AirIQ

AirIQ Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine Months Ended December 31, 2023

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 21, 2023 and should be read in conjunction with the consolidated financial statements as at and for the years ended March 31, 2023 and March 31, 2022 and accompanying notes. The accompanying consolidated interim financial statements of AirIQ have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated 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 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 interim statements of comprehensive income are presented for the three and nine months ended December 31, 2023 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. 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 1099 Kingston Road, Suite 207, Pickering, Ontario, L1V 1B5, Canada.

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

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

BUSINESS REVIEW

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

Third Quarter Highlights (for the three months ended December 31, 2023 compared to December 31, 2022)

- Recurring revenue of $1,091 increased by 10% or $101 compared to $990 for the prior year.
- Hardware revenue of $108 decreased by 70% or $255 compared to $363 for the prior year.
- Total revenue of $1,199 decreased by 11% or $154 compared to $1,353 for the prior year.
- Gross profit of $769 decreased by 1% or $9 compared to $778 for the prior year.
- EBITDAS of $247 decreased by 17% or $52 compared to $299 for the prior year.
- Investment into sales and marketing continues, increasing sales and marketing spend to $236, an increase of 24% or $46 compared to $190 for the prior year.
- Net income of $135 decreased 18% or $30 compared to $165 for the prior year.
- Cash and cash equivalents balance of $2,986 increased by 46% or $942 compared to $2,044 for the prior year.
- Working capital of $3,573 increased by 25% or $713 compared to $2,860 for the prior year. (Working capital has been calculated by netting current assets, excluding current costs of deferred revenues, and current liabilities, excluding deferred revenue that are non-cash items.)

Normal Course Issuer Bid
On June 27, 2023, the Company filed a Notice of Intention to Make a Normal Course Issuer Bid (the "Bid") to purchase up to 1,468,379 common shares representing 5% of the Company's then current issued and outstanding common shares through the facilities of the TSX Venture Exchange ("TSXV") during the period commencing June 27, 2023 and ending on June 26, 2024. The Company's broker for the bid is Hampton Securities Limited.

During the three and nine months ended December 31, 2023, the Company repurchased for cancellation nil common shares pursuant to the Bid for a total purchase price of approximately $nil, or $nil per share, and paid broker fees of approximately $nil for such repurchase. *Refer to note 11.*

During the three and nine months ended December 31, 2022, the Company repurchased for cancellation 146,000 and 360,500 common shares under an earlier normal course issuer bid filed with the TSXV for a total of $38 and $99, or $0.27 and $0.27, per common share and paid $1 and $1 in broker fees for the repurchase of such shares.

As of February 5, 2023, the Company has a total of 29,517,574 common shares issued and outstanding.

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

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, 2023, decreased 11% to $1,199 from $1,353 for the three months ended December 31, 2022.

Total revenue for the nine months ended December 31, 2023, increased 15% to $4,301 from $3,754 for the nine months ended December 31, 2022.

Recurring Revenues
Recurring revenue from service contracts of $1,091 represents an increase of 10%, compared to $990 for the three months ended December 31, 2022. Recurring revenue represented 91% of total revenue for the three months ended December 31, 2023, compared to 73% of total revenue for the three months ended December 31, 2022.

Recurring revenue from service contracts of $3,271 represents an increase of 13%, compared to $2,900 for the nine months ended December 31, 2022. Recurring revenue represented 76% of total revenue for the nine months ended December 31, 2023, compared to 77% of total revenue for the nine months ended December 31, 2022.

Hardware and Other Revenues
Included in the Company's revenues are:

- Sales of hardware units associated with service contracts of approximately $51 and $847, during the three and nine months ended December 31, 2023, compared to $307 and $676 during the three and nine months ended December 31, 2022.
- Sales of units that were sold without a fixed term service contract of approximately $35 and $118, during the three and nine months ended December 31, 2023, compared to $35 and $126 for the three and nine months ended December 31, 2022.
- Miscellaneous parts, repair, warranty, and lost unit sales of approximately $22 and $65 during the three and nine months ended December 31, 2023, compared to $21 and $52 for the three and nine months ended December 31, 2022.

