the financial statements and should be read in conjunction with these statements and related notes. INEO operations consist of adverting from INEO *Media Network* Installations and Loss Prevention operations. Sales, Cost of sales and Gross Profit, from INEO operations, primarily relate to Loss Prevention Operations.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **31-Dec-22** | 31-Dec-21 | **31-Dec-22** | 31-Dec-21 |
| INEO Operations | **$ 350,220** | $ 226,740 | **$ 739,077** | $ 445,150 |
| Fabrication Operations | **36,205** | 30,247 | **63,434** | 50,508 |
| **TOTAL SALES** | **$ 386,425** | $ 256,987 | **$ 802,511** | $ 495,658 |

INEO Operations includes SaaS monthly revenue, advertising revenue and loss prevention product revenue. Sales of INEO Operations increased 54.5% to $350,220 for the quarter ended December 31, 2022, compared to sales of $226,740 for the quarter ended December 31, 2022. INEO operations experienced strong sales growth primarily in the sale of Loss Prevention products. Management expects the sales from the Fabrication Operations to remain level as it devotes more and more of its capacity to supporting INEO Operations. All growth investment is in INEO Operations and the continued growth comparisons reflect this effort.

## Gross Profit & Gross Margin

The following table summarizes gross profit & gross margin information for the periods ended December 31, 2022 and 2021 and has been derived from the financial statements and should be read in conjunction with these statements and related notes. INEO Operations consist of advertising from INEO *Media Network* Installations and Loss Prevention operations. Sales, Cost of sales and Gross Profit, from INEO operations, primarily relate to Loss Prevention Operations.

| | **INEO Operations** | | **Fabrication Operations** | |
|---|---|---|---|---|
| | **For the three months ended** | | **For the three months ended** | |
| | **31-Dec-22** | 31-Dec-21 | **31-Dec-22** | 31-Dec-21 |
| Sales | **$ 350,220** | $ 226,740 | **$ 36,205** | $ 30,247 |
| Cost of Sales | **(189,081)** | (160,132) | **(16,134)** | (17,286) |
| Gross Profit | **$161,139** | $66,608 | **$20,071** | $12,961 |
| Gross Margin | **46.01%** | 29.38% | **55.44%** | 42.85% |
| | **For the six months ended** | | **For the six months ended** | |
| | **31-Dec-22** | 31-Dec-21 | **31-Dec-22** | 31-Dec-21 |
| Sales | **$ 739,077** | $ 445,150 | **$ 63,434** | $ 50,508 |
| Cost of Sales | **(381,401)** | (269,598) | **(32,254)** | (37,372) |
| Gross Profit | 357,676 | 175,552 | 31,180 | 13,136 |
| Gross Margin | **48.39%** | 39.44% | **49.15%** | 26.01% |

INEO Operations generated Gross Profit of $161,139 for the quarter ended December 31, 2022, representing an increase 141.9% compared to Gross Profit of $66,608 for the quarter ended December 31, 2021. The Company attributes this increase in gross profit to higher revenues primarily in the sale of Loss Prevention products.

Fabrication Operations generated Gross Profit of $20,071 for the quarter ended December 31, 2022, compared to Gross Profit of $12,961 for the quarter ended December 31, 2021. Management expects the Fabrication Operations to remain steady state to slightly down as it devotes more and more of its capacity to supporting INEO Operations.

## Expenses

The following table summarizes general and administrative expenses information for the periods ended December 31, 2022, and 2021 and has been derived from the financial statements and should be read in conjunction with these statements and related notes.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **31-Dec-22** | 31-Dec-21 | **31-Dec-22** | 31-Dec-21 |
| Accounting and legal | **$ 46,557** | $ 58,272 | **$ 87,682** | $ 136,081 |
| Management fees | **-** | 15,000 | **-** | 30,000 |
| Bad debt | **-** | - | **-** | 3,486 |
| Amortization and depreciation | **56,211** | 39,477 | **99,941** | 76,327 |
| Office expenses | **72,618** | 76,594 | **137,593** | 110,861 |
| Insurance | **9,313** | 7,196 | **16,950** | 14,311 |
| Lease interest | **2,657** | 3,540 | **5,547** | 7,281 |
| Remuneration and benefits | **277,352** | 118,842 | **431,288** | 253,049 |
| Stock-based compensation | **17,453** | 28,840 | **32,516** | 64,187 |
| Rent | **9,325** | 11,307 | **19,056** | 20,505 |
| **TOTAL GENERAL AND ADMINISTRATIVE EXPENSES** | **$ 491,486** | $ 359,067 | **$ 830,573** | $ 716,088 |

Total General and Admin Expenses ("G&A") increased by 36.9% to $491,486 for the quarter ended December 31, 2022, compared to $359,067 for the quarter ended December 31, 2021. G&A Expenses continue to track as management expects.

