



## **AirIQ Inc.**

# **Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months and Nine Months ended December 31, 2020**

The following management's discussion and analysis of the consolidated results of operations and financial condition of AirIQ Inc. ("AirIQ" or the "Company") is made as of February 10, 2021 and should be read in conjunction with the consolidated financial statements as at and for the years ended March 31, 2020 and March 31, 2019 and accompanying notes. The accompanying consolidated condensed interim financial statements of AirIQ have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated condensed interim financial statements and this management's discussion and analysis have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.

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

The accompanying consolidated condensed interim statements of comprehensive income are presented for the three months and nine months ended December 31, 2020 and include the operating results of AirIQ Inc. and its wholly-owned subsidiaries.

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

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

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

## **FORWARD-LOOKING STATEMENTS**

Management's discussion and analysis contains forward-looking information based on management's best estimates and the current operating environment. These forward-looking statements are related to, but not limited to, AirIQ's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "goal", "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. These statements are based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including AirIQ's perception of historical trends, current conditions and expected future developments as well as other factors management believes are appropriate in the circumstances. Such forward-looking statements are as of the date which such statement is made and are subject to a number of

known and unknown risks, uncertainties and other factors, which could cause actual results or events to differ materially from future results expressed, anticipated or implied by such forward-looking statements. Such factors include, but are not limited to, changes in market and competition, technological and competitive developments and potential downturns in economic conditions generally, including, without limitation, the impact on local and global markets of epidemic or pandemic diseases, including the current novel coronavirus disease known as COVID-19. Therefore, actual outcomes may differ materially from those expressed in such forward-looking statements. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. Other than as may be required by law, AirIQ disclaims any intention or obligation to update or revise any such forward-looking statements, whether as a result of such information, future events or otherwise.

## **COMPANY OVERVIEW**

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

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

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

## **BUSINESS REVIEW**

The Company is focusing its efforts and resources on revenue growth and profitability by continuing to offer leading-edge technology solutions for existing and new customers. We continue to focus on recurring revenues, gross profits and improving cash-flows to build a sustainable business, and managing the effects of COVID-19.

*Third Quarter Highlights (for the three months ended December 31, 2020 compared to the three months ended December 31, 2019)*

- Recurring revenue increase of 11% or \$81 to \$823 from \$742
- Hardware and other revenue decrease of 37% or \$45 to \$77 from \$122
- Total revenue increase of 4% or \$36 to \$900 from \$864
- Gross profit increase of 13% or \$71 to \$635 from \$564
- Gross margin increase of 6% to 71% from 65%
- Operating profits increase of 16% or \$28 to \$199 from \$171
- Net income increase of 15% or \$9 to \$71 from \$62
- Cash balance increase of 5% or \$90 to \$1,910 from \$1,820
- Working capital increase of 6% or \$122 to \$2,149 from \$2,027 (Working capital is defined as total current assets, less total current liabilities, excluding deferred revenue and lease obligation. Deferred revenues, and lease obligations are non-cash items.)

### *Normal Course Issuer Bid*

The Company filed a Notice of Intention to Make a Normal Course Issuer Bid (the “Bid”) with the TSX Venture Exchange (“TSXV”) commencing March 27, 2020 and ending on March 26, 2021. Pursuant to the Bid, the Company proposed to purchase through the facilities of the TSXV up to 1,491,447 common shares, representing approximately 5% of the then issued and outstanding common shares of the Company. The Company’s broker for the Bid is Hampton Securities Limited.

During the three months ended December 31, 2020, the Company purchased 123,000 common shares under the Bid for a total of \$41 or \$0.335 per common share (three months and nine months ended December 31, 2019 – nil common shares were purchased), plus an additional \$1 in broker fees were paid for the repurchase of the shares (December 31, 2019 - \$nil). See *Subsequent Events* below.

### *Subsequent Events*

#### Normal Course Issuer Bid

Subsequent to the quarter end, the Company repurchased for cancellation an additional 107,000 common shares pursuant to the Company’s normal course issuer bid described above. The repurchase price per share was an average of \$0.3326 per share for an aggregate consideration paid of approximately \$36 plus a broker fee in the aggregate of \$1.