Gross Profit
Overall, gross profit decreased by 1%, or $9, to $769 for the three months ended December 31, 2023, compared to $778 for the three months ended December 31, 2022.

Gross profit increased by 14%, or $316, to $2,545 for the nine months ended December 31, 2023, compared to $2,229 for the nine months ended December 31, 2022.

Gross margin as a percentage of revenues of 64% and 59% for the three and nine months ended December 31, 2023, a small increase compared to 58% and 59%, in the prior year period.

Equipment gross profits (losses) decreased by approximately 110%, or $84, to $(8) during the three months ended December 31, 2023, from $76 for the three months ended December 31, 2022.

Equipment gross profits increased by approximately 27%, or $42, to $196 during the nine months ended December 31, 2023, from $154 for the nine months ended December 31, 2022.

Service contract gross profits increased by approximately 11% and 13%, or $75 and $274, to $777 and $2,349, for the three and nine months ended December 31, 2023, from $702 and $2,075 for the three and nine months ended December 31, 2022.

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 $522 and $1,544 for the three and nine months ended December 31, 2023, compared to $479 and $1,404 for the three and nine months ended December 31, 2022.

Expense increases for the three months ended December 31, 2023, when compared to the three months ended December 31, 2022 occurred in the following areas: (a) wage and related expenses of $6, (b) computer operating costs of $2, (c) commercial, officer and director insurance of $3, (d) legal and audit fees of $4, (e) bad debt expense of $8, and (f) other expense of $39. These expense increases were offset by decreases in the following areas: (a) consulting costs of $9, (b) rent and maintenance of $8, and (c) public reporting costs of $2.

Expense increases for the nine months ended December 31, 2023, when compared to the nine months ended December 31, 2022 occurred in the following areas: (a) wage and related expenses of $219, (b) computer operating costs of $6, (c) commercial, officer and director insurance of $5, (d) legal and audit costs of $11, and (e) other expense of $69. These expenses increases were offset by decreases in the following areas: (a) consulting costs of $104, and (b) rent and maintenance of $22, and (c) bad debt expense of $44.

Interest and Other Financing Charges
Net interest expense for the three and nine months ended December 31, 2023, was $nil and $nil compared to $nil and $2 for the three and nine months ended December 31, 2022.

Net interest income for the three and nine months ended December 31, 2023 was $29 and $73, compared to $12 and $20 for the three and nine months ended December 31, 2022.

Depreciation and Amortization
Amortization for the three and nine months ended December 31, 2023, was $93 and $277, compared $82 and $242 for the three and nine months ended December 31, 2022.

Foreign Exchange
For the three and nine months ended December 31, 2023, the Company recorded a foreign exchange loss of $17 and $32, respectively, compared to a loss of $37 and gain of $143 for the three and nine months ended December 31, 2022.

Stock Based Compensation
For the three and nine months ended December 31, 2023, the Company recorded a stock-based compensation expense of $24 and $84, compared to $27 and $37 for the three and nine months ended December 31, 2022.

Net Income
The Company generated net income for the three and nine months ended December 31, 2023, of $135 and $666, or $0.01 and $0.02 per share, compared to net income of $165 and $707, or $0.01 and $0.02 per share for the three and nine months ended December 31, 2022.

The decrease in net income for the three months ended December 31, 2023, when compared to the three months ended December 31, 2022, can be attributed to: (a) a decrease in gross profits of $9 (see *Gross Profit* above), (b) an increase in expenses of $43 (see *Expenses* above), (c) an increase in depreciation expense of $11 (see *Depreciation and Amortization* above), and (d) a loss on disposal of rental units of $7. These increases were offset by changes in the following areas: (a) an increase in interest income of $17 (see *Interest Income* above), (b) a decrease in foreign exchange loss of $20 (see *Foreign Exchange* above), and (c) a decrease in stock-based compensation of $3 (see *Stock Based Compensation* above).