## Loss and comprehensive Loss

Loss and comprehensive loss for the quarter ended December 31, 2022 was $981,707 or $0.01 per share compared to net loss of $761,776 or $0.01 per share for the quarter ended December 31, 2021. The Company had a great loss in 2022 due to increased costs associated with adding additional head count and further marketing initiatives.

## Cash

As at December 31, 2022 the Company had $2,346,017 of cash, compared to $1,706,048 of cash at June 30, 2022.

*Operating activities*

Cash used in operating activities amounted to $1,448,606 (2021 -$1,340,842) primarily operating expenses related to remuneration and benefits and costs associated with procurement of inventory.

*Investing activities*

Cash used in investing activities amounted to $226,424 (2021 – $201,247) primarily capital expenditures attributable to the manufacturing and expansion of the INEO *Media Network* deployed to various stores.

*Financing activities*

Cash provided by financing activities amounted to $2,315,039 (used in 2021 - $3,908).

**Receivables**

The following table summarizes the Company's accounts receivables as at December 31, 2022 and June 30, 2022 and has been derived from the financial statements and should be read in conjunction with these statements and related notes.

| | | **Balance as at 31-Dec-22** | | Balance as at 30-Jun-22 |
|---|---|---|---|---|
| Accounts receivable (net) | **$** | **403,435** | $ | 205,068 |
| **TOTAL RECEIVABLES** | **$** | **403,435** | $ | 205,068 |

Receivables increased as a result of increased sales for Loss Prevention products.

**Inventory**
Inventory of finished goods held by the Company as at December 31, 2022 was $326,181 (June 30, 2022 $155,013). Finished goods inventory consists of Electronic Article Surveillance products held for resale. Increased inventory results from increased demand for Loss Prevention products. INEO has not made a provision for the write down of inventory as the Company expects to sell all inventory on hand.

**Prepaid expenses**

As at December 31, 2022 and June 30, 2022, the Company's prepaids amounted to $49,043 and $254,456 respectively. The decrease relates to inventory received from suppliers that was prepaid for prior to year- end.

**Accounts payable and other current liabilities**

The following table summarizes the Company's accounts payables as at December 31, 2022 and June 30, 2022 and has been derived from the financial statements and should be read in conjunction with these statements and related notes.

| | | **Balance as at 31-Dec-22** | | Balance as at 30-Jun-22 |
|---|---|---|---|---|
| Trade payables and accrued liabilities | **$** | **555,553** | $ | 481,269 |
| Loans Payable and accrued interest | | **189,274** | | 168,750 |
| Government Grant | | **120,000** | | 111,382 |
| **TOTAL ACCOUNTS PAYABLE and OTHER CURRENT LIABILITIES** | **$** | **864,827** | $ | 761,401 |

**Loans Payable**

One related party loan for $100,000 and accrued interest at 12.5%, taken out on December 16, 2016 and has a balance of $175,000 as at December 31, 2022 (June 30, 2022 – $168,750).

### Notes Payable

As part of the financing completed on November 17, 2022, INEO obtained an Unsecured Promissory Note of $1,000,000 from Odyssey Trust Company, at an interest rate of 12.0%, interest accrued and paid semi-annually and will mature three years after the date of issue. . In connection with the note, the Company issued 1,428,571 bonus shares with a fair value of $0.14 per unit. The shares issued were considered as debt issuance cost resulting to a discount and amortized using the effective interest method over the credit term of three (3) years. During the period ended December 31, 2022, the Company incurred $20,159 in interest expense (December 31, 2021 – $Nil).

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes quarterly results information for the previous 8 quarters up to and including the last three months ended December 31, 2022 and has been derived from the financial statements and should be read in conjunction with these statements and related notes.

| SUMMARY OF QUARTERLY RESULTS | Q2<br>31-Dec-22 | Q1<br>30-Sep-22 | Q4<br>30-Jun-22 | Q3<br>30-Mar-22 |
|---|---|---|---|---|
| Total Revenues, including interest income | $ 386,425 | $ 416,086 | $ 413,869 | $ 335,568 |
| Loss and comprehensive loss | (981,707) | (590,614) | (1,025,475) | (773,982) |
| Basic and diluted loss per common share | (0.01) | (0.01) | (0.02) | (0.01) |
| | **Q2**<br>**31-Dec-21** | **Q1**<br>**30-Sep-21** | **Q4**<br>**30-Jun-21** | **Q3**<br>**31-Mar-21** |
| Total Revenues, including interest income | $ 256,987 | $ 238,671 | $ 214,253 | $ 195,518 |
| Net Loss | (761,776) | (731,466) | (782,115) | (576,400) |
| Basic and diluted loss per common share | (0.01) | (0.01) | (0.05) | (0.01) |

INEO continues to experience strong sales during the fiscal year compared to 2022. INEO's revenue growth is primarily a result of increased sale of Loss Prevention products.

## LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, the Company had not achieved profitable operations and had an accumulated deficit since inception of $13,486,157. During the quarter ended December 31, 2022, the Company had a net loss of $981,707 and spent $1,448,606 of cash on operating activities. The Company expects to incur further losses in the development of its business, all of which indicate the existence of a material uncertainty that may cast doubt upon the Company's ability to continue as a going concern and, therefore, its ability to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to develop and/or acquire business projects and to meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

To date, the Company has relied on equity and debt financing to fund its operations and acquisitions. Upon completion of the RTO transaction on January 24, 2020, the Company was able to raise $2,816,974 which is being used to fund its continued growth and to build a critical mass on its INEO *Media Network*.

On March 10, 2021, the Company closed a brokered short-form prospectus offering (the 'offering'), resulting in issuance of 19,454,550 units at a price of $0.36 per unit for aggregate proceeds of $7,003,638.

On November 17, 2022, the Company closed a brokered short-form prospectus offering (the 'offering'), resulting in issuance of 14,525,000 units at a price of $0.12 per unit for aggregate proceeds of $1,743,000. As part of the Offering the Company completed a non-brokered private placement of unsecured promissory note with Pathfinder Asset Management Limited. The Company issued 1,428,571 bonus shares to the purchaser of the promissory note with a fair value of $0.14 per unit.

## TRANSACTIONS WITH RELATED PARTIES AND KEY MANAGEMENT

### Key Management Compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executives and corporate officers.

Related party transactions are in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Amounts due to or from related parties are non-interest bearing and unsecured, unless specified.

The following table summarizes related party & management compensation for the periods ended December 31, 2022, and 2021 has been derived from the financial statements and should be read in conjunction with these statements and related notes.

As at December 31, 2022, the Company has $1,498 due to officers of the Company (June 30, 2022 - $1,595).

| | **For the three months ended** | | **For the six months ended** | |
|---|---|---|---|---|
| | **31-Dec-22** | 31-Dec-21 | **31-Dec-22** | 31-Dec-21 |
| Accounting fees | **$ -** | $ 9,000 | **$ -** | $ 12,541 |
| Management fees | - | 15,000 | - | 30,000 |
| Remuneration and benefits | **231,924** | 94,226 | **333,039** | 188,451 |
| Stock-based compensation | **12,182** | 32,119 | **25,071** | 49,788 |
| **TOTAL RELATED PARTY & MANAGEMENT COMPENSATION** | **$ 244,106** | $ 126,345 | **$ 358,110** | $ 238,239 |

During the period ended December 31, 2022, and 2021, the Company had the following transactions with related parties:

- Remuneration and benefits consist of $137,500 paid to the President, Director and Corporate Secretary (2021 - $94,226), $144,231 paid to the CEO (2021- $94,226) and $51,308 paid to the CFO (2021 - $Nil).
- Stock-based compensation consists of $6,612 to the President, Director and Corporate Secretary (2021 – $12,149), $6,612 to the CEO (2021 – $12,149), $1,763 to Steve Matyas (2021 – $3,240),

$3,803 to Serge Gattesco (2021 – $4,308), $5,621 to Dave Jaworski (2021 – $10,252), $Nil to Zara Kanji, CFO (2021 - $7,689) and $660 to Bernie Ryle, CFO (2021 - $Nil).

Under the terms of their management agreements, the Chief Executive Officer and President of the Company are entitled to 24 months of base pay in the event of their agreements being terminated without cause.

## COMMITMENTS & CONTRACTS

*Surrey Warehouse*

On March 6, 2020, the Company through its subsidiary, INEO Solutions Inc, entered into a 5-year lease agreement for leased premises (3,360 sq. ft.) in Surrey, British Columbia, commencing April 1, 2020 and ending on March 31, 2025. The minimum base rent is $11.75 per sq. ft. per month with escalation rate of $0.25 per sq. ft. per month per annum. In accordance with IFRS 16, the Company recognized right-of-use asset of $155,260 as at April 1, 2020 equal to the present value of all remaining lease payments. The Company depreciates the right-of-use assets on a straight-line basis, over the remaining lease term.