#### Stock Option Plan

Subsequent to the quarter end, on January 20, 2021, options for a total of 101,077 common shares in the capital of the Company were exercised for an aggregate consideration of \$10, and 101,077 common shares were issued from treasury.

As of February 10, 2021, the Company has a total of 29,700,024 common shares issued and outstanding.

## **RESULTS OF OPERATIONS**

### *Revenues*

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

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

Total revenue for the three months ended December 31, 2020, increased 4% to \$900 from \$864 for the three months ended December 31, 2019. Total revenue for the nine months ended December 31, 2020, decreased 32% to \$2,759 from \$4,048 for the nine months ended December 31, 2019. The impact of the change in the U.S. to CAD dollar exchange rate was not material.

### *Recurring Revenues*

Recurring revenue from service contracts of \$823 represents an increase of 11% or \$81 compared to \$742 for the three months ended December 31, 2019; and \$2,387 for the nine months ended December 31, 2020, representing an increase of 8% or \$183 compared to \$2,204 for the nine months ended December 31, 2019.

Recurring revenue represented 91% and 87%, respectively, of total revenue for the three months and nine months ended December 31, 2020 compared to 86% and 54%, respectively of total revenue for the three months and nine months ended December 31, 2019.

### *Hardware and Other Revenues*

Included in the Company's revenues are:

- Sales of hardware units associated with service contracts of approximately \$22 and \$75, respectively, during the three months and nine months ended December 31, 2020, compared to \$41 and \$1,629, respectively, during the three months and nine months ended December 31, 2019.
- Sales of units that were sold without a fixed term service contract of approximately \$55 and \$292, respectively, during the three months and nine months ended December 31, 2020 compared to \$79 and \$192, respectively, for the three months and nine months ended December 31, 2019, respectively.
- Miscellaneous parts, repair, warranty and lost unit sales of approximately \$nil and \$5, respectively, during the three months and nine months ended December 31, 2020, compared to \$2 and \$23, respectively, for the three months and nine months ended December 31, 2019.

### *Gross Profit*

Overall, gross profit increased by 13% or \$71 to \$635 for the three months ended December 31, 2020 compared to \$564 for the three months ended December 31, 2019; and by 7% or \$138 to \$1,867 for the nine months ended December 31, 2020 compared to \$2,005 for the nine months ended December 31, 2019.

Gross margin as a percentage of revenues of 71% and 68%, respectively, for the three and nine months ended December 31, 2020, increased compared to 65% and 50%, respectively, for the same periods in the prior year.

Equipment gross profits decreased by approximately 1300% or \$13 to (\$14) during the three months ended December 31, 2020 from (\$1) for the three months ended December 31, 2019; and decreased by approximately (108%) or \$341 to (\$26) during the nine months ended December 31, 2020 from \$315 for the nine months ended December 31, 2019.

Service contract gross profits increased by approximately 15% and 12%, respectively, or \$84 and \$203, respectively to \$649 and \$1,893, respectively, for the three months and nine months ended December 31, 2020 from \$565 and \$1,690, respectively, for the three months and nine months ended December 31, 2019.

### *Expenses and Other Items*

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

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

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

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

Sales and marketing, research and development and general and administrative expenses totalled \$436 and \$1,120, respectively, for the three months and nine months ended December 31, 2020 compared to \$393 and \$1,222, respectively, for the three months and nine months ended December 31, 2019.

The Company recognized certain government grants in the three months and nine months ended December 31, 2020. Government grants are recognized in the accompanying consolidated condensed interim statements of

income and comprehensive income as an offset against expenses for which they were intended to subsidize. Grants recognized within the period included the *Canada Emergency Wage Subsidy* and the *Canada Emergency Business Account* loan. Details are provided in “*Impact of COVID-19*” below.

Overall, these expenses increased by \$43 for the three months and decreased by \$102 for the nine months ended December 31, 2020 when compared to the three months and nine months ended December 31, 2019, primarily due to reductions in wage and related expenses resulting from the Company’s application for assistance under the *Canada Emergency Wage Subsidy* discussed in the “*Impact of COVID-19*” below.