The decrease in net income for the nine months ended December 31, 2023, when compared to the nine months ended December 31, 2022, can be attributed to: (a) increase in expenses of $140 (see *Expenses*), (b) an increase in depreciation expense of $35 (see *Depreciation and Amortization*), (c) a foreign exchange loss of $175 (see *Foreign Exchange*), (d) an increase in stock-based compensation of $47 (see *Stock Based Compensation*), and (e) a loss on disposal of rental units of $15. These increases were offset by changes in the following areas: (a) an increase in gross profits of $316 (see *Gross Profit*), (b) an increase in interest income of $53 (see *Interest Income*), and (c) a decrease in interest expense of $2.

Summary of Quarterly Results

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

For the quarter ended	**31-Dec-23**	**30-Sep-23**	**30-Jun-23**	**31-Mar-23**
Recurring revenues	$1,091	$1,080	$1,100	$1,051
Hardware and other revenues	$108	$267	$655	$244
Total revenues	$1,199	$1,347	$1,755	$1,295
Gross profit	$769	$804	$972	$807
Gross profit margin %	64%	60%	55%	62%
Expenses (1)	$522	$526	$496	$481
Operating profit (2)	$247	$278	$476	$326
Other expenses (3)	$112	$96	$127	$170
Deferred tax recovery	—	—	—	$2,830
Total net income (loss)	$135	$182	$349	$2,986
Income per share, basic (4)	$0.02	$0.02	$0.01	$0.13
Income per share, diluted (4)	$0.02	$0.02	$0.01	$0.12

For the quarter ended	**31-Dec-22**	**30-Sep-22**	**30-Jun-22**	**31-Mar-22**
Recurring revenues	$990	$959	$951	$940
Hardware and other revenues	$363	$210	$281	$153
Total revenues	$1,353	$1,169	$1,232	$1,093
Gross profit	$778	$708	$743	$671
Gross profit margin %	58%	61%	60%	61%
Expenses (1)	$479	$482	$443	$495
Operating profit (2)	$299	$226	$300	$176
Other expenses (3)	$134	$(56)	$40	$101
Deferred tax recovery	—	—	—	—
Total net income (loss)	$165	$282	$260	$75
Income per share, basic (4)	$0.01	$0.02	$0.01	$0.02
Income per share, diluted (4)	$0.01	$0.02	$0.01	$0.01

(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.

In thousands of Canadian dollars, except share and per share information 6

LIQUIDITY AND CAPITAL RESOURCES

Operating activities
The Company generated approximately $116 cash from operating activities during the three months ended December 31, 2023; $333 generated from operations and $217 used from working capital. This compares with cash generated of approximately $121 from operating activities during the three months ended December 31, 2022; $340 generated from operations and $219 used from working capital.

For the nine months ended December 31, 2023, the Company generated approximately $1,279 cash from operating activities; $1,258 generated from operations and $21 generated from working capital, compared to $773 from operating activities during the nine months ended December 31, 2022; $1,173 generated from operations and $400 used 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 $746 as at December 31, 2023 and $752 as at December 31, 2022.

As at December 31, 2023, the Company had cash on hand of $2,986 and positive working capital of $3,573. 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 and nine months ended December 31, 2023, totaled approximately $141 and $477 of cash used compared with approximately $142 and $511 of cash used for the three and nine months ended December 31, 2022. The Company spent approximately $65 and $250 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 the three and nine months ended December 31, 2023 (three and nine months ended December 31, 2022 - $65 and $254).

Financing activities
<u>Credit Facility</u>
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, 2023, $nil (December 31, 2022 - $nil) has been drawn from this demand credit facility. The Company paid RBC a total of approximately $nil and $nil related to interest on the credit facility during the three and nine months ended December 31, 2023 (three and nine months ended December 31, 2022 - $nil and $nil), which is included in interest expense in the accompanying consolidated statement of income.

As of February 5, 2024, the Company has a total of 29,517,574 common shares issued and outstanding. (See *Normal Course Issuer Bid* and *Stock Option Plan* above.)

Contractual Obligations

December 31, 2023: Payments due by year	Total $	2023 $	2024 $	2025 $	2026 $	2027 $
Accounts payable and accrued liabilities	**489**	**489**	—	—	—	—
Operating leases	**30**	**6**	**24**		—	—
	519	**495**	**24**	—	—	—

December 31, 2022: Payments due by year	Total $	2022 $	2023 $	2024 $	2025 $	2026 $
Accounts payable and accrued liabilities	917	917	—	—	—	—
Operating leases	35	7	28	—	—	—
	952	**924**	**28**	—	—	—

COMMITMENTS AND CONTINGENCIES

Commitments

Total future minimum payments under leases for premises are approximately $30.