Consequently, the Company recognized a lease liability equal to the present value of the lease payments to be made over the lease term, using the borrowing rate on the Company's existing loans. As at December 31, 2022, the balance of the lease liability – current is $33,756 and lease liability – non-current is $46,145.

## SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

For a description of significant accounting policies, please refer to the Company's Financial statements for the periods ended December 31, 2022 and 2021.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any material off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

The Company has no further proposed transactions as of reporting date other than those previously disclosed in this document.

## DIRECTORS

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

Current Directors and Officers of the Company are as follows:

- Greg Watkin, President, Chairman and Corporate Secretary
- Kyle Hall, Chief Executive Officer, Director
- Steve Matyas, Director
- Dave Jaworski, Director
- Eugene Syho, Director
- Bernie Ryle, Chief Financial Officer

## FINANCIAL RISK MANAGEMENT

### Fair value risk

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, due to related parties and loans payable.
Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: Inputs that are not based on observable market data.

As at December 31, 2022, the Company had the following financial instruments categorized based on the level of hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **As at December 31, 2022** | | | | |
| Cash | 2,346,017 | - | - | 2,346,017 |
| Accounts receivable | - | 403,435 | - | 403,435 |
| Accounts payable and accrued liabilities | - | 555,553 | - | 555,553 |
| Due to related parties | - | 1,498 | - | 1,498 |
| Government Grants | - | 120,000 | - | 120,000 |
| Loan payable | - | 175,000 | - | 175,000 |
| Notes payable | - | 805,885 | - | 805,885 |
| **As at June 30, 2022** | | | | |
| Cash | 1,706,048 | - | - | 1,706,048 |
| Accounts receivable | - | 205,068 | - | 205,068 |
| Accounts payable and accrued liabilities | - | 481,269 | - | 481,269 |
| Due to related parties | - | 1,595 | - | 1,595 |
| Government Grants | - | 111,382 | - | 111,382 |
| Loan Payable | - | 168,750 | - | 168,750 |

Accounts receivable, accounts payable and accrued liabilities and due to related party approximate their fair value due to their short-term maturities. Cash under the fair value hierarchy are based on Level 1 quoted prices in active markets for identical assets or liabilities. The fair value of the loans payable also approximates carrying value.

**Market risk**

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises nine types of risk: currency risk, interest rate risk and price risk and are disclosed as follows:

**i. Currency risk**

Currency risk is the risk of change in profit or loss that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company has only a nominal amount of assets or liabilities denominated in foreign currencies and engaged in very few transactions denominated in a foreign currency; therefore, its exposure to currency risk is limited.

**ii. Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company continues monitoring its exposure to the prime and it is comfortable to this exposure given the relative low fluctuation of the bank interest rates in Canada and fluctuations will have a nominal impact to the Company's financial results.

**iii. Price risk**

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market.

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

All the Company's cash is held through Canadian chartered banks and accordingly, the Company's exposure to credit risk is limited. The Company's GST recoverable are refunds due from the Government of Canada and the exposure to credit risk on these amounts are considered to be limited.

The Company's accounts receivable consists of amounts due from various customers. The maximum exposure to credit risk is equal to the carrying value of accounts receivable. The business models of the Company's respective segments require analysis of credit risk specific to each business line. The Company's historic rate of bad debts is low.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all accounts receivable. To measure the expected credit losses, accounts receivable is assessed primarily on days past due combined with the Company's knowledge of past bad debts. During the period ended December 31, 2022, bad and doubtful debts expense for the Company was $Nil (2021 - $3,486).

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At December 31, 2022, the Company has a cash balance of $2,346,017 (June 30, 2022 – $1,706,048) and current liabilities balance of $900,081 (June 30, 2022 – $794,312). The Company manages its liquidity risk by attempting to maintain sufficient cash balances to enable settlement of transactions on the due date. As the Company has limited sources of revenue, it may require additional financing to accomplish its long-term strategic objectives.

## CAPITAL STOCK

The authorized capital of the Company consists of an unlimited number of common shares without par value.

As at December 31, 2022, the Company has 76,143,709 common shares, 4,275,863 stock options and 19,395,729 warrants issued and outstanding (June 30, 2022 – 60,190,138 common shares, 4,350,863 stock options and 11,209,508 share warrants).

As at the date of this report, the Company has 76,143,709 common shares, 4,275,863 stock options and 19,395,729 warrants issued and outstanding.

