

# Liquid Avatar Technologies Inc.

## MANAGEMENT'S DISCUSSION AND ANALYSIS for the three and six month period ended June 30, 2022

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes thereto for the three and six month period ended June 30, 2022 of Liquid Avatar Technologies Inc. (the "Company"). Such financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All dollar amounts are expressed in Canadian dollars, unless otherwise indicated.

### DATE

This MD&A is prepared as of August 26, 2022.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report contain forward-looking information under applicable Canadian securities legislation that may not be based on historical fact. Such statements reflect management's expectations regarding future events, results of operations, performance and business prospects and opportunities. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future and include certain anticipated progress, costs and anticipated completion and commercial launch dates for the Company's projects, as described under the heading "Description of Business – Discussion of Significant Projects Without Revenue" and the estimated first launch program for Aftermath Islands being by mid-2022. Such statements are subject to risks and uncertainties that may cause actual events, results, performance, or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this report. Assumptions made in regard to progression of the Company's Pre-Revenue Projects include, but are not limited to, product development partners remaining on time and on budget; and technical and network functionality working as anticipated. Cost estimate assumptions under the heading "Description of Business – Discussion of Significant Projects Without Revenue" are based on the previous expense rates that have been incurred in the last quarter for development partners and associated expenses. Timelines under the heading "Description of Business – Discussion of Significant Projects Without Revenue" are based on the best estimates from development partners and the final steps to complete the technical development roadmap. Assumptions made in regard to first launch program for Aftermath Islands include the required operational execution performed by vendors and internal teams will be effective and timely and can result in the program meeting a viable minimum standard without technical, design or other delays.

A number of risks and uncertainties could cause actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) a downturn in general economic conditions, (2) delays in technology development, (3) industry competition, (4) the uncertainty of market acceptance, (5) potential negative financial impact from regulatory investigations, claims, lawsuits and other legal proceedings and challenges, (6) inability to finance, and (7) other factors beyond the control of the Company, including the risks set out under the heading "Risk Factors" below. Material risks to the achieving the cost assumptions and timelines under the heading "Description of Business – Discussion of Pre-Revenue Project Status" include scope and or cost overruns with development partners; and delays or functional network challenges that may delay or frustrate a pilot, leading to additional development costs to address the challenge and additional costs to run another pilot, and the resulting additional time to do so, leading to timing expectations being missed. Material risks to the achieving a first launch program for Aftermath Islands include the risk that development activities will require more iterations than expected, vendors will be delayed in their processes, and liquidity issues do not allow for the timeline to remain as planned.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## THE COMPANY

The Company was incorporated under the laws of the province of British Columbia on September 10, 2014 as Torino Ventures Inc. The Company changed its name to Torino Power Solutions on November 13, 2016. The Company changed its name to KABN Systems NA Holdings Corp. on June 4, 2020 and on March 1, 2021 the Company changed its name to Liquid Avatar Technologies Inc. and its ticker symbol on the Canadian Securities Exchange from KABN to LQID. The Company wholly owns Liquid Avatar Operations Inc. (formerly KABN Systems North America Inc. and referred to herein as “**KABN NA**”). KABN NA wholly owns Oasis Digital Studios Limited (“**Oasis**”). Oasis holds a 50% interest in Aftermath Islands Metaverse Barbados Limited (“**Aftermath Islands**”), with the other 50% held by an arm’s length individual.

On January 13, 2020, the Company and its newly formed wholly owned subsidiary 2733668 Ontario Inc. entered into a Business Combination Agreement with KABN NA, an arm’s length private company, providing for a transaction (the “**RTO Transaction**”) whereby the Company would acquire all of the issued and outstanding shares of KABN NA in exchange for issuance of common shares of the Company following the Consolidation (as defined below) (“**Common Shares**”). Immediately prior to the completion of the RTO Transaction, the Company completed a 1-for-10 share consolidation (the “**Consolidation**”). The RTO Transaction closed on June 4, 2020 and resulted in the business of KABN NA becoming the business of the Company.

References to the Company herein mean Liquid Avatar Technologies Inc. and its wholly owned subsidiaries, unless otherwise noted, from June 4, 2020 to present, and mean KABN NA prior thereto.

## DESCRIPTION OF BUSINESS

The Company is a global blockchain, digital identity and fintech solutions company focused on empowering individuals, who are referred to as “**Holders**” or “**Customers**”, to verify, manage, control, and create value from their online identity and public, permission-based data through Self-Sovereign Identity solutions delivered through the Company's solutions.

The Company operates across 3 business lines: Digital Identity, NFT Agency and Mixed Reality.