Management Contracts

The Company is party to certain management contracts. The Company has minimum contractual commitments with these contracts of $150, all due within one year. Included is a contractual commitment to pay a consultant $150 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 $150 if both events shall occur simultaneously. The Company has also entered into various contracts with minimum payments of $100 on termination due within one year. 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 subject to meeting certain criteria related to recurring revenue growth and operating profit calculated annually commencing April 1, 2023. 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.

In thousands of Canadian dollars, except share and per share information 8

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 ended December 31, 2023 and December 31, 2022:

a) **Key Management Compensation**

Key management personnel compensation is comprised of:

	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022
	$	$
Salary, consulting fees and benefits	**69**	69
Share-based payments	**18**	—
Directors fees	**12**	8
	99	77

b) Related Party Transactions

During the three and nine months ended December 31, 2023, $30 and $76 was expensed for director fees and stock-based compensation (three and nine months ended December 31, 2022 - $8 and $26).

OUTSTANDING SECURITIES DATA

	Authorized	Issued and Outstanding as at 31-Dec-2023	Issued and Outstanding as at 05-Feb-2024
Common shares	unlimited	**29,517,574**	29,517,574
Warrants	n/a	—	—
Stock options	n/a	**2,540,000**	2,540,000

CRITICAL ACCOUNTING ESTIMATES

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.

In thousands of Canadian dollars, except share and per share information 9

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).

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 in the accompanying consolidated 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 in the accompanying consolidated interim financial statements.

Revenue recognition
The Company offers certain arrangements whereby a customer can purchase products and services together. 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.

Expected credit losses
Determining an allowance for expected credit losses ("ECLs") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management’s judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

RECENT ACCOUNTING DEVELOPMENTS

Summary of Significant Accounting Policies
During the period ended December 31, 2023, the Company adopted the following new IFRS standards, interpretations, amendments and improvements of existing standards. These new standards and changes did not have any material impact on the Company's accompanying consolidated interim financial statements, and are described as follows:

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.

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.

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.

IAS 8 – In February 2021, the IASB issued 'Definition of Accounting Estimates' to help entities distinguish between accounting policies and accounting estimates. The amendments are effective for year ends beginning on or after January 1, 2023.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in January 2020 to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on January 1, 2023.

Standards and Amendments Not Yet Effective
IFRS 10 – Consolidated interim 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.

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, 2023 and March 31, 2022.

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.

Global Semiconductor Chip Crisis
The world is in the midst of an ongoing crisis in which the demand for integrated circuits, commonly known as semiconductor chips, is greater than the supply, which has led to significant delays in product availability from one of the Company's significant suppliers. The cause of the global chip crisis is a combination of different events with the COVID-19 pandemic being the primary reason. The pandemic resulted in a major increase in the demand for these chips as the demand for computer, communication and electronic equipment and devices increased, and supply chains were not prepared to keep up with the demand due to facility shutdowns resulting from COVID-19 lockdowns and outbreaks. This was further compounded by trade sanctions and tariffs, and specifically the China–United States trade war. As a result, the Company is experiencing substantial delays in product supply and current inventories are very low. The Company is currently investigating sources of product from alternative suppliers; however the lack of product supply could have a material effect on the Company's revenues, gross profits and net income, and there can be no assurances that future product shortages will not negatively impact the Company's revenues, profits and income as well.

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. In December of 2021 the Company's major 2G network supplier in Canada was shut down, and the Company's major 3G network provider in the United States announced the shutdown of their 3G wireless network in February of 2022. 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.

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. The global chip shortage described above and other economic factors resulting from the Covid 19 pandemic have resulted in increased costs and expenses related to AirIQ's products and services. The Company continues to source alternative suppliers; however, no assurances can be given that the Company will not experience delays or other difficulties in sourcing sufficient and cost effective 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.sedarplus.ca.