Expense increases for the three months ended December 31, 2020 when compared to the three months ended December 31, 2019 occurred in the following areas: (a) wage and related expenses of \$23, (b) consulting expenses of \$7, (c) computer operating expenses of \$5, (d) legal fees, audit and tax expenses of \$2, (e) public reporting expenses of \$1, and (f) other expense of \$7. These increases were offset by a decrease in: (a) commercial, officer and director insurance expenses of \$1, and (b) rent and maintenance expenses of \$1.

Expense decreases for the nine months ended December 31, 2020 when compared to the nine months ended December 31, 2019 occurred in the following areas: (a) wage and related expenses of \$88, (b) computer operating expenses of \$16, (c) commercial, officer and director insurance expenses of \$4, (d) rent and maintenance expenses of \$4, and (e) other expense of \$8. These decreases were offset by an increase in: (a) consulting expenses of \$16, and (b) public reporting expenses of \$2.

#### *Interest and Other Financing Charges*

Net interest expense for the three months and nine months ended December 31, 2020 was \$1 and \$4, respectively, compared to \$2 and \$6, respectively, for the three months and nine months ended December 31, 2019.

Interest charges include cash payments of \$nil and \$nil related to the credit facility from the Royal Bank of Canada for the three months and nine months ended December 31, 2020, respectively (three months and nine months ended December 31, 2019 - \$nil and \$nil, respectively).

Net interest income for the three months and nine months ended December 31, 2020 was \$1 and \$6, respectively, compared to \$6 and \$8, respectively, for the three months and nine months ended December 31, 2019.

#### *Depreciation and Amortization*

Amortization for the three months and nine months ended December 31, 2020 was \$79 and \$235, respectively, compared with \$73 and \$250, respectively, for the three months and nine months ended December 31, 2019. The decrease year over year included a one-time expense in the prior year of \$35 in connection with the settlement of all Earn-out payments due pursuant to the Connected Telematics asset purchase agreement. (see *Commitments and Contingencies – Connected Telematics Asset Purchase* below.)

#### *Foreign Exchange*

For the three months and nine months ended December 31, 2020, the Company recorded a foreign exchange loss of \$47 and \$88, respectively compared to a loss of \$36 and a loss of \$57, respectively, for the three months and nine months ended December 31, 2019.

#### *Stock Based Compensation*

For the three months and nine months ended December 31, 2020, the Company recorded a stock-based compensation expense of \$2 and \$7, respectively, compared to \$4 and \$15, respectively, for the three months and nine months ended December 31, 2019.

### *Net Income*

The Company generated net income for the three months and nine months ended December 31, 2020 of \$71 and \$419, respectively or \$nil and \$0.01 per share, respectively, compared to net income of \$62 and \$463, respectively or \$0.01 and \$0.02 per share, respectively, for the three months and nine months ended December 31, 2019; an increase of \$9 or 15% for the three months and a decrease of \$44 or 10% for the nine months.

The increase in net income for the three months ended December 31, 2020 when compared to the three months ended December 31, 2019 can be attributed to: (a) an increase in gross profits of \$71 (see *Gross Profit* above), and (b) a decrease in stock based compensation of approximately \$2 (see *Stock Based Compensation* above). These increases were offset by: (a) an increase in foreign exchange loss of approximately \$11 (see *Foreign Exchange* above), (b) a net increase in interest expense of approximately \$4 (see *Interest and Other Financing Charges* above), (c) an increase in amortization of approximately \$6 (see *Depreciation and Amortization* above), and (d) an expense decrease of approximately \$43 (see *Expenses and Other Items* above),

The decrease in net income for the nine months ended December 31, 2020 when compared to the nine months ended December 31, 2019 can be attributed to: (a) a decrease in gross profits of \$138 (see *Gross Profit* above), and (b) an increase in foreign exchange loss of approximately \$31 (see *Foreign Exchange* above). These decreases were offset by: (i) an expense decrease of approximately \$102 (see *Expenses and Other Items* above), (ii) a decrease in amortization of approximately \$15 (see *Depreciation and Amortization* above), and (iii) a decrease in stock based compensation of approximately \$8 (see *Stock Based Compensation* above).