### Options

On January 24, 2020, pursuant to the RTO, the Company granted 175,863 options to stockholders of INEO in exchange of the existing INEO options held by said shareholders. Each option is exercisable to acquire one common share at a price of $0.089. The stock options shall vest based on the terms of the options replaced which are 25% on January 5, 2019, 25% on January 5, 2020, 25% on January 5, 2021, and 25% on January 5, 2022. These options have an expiry date of January 23, 2023.

On April 15, 2020, the Company granted 2,750,000 options to directors, officers and employees of the Company with an exercise price of $0.26 per share. The Company also granted 500,000 options to a consultant with an exercise price of $0.35 per share. The stock options shall vest on the basis of 25% on April 15, 2021, 25% on April 15, 2022, 25% on April 15, 2023, and 25% on April 15, 2024. On October 17, 2020 and May 19, 2021, 300,000 stock options from this issuance were forfeited.

On August 18, 2020, the Company granted 200,000 options to a director of the Company with an exercise price of $0.26 per share. The Options shall vest on the basis of twenty-five percent (25%) on August 18, 2021, twenty-five percent (25%) on August 18, 2022, twenty-five percent (25%) on August 18, 2023 and twenty percent (25%) on August 18, 2024

On October 18, 2020, the Company granted 175,000 stock options to employees with an exercise price of $0.26 per share. The stock options shall vest on the basis of 25% on October 18, 2021, 25% on October 18, 2022, 25% on October 18, 2023 and 25% on October 18, 2024.

On June 18, 2021, the Company granted 725,000 stock options to directors, offices and employees of the Company with an exercise price of $0.26 per share. The stock options shall vest on the basis of 25% on June 18, 2022, 25% on June 18, 2023, 25% on June 18, 2024 and 25% on June 18, 2025.

On July 26, 2021 the Company granted 250,000 stock options to an employee with an exercise price of $0.26 per share. The stock options shall vest on the basis of 25% July 26, 2022, 25% on July 26, 2023, 25% on July 26, 2024 and 25% on July 26, 2025.

On October 25, 2021 the Company granted 225,000 stock options to employees with an exercise price of $0.26 per share. The stock options shall vest on the basis of 25% October 25, 2022, 25% on October 25, 2023, 25% on October 25, 2024 and 25% on October 25, 2025

Stock Options shall expire at the end of the term of the Company Stock Option Plan or 90 days after the Optionee is no longer a director, employee or contractor of the Company, whichever comes first. As at the date of this report 2,050,863 options are exercisable (June 30, 2022 – 1,807,113).

**Warrants**

On January 24, 2020, the Company issued 262,181 warrants valued at $4,262 in connection with the RTO. The warrants have an exercise price of $0.35 and expire on January 23, 2022. The fair value of the warrants granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions: volatility rate of 100%, risk-free rate of 1.49%, dividend yield of 0% and weighted average life of 2 years. The fair value of the share warrants is recorded as share issuance costs charged against share capital. On November 8, 2021, 4,500 options were exercised and on November 11, 202. a further 39,870 options were exercised. A total of 196,854 expired in December 2021.

On March 16, 10,479 warrants issued on January 24, 2020, were exercised for $0.35. On November 8, 2021, an additional 4,500 were exercised for $0.35 and on November 10, 2021, 39,870 were exercised for $0.35.

On February 15, 2021, the Company issued 1,482,233 broker warrants valued at $190,421 in connection with the upsized public offering. The warrants have an exercise price of $0.36 and expire on March 10, 2023. The fair value of the warrants granted were estimated on their dates of issue using the Black-Scholes option pricing model and the following assumptions: volatility rate of 57.98%, risk-free rate of 0.19%, dividend yield of 0% and weighted average life of 2 years. The fair value of the share warrants is recorded as share issuance costs and charged against share capital.

On March 10, 2021, the Company issued 9,727,274 common share purchase warrants in connection with the upsized Public Offering. Each warrant entitles the registered holder to acquire one Warrant Share until March 10, 2023, at a price of $0.55 per Warrant Share. The fair value of the warrants granted were estimated on their date of issue using the Black-Scholes option pricing model and the following assumptions: volatility rate of 30%, risk-free rate of 0.19%, weighted average life of 2 years. Using these inputs, the common share purchase warrants were valued at $0.02 per warrant. The fair value of the share purchase warrants is recorded as warrant reserve.

On November 17, 2022, the Company issued 7,262,500 common share purchase warrants in connection with the upsized Public Offering. Each warrant entitles the registered holder to acquire one Warrant Share until November 17, 2025, at a price of $0.19 per Warrant Share. All the common share purchase warrants vested immediately. The warrants were allocated a value of $nil using the residual value allocation method.