## Summary of Quarterly Results

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

<b>For the three months ended</b>	<b>31-Dec-2020</b>	<b>30-Sep-2020</b>	<b>30-June-2020</b>	<b>31-Mar-2020</b>
Recurring revenues	<b>\$823</b>	\$787	\$777	\$740
Hardware and other revenues	<b>\$77</b>	\$159	\$136	\$252
Total revenues	<b>\$900</b>	\$946	\$913	\$992
Gross profit	<b>\$635</b>	\$632	\$600	\$552
Gross profit margin %	<b>71%</b>	67%	66%	56%
Expenses <sup>(1)</sup>	<b>\$436</b>	\$368	\$316	\$428
Operating profit <sup>(2)</sup>	<b>\$199</b>	\$264	\$284	\$124
Other expenses <sup>(3)</sup>	<b>\$128</b>	\$97	\$103	(\$126)
Total net income (loss)	<b>\$71</b>	\$167	\$181	\$250
Income per share, basic and diluted <sup>(4)</sup>	<b>\$0.00</b>	\$0.00	\$0.01	\$0.00

<b>For the three months ended</b>	<b>31-Dec-2019</b>	<b>30-Sep-2019</b>	<b>30-June-2019</b>	<b>31-Mar-2019</b>
Recurring revenues	\$742	\$762	\$700	\$676
Hardware and other revenues	\$122	\$658	\$1,064	\$393
Total revenues	\$864	\$1,420	\$1,764	\$1,069
Gross profit	\$564	\$706	\$735	\$553
Gross profit margin %	65%	50%	42%	52%
Expenses <sup>(1)</sup>	\$393	\$404	\$425	\$426
Operating profit <sup>(2)</sup>	\$171	\$302	\$310	\$127
Other expenses <sup>(3)</sup>	\$109	\$62	\$149	\$92
Total net income (loss)	\$62	\$240	\$161	\$35
Income per share, basic and diluted <sup>(4)</sup>	\$0.01	\$0.00	\$0.01	\$0.00

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

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

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

(4) Represents earnings per share for year to date income.

## IMPACT OF COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (“COVID-19”) a “Public Health Emergency of International Concern” and, on March 11, 2020, declared COVID-19 a pandemic. This resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the effectiveness of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

As an organization, AirIQ acted quickly to adopt processes and protocols that have allowed us to adapt to the current environment by putting in place measures to safeguard our employees by enabling work-from-home

policies and systems; focusing on the operational integrity of our business, promptly identifying operational efficiencies, actively managing short and long-term expenses; and mobilizing quickly to provide uninterrupted services to our customers so they may continue to manage and monitor their mobile assets.

Canada Emergency Wage Subsidy (“CEWS”)

In April 2020, the Government of Canada enacted the *Canada Emergency Wage Subsidy* (“CEWS”) to assist businesses during COVID-19 by allowing qualifying businesses to recover up to 75% of certain wages paid to employees. The Company has applied for approximately \$162 in wage subsidies under CEWS and, as at December 31, 2020, has an amount receivable related to CEWS of \$nil, which is included in trade and other receivables.

The CEWS wage benefits received by the Company were applied to the consolidated condensed interim statements of income as a reduction against the following expenses:

	Three Months Ended		Nine Months Ended	
	December 31st		December 31st	
	2020	2019	2020	2019
	\$	\$	\$	\$
Sales and marketing	—	—	84	—
Research and development	—	—	30	—
General and administration	—	—	48	—
	—	—	162	—

As per the CEWS program, the wage subsidy is based on future revenues and as a result the Company is unable to estimate the future amount of subsidies it will qualify for under the program.

Canada Emergency Business Account “CEBA”

On September 2, 2020, the Company obtained \$40 in revolving credit from the Government of Canada under the Canada Emergency Business Account (“CEBA”) COVID-19 Economic Response Plan. The funding is granted in the form of an interest-free revolving credit line of which up to \$40 may be drawn. On January 1, 2021, any balance remaining on the revolving credit line will automatically convert to a non-revolving term loan. Effective January 1, 2023, any outstanding balance on the term loan shall bear interest at a rate of 5% per annum. The term loan matures on December 31, 2025. If 75% of the outstanding balance of the non-revolving term loan is repaid on or before December 31, 2022, the remaining 25% of the balance shall be forgiven. The Company has drawn the full \$40 available under the CEBA program.

The Company will continue to monitor its eligibility under the CEWS and CEBA programs as well as any other programs offering assistance during COVID-19.

At this point, management cannot reasonably estimate the duration, complexity, or severity of this pandemic, which could have a material adverse impact on the Company’s business, results of operations, financial position, liquidity and cash flows. Possible effects may include, without limitation, a decline in sales and resulting revenues, the unavailability or delay in shipment of hardware and equipment used in operations, loss of customers due to financial hardship and business closures, and the inability to recover payment receivables and increased bad debt.

**LIQUIDITY AND CAPITAL RESOURCES**

*Operating activities*

The Company generated approximately \$118 and \$169, respectively, cash from operating activities during the three months and nine months ended December 31, 2020; \$184 and \$753, respectively, generated from operations and \$66 and \$584, respectively, used from working capital. This compares with cash generated of



approximately \$107 and \$1,444, respectively, from operating activities during the three months and nine months ended December 31, 2019; \$174 and \$806 generated from operations and \$67 used and \$638 generated, respectively, from working capital.

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

Deferred revenue totaled \$478 as at December 31, 2020 and \$915 as at December 31, 2019.

As at December 31, 2020, the Company had cash on hand of \$1,910 and positive working capital of \$2,149. Working capital is defined as total current assets, excluding current costs of deferred revenues, less total current liabilities, excluding deferred revenue and lease obligations. Costs of deferred revenues, deferred revenues and lease obligations are non-cash items.

#### *Investing activities*

Investing activities related to additions to software, rental units and property, plant and equipment for the three months and nine months ended December 31, 2020 totaled approximately \$151 and \$449, respectively, of cash used compared with approximately \$97 and \$321, respectively, of cash used for the three months and nine months ended December 31, 2019. The Company spent approximately \$221 on software development related to the integration of new hardware onto its existing platform, upgrade of customer interfaces and development of new solution features during nine months ended December 31, 2020 (nine months ended December 31, 2019 - \$220).

#### *Financing activities*

##### Credit Facility

The Company has a \$750 revolving demand facility with Royal Bank of Canada (“RBC”). The credit facility is a standard operating line with certain covenants, including a first priority general security over the Company’s assets. As at December 31, 2020, \$nil (December 31, 2019 - \$nil) has been drawn from this demand credit facility. The Company paid RBC a total of approximately \$nil and \$nil, respectively, related to interest on the credit facility during the three month and nine month periods ended December 31, 2020, (three months and nine months ended December 31, 2019 - \$nil and \$nil), which is included in interest expense in the accompanying consolidated condensed interim statement of income.

##### Canada Emergency Business Account

On September 2, 2020, the Company obtained \$40 in revolving credit from the Government of Canada under the *Canada Emergency Business Account* (“CEBA”) COVID-19 Economic Response Plan. Refer to “*Impact of COVID-19*” above.

As of February 10, 2021, AirIQ has a total of 29,700,024 common shares issued and outstanding. (See *Normal Course Issuer Bid* and *Subsequent Events* above)

## Contractual Obligations

### December 31, 2020: Payments due by period

	Total	2021	2022	2023	2024	2025
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	519	519	—	—	—	—
Operating leases	91	7	26	29	29	—
	610	526	26	29	29	—

### December 31, 2019: Payments due by period

	Total	2020	2021	2022	2023	2024
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	395	395	—	—	—	—
Operating leases	102	6	20	22	26	28
	497	401	20	22	26	28

## COMMITMENTS AND CONTINGENCIES

### *Commitments*

Total future minimum payments under leases for premises are approximately \$97.

### Connected Telematics Asset Purchase

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

On August 13, 2019, the Company entered into an early discounted agreement with 2448609 Ontario Corp. (formerly Connected Telematics Corp.) in connection with the final settlement of all Earn-Out payments due pursuant to the asset purchase agreement. A settlement amount of \$35 was mutually agreed upon based on the First Earn-Out amount calculated in December 2018, discounted in consideration of early payment, in full satisfaction of both the Second Earn-Out and Third Earn-Out payments and any and all future amounts due pursuant to the asset purchase agreement. A total of approximately \$31 was paid to 2448609 Ontario Corp. representing the settlement amount less permitted set-offs under the asset purchase agreement. The final settlement expense was recognized as depreciation and amortization expense.

As at December 31, 2020, no Earn-Outs are due or payable (December 31, 2019 - \$nil).