On November 17, 2022, the Company issued 923,721 broker warrants as finder's fee for the short-form prospectus offering. Each broker warrant entitles the holder to acquire one common share of the Company for an exercise price of $0.12 for a period of 36 months. All the broker warrants vested immediately. The broker warrants were valued at $36,958 using Black Scholes option pricing model with the following assumptions: volatility rate of 30%, risk-free rate of 0.19%, weighted average life of 3 years.

## RISKS AND UNCERTAINTIES

The Company's management believes that the following risks are among the most important in order to understand the issues that face its financial performance, business and its approach to risk management. The risks presented below may not be all of the risks that the Company may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. The market in which the Company currently competes is competitive and can change rapidly. Sometimes new risks emerge, and management may not be able to predict all of them or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. You should not rely upon forward-looking statements as a prediction of future results.

### Limited Operating History

INEO Solutions began carrying on business in 2016 and to date, has generated all revenue from its legacy businesses. The Company, is therefore subject to many of the risks common to early-stage enterprises, including under- capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

### Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees such as Greg Watkin and Kyle Hall, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

### Factors which may Prevent Realization of Growth Targets

The Company is currently in the early development stage. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- non-performance by third party contractors;
- developing technology is subject to change;
- competition;
- inability to acquire sufficient financing to fund operations;
- cyber-attacks on the Company's operating systems;
- loss of intellectual property rights on its proprietary software;
- increases in materials or labor costs;
- foreign exchange risks and currency fluctuation;

- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labor disputes, disruptions or declines in productivity;
- inability to defend and costs in defending potential breaches of intellectual property rights;
- inability to attract sufficient numbers of qualified workers; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

As a result, there is a risk that the Company may not have product or sufficient product to meet the anticipated demand or to meet future demand when it arises.

**Additional Financing**

In order to execute further growth strategy, the Company may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. the Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

**Inability to achieve or obtain profitability**

The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, it will not be profitable.

**Competition**

Numerous factors will affect the Company's competitive position, including price. Other companies may decide to enter the space and could have substantially greater financial, marketing and other resources. Several of these companies may have greater name recognition and well-established relationships with some of the Company's target customers. Furthermore, these potential competitors may be able to adopt more aggressive pricing policies and offer more attractive terms to customers than the Company is able to offer. The Company may face increasing price pressure from competitors and customers. In addition, current and potential competitors have established or may establish cooperative relationships amongst themselves or with third parties to compete more effectively. Existing and potential competitors may also develop enhancements to, or future generations of, competitive products and services that will have better performance features than the Company's system.

It is possible that the Company will face additional competition from new entrants. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and customer support. the Company may not have sufficient resources to maintain research and development, marketing, sales and customer support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

**Dependence on Personnel**

Due to the technical nature of its business and the dynamic market in which the Company competes, its success depends on its ability to attract and retain highly skilled developers, technology, engineering, managerial, marketing and sales personnel. In particular, the Company's future success depends in part on the continued services of each of its current executive officers and other key employees. Competition for qualified personnel in the technology space is intense. Management believes that there are only a limited number of persons with the requisite skills to serve in many key positions and it is difficult to hire and retain these persons. The loss of one or more of these key personnel may have a significant adverse effect on the Company's sales, operations, technological development and profits.

**Difficulty to Forecast**

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

**Variable Revenues / Earnings**

The revenues and earnings of the Company may fluctuate from quarter to quarter, which could affect the market price of the Company's Common Shares. Revenues and earnings may vary quarter to quarter as a result of a number of factors, including the timing of releases of new products or services, the timing of substantial sales orders or deliveries, activities of the Company's competitors, cyclical fluctuations related to the evolution of technology, possible delays in the manufacture or shipment of current or new products, concentration in the Company's customer base, and possible delays or shortages in component supplies.

**Suppliers**

The Company has relationships with suppliers and service providers upon which it depends to provide critical components for its products and services. In the event that the Company is unable to maintain these relationships or establish relationships with new suppliers or service providers as required, the availability, pricing and quality of its products and services may be adversely affected causing an adverse effect on the Company's business, operating results and financial condition. Relationships with third-party suppliers and service providers expose the Company to risks associated with the integrity, quality, reputation, solvency and performance of such parties.