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

#### Leases

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

	Right-of-use Asset	Lease Obligations
	\$	\$
<b>Balance at April 1, 2020</b>	<b>93</b>	<b>97</b>
Additions	—	—
Amortization	(18)	—
Payments	—	(19)
Interest	—	4
<b>Balance at December 31, 2020</b>	<b>75</b>	<b>82</b>
Current	—	22
Non-current	—	60

#### Management Contracts

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

#### Profit-Sharing Plan

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

#### Contingencies

The Company, in the course of its normal operations, is subject to claims, lawsuits, patent infringement claims and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in

instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its consolidated financial position.

## OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## TRANSACTIONS WITH RELATED PARTIES

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

The following is a summary of the Company's related party transactions during the three months and nine months ended December 31, 2020 and December 31, 2019:

### a) Key Management Compensation

Key management personnel compensation is comprised of:

	<b>Three Months Ended December 31, 2020</b>	<b>Three Months Ended December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Salary, consulting fees and benefits	<b>67</b>	60
Share-based payments	—	1
	<b>67</b>	<b>61</b>

During the three month and nine month periods ended December 31, 2020, \$8 and \$26, respectively, was expensed for directors' fees and stock-based compensation (three months and nine months ended December 31, 2019 - \$3 and \$11, respectively).

AirIQ owed a company controlled by a former director \$36 at December 31, 2020 (December 31, 2019 - \$36) which is included in accounts payable and accrued liabilities. AirIQ is also owed \$36 from the related company of the former director and/or its controlling shareholder at December 31, 2020 (December 31, 2019 - \$36) which is included in trade and other receivables. These amounts are unsecured, non-interest bearing and due on demand.

## OUTSTANDING SECURITIES DATA

	<b>Authorized</b>	<b>Issued and Outstanding as at 31-Dec-2020</b>	<b>Issued and Outstanding as at 10-Feb-2021</b>
Common shares	unlimited	<b>29,705,947</b>	29,700,024
Warrants	n/a	—	—
Stock options	n/a	<b>2,196,127</b>	2,095,050

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated condensed interim financial statements and the reported amounts of revenue and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Critical accounting estimates are reviewed quarterly by the Audit Committee of the Board of Directors. Management's judgment is applied to the following areas: income taxes, share-based payment transactions, warranty provisions, asset impairments, useful lives of depreciable assets, net realizable value of inventory, fair value of assets acquired in business combinations, revenue recognition, legal claim and contingency provisions.

### *Income, value added, withholding and other taxes*

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

### *Share-based payment transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, forfeiture rate and dividend yield and making assumptions about them.

### *Warranty*

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

### *Judgement in determining asset acquisition vs. business combination*

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

### *Recognition and valuation of deferred taxes*

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

### *Impairment*

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

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

### *Useful lives of depreciable assets*

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

### *Inventory*

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

### *Revenue recognition*

The Company offers certain arrangements whereby a customer can purchase products and services together. Prior to adoption of IFRS 15, the products and related services were not accounted for as separately identifiable components. As a result, revenues received from the sale of a product and service bundle were deferred and recognized over the term of the contract. However, upon adoption of IFRS 15 on April 1, 2018, it was determined that the products and the related services are distinct and should be recognized separately. Where such multiple-element arrangements exist, the amount of revenue allocated to each element is based upon the fair values of the various elements. The fair values of each element are determined based on the current market price of each of the elements when sold separately. When the fair value cannot be determined based on when it was sold separately, the Company uses the residual method to determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

Revenues related to the sale of hardware are recognized at the time of sale, and revenues for monitoring and supporting services are recognized over the term of the contracted service period with amounts prepaid by customers accounted for as deferred revenues.

### *Legal claims and contingencies*

In accordance with IFRS, the Company recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable, and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the consolidated financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the consolidated financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases, following developments in the legal proceedings, and at each reporting date in order to assess the need for provisions and disclosures in its

consolidated financial statements. Among the factors considered in making decisions on provisions are the nature of the litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the consolidated financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

## RECENT ACCOUNTING DEVELOPMENTS

### *Summary of Significant Accounting Policies*

Effective April 1, 2020, the Company adopted new IFRS standards, interpretations, amendments and improvements of existing standards. These included the amendments to IAS 1 and IFRS 3. These new standards and changes did not have any material impact on the Company's unaudited consolidated condensed interim financial statements, and are described as follows:

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

**IFRS 3 – Business Combinations** (“IFRS 3”) was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be substantive, and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

Effective July 1, 2020, the Company adopted IAS 20 in connection with the government grants received in connection with the COVID-19 pandemic.

**IAS 20 – Accounting for Government Grants and Disclosure** - Government grants are recognized when there is reasonable assurance that the grant will be received, and all conditions associated with the grant are met. Claims under government grant programs related to income are recorded as a reduction to the eligible expenses incurred. In the three months and nine months ended December 31, 2020, amounts received from the Government of Canada under the *Canada Emergency Wage Subsidy* (“CEWS”) and the *Canada Emergency Business Account* (“CEBA”) were recognized as government grants. Refer to “*Impact of COVID-19*” above.

### *Standards and Amendments Not Yet Effective*

**IFRS 10 – Consolidated Financial Statements** (“IFRS 10”) and **IAS 28 – Investments in Associates and Joint Ventures** (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

**IAS 37 – Provisions, Contingent Liabilities, and Contingent Assets** (“IAS 37”) was amended. The amendments clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all

costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract. The amendments are effective for annual periods beginning on January 1, 2022.

**IFRS 3 – Business Combinations** (“IFRS 3”) was amended. The amendments introduce new exceptions to the recognition and measurement principles in IFRS 3 to ensure that the update in references to the revised conceptual framework does not change which assets and liabilities qualify for recognition in a business combination. An acquirer should apply the definition of a liability in IAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date. The amendments are effective for annual periods beginning on January 1, 2022.

**IAS 16 – Property, Plant and Equipment** (“IAS 16”) was amended. The amendments introduce new guidance, such that the proceeds from selling items before the related property, plant and equipment is available for its intended use can no longer be deducted from the cost. Instead, such proceeds are to be recognized in profit or loss, together with the costs of producing those items. The amendments are effective for annual periods beginning on January 1, 2022.

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

## **NON-IFRS MEASURES**

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

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company’s financial instruments consist of cash, trade and other receivables, accounts payable and accrued liabilities, promissory notes and obligations under finance lease.

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

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



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

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

Further details related to the Company's financial instruments and risk management approach are set out in Note 3, *Summary of Significant Accounting Policies - Financial Instruments*, to the Company's consolidated financial statements as at and for the years ended March 31, 2020 and March 31, 2019.

## **RISK FACTORS**

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

### *Pandemic Diseases – COVID-19 Response*

The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, border closures, restrictions on non-essential business, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The duration and impact of the COVID-19 outbreak is unknown at this time, as is the effectiveness of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the Company's business, results of operations, financial position, cash flows and liquidity in future periods could be materially and adversely effected in all areas. Possible effects may include, without limitation, a decline in sales and resulting revenues, the unavailability or delay in shipment of hardware and equipment used in operations, loss of customers due to financial hardship and business closures, and the inability to recover payment receivables and increased bad debt. Refer to "*Impact of COVID-19*" above.

### *Lapses in Coverage*

Wireless networks and GPS occasionally suffer lapses in coverage due to obstructions blocking the transmission of data to and from vehicles. Such lapses could make AirIQ's services less reliable and useful, and customer satisfaction could suffer, which may result in loss of customers as well as litigation. AirIQ's financial condition could be seriously harmed if it were to suffer operational or technical failures. If wireless carriers do not expand coverage, AirIQ may be unable to offer its services to additional areas. There are a limited number of wireless carriers offering services compatible with AirIQ's service. AirIQ's existing agreements with wireless carriers may be terminated at the end of their respective contract periods. Termination of a wireless carrier's contract with AirIQ could require AirIQ to incur additional costs relating to obtaining alternative coverage from another wireless carrier outside its primary coverage area or AirIQ may be unable to replace the coverage at all, causing a complete loss of service to AirIQ's customers in such coverage areas. Wireless carriers are continually updating their infrastructure and, in turn, shutting down older, slower networks. The Company's major 3G network provider in the United States has announced the shutdown of their 3G wireless network in February of 2022. The Company is working to transition customers with 3G units

in the U.S. onto the 4G network as quickly as possible, however, the Company expects that some customers will cancel their services with the Company as a result of the sunset, which may in turn have a negative impact on the Company's revenues, gross profits and net income. There can be no assurances that future wireless sunsets will not negatively impact the Company's revenues, profits and income as well.