**Operating Risk and Insurance Coverage**

The Company has insurance to protect its assets, operations and employees. While Management believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company may be exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If they were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if it were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

**Management of Growth**

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**Conflicts of Interest**

Certain of the proposed directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

**Privacy**

The Company may be subject to scrutiny and regulation from legislative bodies with regards to the information that is collected within its systems. To reduce this risk, the Company has taken a proactive approach to consumer and data privacy with its "Transparent Privacy Philosophy" that clearly spells out what is done with personal information:

- The Company does not sell, trade or give away your personal data. That includes your name, address, cell-phone information, credit cards, facial recognition or other biometric imprints.
- The Company anonymizes any limited data it collects. That means, no matter what, anyone who gets our data when you enter or leave a store won't be able to tie it to any person.
- The Company uses our anonymized data to try and build insights into how people shop, how stores operate and what both parties in that equation might want. But we stick to our promise to keep individual identities totally private.
- The Company adheres to the legislative standards of the privacy acts in all jurisdictions in Canada:
    a. British Columbia - *Personal Information Protection Act.*
    b. Alberta - *Personal Information Protection Act.*
    c. Quebec - *The Privacy Act*
    d. Canadian *Personal Information Protection and Electronic Documents Act* (PIPEDA) for all other jurisdictions in Canada

- The Company follows the foundational principles of *Privacy by Design*, the Canada-made data privacy protocols set out by former Ontario Privacy Minister Anne Cavoukian, Ph.D.
- When you contact or enter into a discussion with the Company your identity and what you discuss will always be held in complete confidence, following all the above standards.
- the Company constantly seeks to be on the forefront of progressive privacy policies. And we will be transparent about where we sit on this important and evolving public interest issue.
- Your privacy matters to you. And that means it matters to the Company.

**Litigation**

The Company may become party to litigation from time to time in the ordinary course of business, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

**The market price of the Company's Common Shares may be subject to wide price fluctuations**

The market price of the Company's Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time-to-time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Company's Common Shares.

**Dividends**

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

**Limited Market for Securities**

Upon completion of the Acquisition, the Company's Common Shares will be listed on the Exchange, however, there can be no assurance that an active and liquid market for the Common Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

**Technology**

The Company operates in a highly competitive environment where its hardware and other products and services are subject to rapid technological change and evolving industry standards. the Company future success depends on its ability to design and produce new products and services, deliver enhancements to its existing products and services, accurately predict and anticipate evolving technology and respond to technological advances in its industry and its customers' increasingly sophisticated needs. the Company's products embody complex technology that may not meet those standards, changes and preferences. If the Company is unable to respond to technological changes, fails or delays to develop products in a timely and cost-effective manner, its products and services may become obsolete, and the Company may be unable to recover its research and development expenses which could negatively impact sales, profitability and the continued viability of the business.

**Intellectual Property**

In spite of the patent on the Company's proprietary technology, unauthorized parties may attempt to copy aspects of its products or to obtain information that is proprietary. Policing unauthorized use of proprietary technology, if required, may be difficult, time-consuming and costly. If a third-party misappropriates the Company's intellectual property, the Company may be unable to enforce its rights. If the Company is unable to protect its intellectual property against unauthorized use by others, it could have an adverse effect on its competitive position. the Company may be challenged by allegations of its infringement of the intellectual property of others. There is no assurance that the Company will be successful in defending such claims and, if it is unsuccessful, there is no assurance that the Company will be successful in obtaining a license for the intellectual property in question. Intellectual property claims are expensive and time consuming to defend and, even if they are without merit, may cause delay in the introduction of new products or services. In addition, the Company's managerial resources could be diverted in order to defend its rights, which could disrupt its operations.

**Proprietary Protection**

The Company's success will depend, in part, on its ability to enforce patent rights, maintain the confidentiality of trade secrets and unpatented know-how, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent the Company's rights. the Company relies on a combination of patented technology, contract, copyright, trademark and trade secret laws, confidentiality procedures and other measures to protect its proprietary information. There can be no assurance that the steps taken will prevent misappropriation of the Company's proprietary rights. The Resulting Issue's competitors could also independently develop technology similar to its technology. Although the Company does not believe that its products or services infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against us, or that any such assertions or prosecutions will not materially adversely affect our business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defense thereof, which could have a material adverse effect on its business.

**Liability Claims**

The Company may be subject to claims arising from the use of its products and services. the Company's products are complex and sophisticated and, from time to time, may contain design defects that are difficult to detect and correct. There can be no assurance that errors will not be found in the Company's products or, if discovered, that we will be able to successfully correct such errors in a timely manner or at all. Correcting such errors and failures could require significant expenditure of capital. The sale and support of the Company's products and services may entail the risk of substantial product liability or warranty claims in the event of errors or failures. A product liability claim could adversely impact the Resulting Issue's business due to the cost of settlements and due to the costs of defending such claims.