#### *Financing Requirements*

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

#### *Dependence on Wireless Carriers*

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

#### *Operating Results*

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

#### *Client Concentration; Dependence on Large Projects*

AirIQ has derived, and believes that it will continue to derive, a significant portion of its revenues from a limited number of large client contracts. The loss of any large client could have a material adverse effect on AirIQ's business, financial condition and results of operation. In addition, revenues from a large client may constitute a significant portion of AirIQ's total revenues in a particular quarter. The cancellation or a significant reduction in orders from these clients could have a material adverse effect on AirIQ's business, financial condition and results of operations. In addition, the effects of COVID-19 on the businesses of our current and prospective customers could impact the Company's business, financial condition and results of operations.

#### *Fluctuations in Quarterly Operating Results*

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

- delays in market acceptance or implementation by customers of AirIQ's products or services;
- delays or restrictions in supply of materials
- changes in demand by a customer's customers for existing and additional services;
- changes in or cancellations of AirIQ's agreements with wireless carriers;
- introduction of new products or services by AirIQ or its competitors;
- changes in AirIQ's pricing policies or those of its competitors or suppliers;

- changes in AirIQ's mix of sources of revenues; and
- changes in accounting standards, including standards relating to revenue recognition, business combinations and share-based payments.

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

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

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

*Risk of Infringement*

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

*Product Liability Claims*

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

*Supply Arrangements*

AirIQ has established a number of relationships with major suppliers and service providers for critical components of AirIQ's products and services. AirIQ will continue to seek out similar arrangements in the

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

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

#### *Dependence on Key Personnel*

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

#### *Government Regulations and Standards*

In addition to regulations applicable to businesses in general, AirIQ may also be subject to direct regulation by governmental agencies, including the Canadian Radio-Television and Telecommunications Commission (the "CRTC") in Canada and the FCC and Department of Defense in the United States. These regulations may impose licensing requirements or safety standards with respect to human exposure to electromagnetic radiation and signal leakage. A number of legislative and regulatory proposals under consideration by federal, state, provincial, local and foreign governmental organizations may lead to laws or regulations concerning various aspects of the Internet, wireless communications and GPS technology, including on-line content, user privacy, taxation, access charges and liability for third-party activities. Additionally, it is uncertain how existing laws governing issues such as the use of AirIQ's systems or services by its customers or taxation on the use of wireless networks, intellectual property, libel, user privacy and property ownership, will be applied to AirIQ's services. The adoption of new laws or the application of existing laws may expose AirIQ to significant liabilities, additional operational requirements, or restrictions on the use of AirIQ's system or services, which could decrease the demand for AirIQ's services and increase AirIQ's costs of doing business. Wireless carriers who supply AirIQ with airtime are subject to regulation by CRTC in Canada and by the FCC in the United States and regulations that affect them could also increase AirIQ's costs or limit the provision of AirIQ's services.

#### *Litigation*

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

#### *Management of Growth*

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

### *Global Positioning System Technology*

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

### *System Failure*

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

### *Segregation of Duties*

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

### *Foreign Currency Risk*

The Company is exposed to foreign currency risk as a result of exporting most of its products and services to the United States and selling them in U.S. dollars. The Company's exposure to foreign currency fluctuations is partially hedged by purchasing certain hardware devices, wireless services and supplies in U.S. dollars.

### *Political Uncertainty*

The Company's products are primarily sourced through suppliers in the United States, however many products and/or components are manufactured in China, Taiwan and Malaysia. The current political uncertainty surrounding trade disputes, rising tariffs, COVID-19 and the adoption of protectionist measures could result in increases of the cost of the Company's products, which would have a negative impact on the Company's sales and gross profits. Additionally, there are similar concerns related to the United States-Mexico-Canada (CUSMA) trade agreement.

### *Mergers and Acquisitions*

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

## **DISCLOSURE PROCEDURES AND CONTROLS**

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

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

### **Internal Controls over Financial Reporting**

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

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

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

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

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

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

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