**Credit Concentration and Credit Risk**

The Company intends to provide credit to its customers in the normal course of operations. Credit risk arises from the potential that a customer or counterparty will fail to meet its contractual obligations. the Company is exposed to credit risk from its customers on its trade receivables and unbilled revenue. Accounts receivable include amounts due from its retail customers, which exposes the Company to risk of non-payment. the Company estimates probable losses on a continuing basis and records a provision for such losses based on the estimated realizable value. Although the Company will attempt to manage its credit risk exposure, there is no assurance that this provision will be adequate.

**Foreign Exchange**

As Management anticipates that the Company's business will expand with increased global sales, it is expected that it may be necessary to transact sales in foreign currencies other than Canadian dollars, thus exposing the Company to foreign currency risk.

**General Economic Conditions**

The Company's results could be adversely affected by changing economic conditions in the countries in which it operates. The market turmoil and tightening of credit in the United States and Europe in 2008 and 2009 led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, cuts in government spending, increased market volatility and widespread reduction of business activity generally. There can be no guarantees that the countries in which the Company operates will not experience similar economic conditions, and to the extent such markets experience an economic deterioration, the resulting economic pressure on the Company's customers may cause them to end their relationship with the Company, reduce or postpone current or expected purchase orders for its products, or suffer from business failure, resulting in a decline in our revenues and profitability that could be material. Continued difficult or uncertain economic conditions could adversely affect the Company's revenue and profitability.

**Market Demand for the Product and Services**

The Company's success is dependent on its ability to market its products and services. There is no guarantee that its products and services will remain competitive. There is no guarantee the Company will be able to respond to market demands. If the Company is unable to effectively develop and expand the market for its products and services, its growth may be adversely affected.

**Stock Price Volatility**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It may be anticipated that any quoted market for the Common Shares will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's securities will be affected by such volatility. the Company's stock price may also experience significant fluctuations due to operating performance, performance relative to analysts' estimates, disposition or acquisition by a large shareholder, a lawsuit against the Company, the loss or acquisition of a significant customer or distributor, industry-wide factors and factors other than the operating performance of the Company. These factors, among others, may cause decreases in the value of the Company's Common Shares.

**Government Regulations**

Although Management believes that the Company has obtained the necessary approvals for the products that it currently sells, it may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change, or the Company may not be able to obtain regulatory approvals from countries in which it may desire to sell products in the future. the Company may be required to incur additional costs in order to comply with foreign and state government regulations as it might pertain to certain issues concerning compliance with local regulations governing its devices, content, privacy, taxation and other considerations.

**Industry Growth**

There can be no assurance that the Company's targeted vertical and geographic markets will grow, or that the Company will be successful in establishing ourselves in new vertical and geographic markets. If the various markets in which its products compete fail to grow, or grow more slowly than is currently anticipated, or if the Company is unable to establish itself in new markets, its growth plans could be materially adversely affected.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. the Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they become due. the Company facilitates this in part by maintaining a line of credit with a major Canadian bank.

**Accounting Estimates**

The Company prepares its financial statements in Canadian dollars in accordance with International Financial Reporting Standards ("**IFRS**"). Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses for each year presented. The significant estimates include testing for impairment of goodwill and provision for warranty. Changes in estimates and assumptions will occur based on the passage of time and the occurrence of certain events.

**Internal Controls**

Internal controls over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. However, the system of internal controls over financial reporting is not guaranteed to provide absolute assurance with regard to the reliability of financial reporting and financial statements.

**Public Health Crisis**

The Company's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises. In December 2019, novel coronavirus ("COVID-19") surfaced in Wuhan, China. The World Health Organization declared a global emergency on

January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout the world. The escalating cases of COVID-19 in Canada and the United States, caused companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Such public health crises can result in volatility and disruptions in global supply chains, business operation and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect, interest rates, credit ratings, credit risk and inflation. The risks to the Company of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak, labor shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). At this point, the extent to which COVID-19 may impact the Company is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business and financial condition. If the Company is unable to mitigate the impacts of the COVID-19 outbreak on its operations, they may be unable to fulfill their product delivery obligations to customers, their costs may increase, and their revenues and margins could decrease.

**Capital Management**

The Company considers its capital structure to include net residual equity of all assets, less liabilities. The Company's objectives when managing capital are to (i) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern; (ii) maintain a capital structure that allows the Company to pursue the development of its projects and products; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk.

The Company's financial strategy is formulated and adapted according of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or acquire or dispose of assets.