### *Digital Identity*

Once final development is complete the Company will offer Issuers and Verifiers (as defined below) a suite of financial and related services through the Liquid Avatar Mobile App, the Liquid Avatar Verifiable Credentials Ecosystem, or “**LAVCE**”, and proprietary services and programs that are targeted to generate revenues to the Company. Together, these services are referred to as the “**Liquid Avatar Platform**”. LAVCE supports the W3C (World Wide Web Consortium) open standards and a “trust triangle” model which services the three distinct parties in a verifiable credential transaction, being the individual user or “**Holder**”, the author or “**Issuer**” of a verifiable credential, and the validator or “**Verifier**” of the transaction. This is similar to everyday banking and now traditional point of purchase debit or credit transactions, which also include a Holder, an Issuer and a Verifier in a similar “triangle”. Issuers could include entities such as a government or other certifying entity. Verifiers could include entities such as a retailer seeking age verification or an event venue looking for access rights.

The Company intends to provide its products and services at no cost to Holders and seeks to generate revenues through permission-based partner and merchant fee-based programs with Issuers and Verifiers. The Liquid Avatar Platform provides Holders a more seamless compliance of online identity verification in combination with participation in online services and opportunities together with a developing suite of financial and other consumer services.

The Company is the exclusive licensee, in the United States and Canada, of KABN (Gibraltar) Ltd.'s (“**KABN Gibraltar**”) digital identity and financial services platform, which provides organizations with a digitally enabled identity validation and verification based on industry standard KYC and AML processes (previously KABN ID), and which now forms part of LAVCE. The Company has utilized KABN Gibraltar, as the licensor of the technology, as a development partner. The Company also licenses for use in North America the “know how” for the KABN Gibraltar Loyalty program, which consists of KABN KASH (now LiquidShopz) and KABN Card (now LQID Card).

The proprietary technology suite that is the Liquid Avatar Platform includes three key products:

- **LAVCE:** LAVCE is a verified Self Sovereign Identity platform that empowers Holders to create high-quality digital icons representing their online personas, referred to as “**Liquid Avatars**”. These Liquid Avatars allow Holders to manage and control their digital identity and their verifiable access and identity credentials and to

use these Liquid Avatars to share public and permission based private data when they want and with whom they want. This all done by Holders primarily through the Liquid Avatar Mobile App. The Liquid Avatar Mobile App is available for download on the Apple App Store and the Google Play Store. Digital identity validation and verification for Liquid Avatars is provided through LAVCE. LAVCE is an “Always Active”, biometrically based and blockchain powered digital identity validation and verification ecosystem that will allow Customers to continuously and confidently prove themselves throughout physical and online communities using their Self Sovereign Identity consisting of verifiable credentials and a digital wallet controlled by the individual. These credentials can be requested by a Verifier, like a merchant, government, or another application that requires the validation of a trustworthy digital identity, which is where biometrics become relevant. The credential is provided by Holder through the LAMA and the Holder can validate themselves with a Verifier that requires such validation. KABN ID has been merged into LAVCE and is no longer used from a brand perspective. There are currently no revenues associated with LAVCE. LAMA is free to download and use and will not generate revenue directly. Please see “Description of Business – Discussion of Significant Projects Without Revenue”.

- **LQID Card (formerly KABN Card):** LQID Card is a physical prepaid debit card powered by OptimizeFT’s Engage360 payment card and digital banking solutions platform that will potentially generate revenues from merchant transaction fees, as well as new, existing and evolving financial services, and provides increased loyalty and engagement opportunities. Through partner managed platforms, the LQID Card allows Customers to hold a digital payment method, without needing a credit card account, and the ability to earn cashback and other loyalty incentives. The Company will share in transaction fees and commissions with the applicable card network. LQID Card will integrate seamlessly with the Liquid Avatar Mobile App, providing Customers with an easy way to apply for and access their LQID Card directly from their Liquid Avatar Mobile App. Applications for LQID Card accounts have not commenced to date. LQID Card is not currently operational and there are no revenues to date. Please see “Description of Business – Discussion of Significant Projects Without Revenue”.
- **LiquidShopz (formerly KABN KASH):** is an exclusive and customized consumer experience where Customers will be able to earn cash back on transactions with over 600 major online merchants, such as Samsung, Sportchek and Nike Canada, that the Company has signed up through the Company’s affiliate program. In an affiliate program, there is a broker for various online merchants. The Company has to be approved as a merchant for each brand. LiquidShopz has recently been rebranded as LiquidShopz to better align with the LQID Card branding. The Company has been approved by 600 major online merchants. LiquidShopz is a cashback, loyalty and engagement program offered to LQID Card holders that is a primary potential revenue program. Customers that obtain a LQID Card following launch will be able to shop at some of North America’s top online merchants and receive cashback directly on their LQID Card. Customers will also receive updates on special offers and unique deals exclusive to LiquidShopz. Customers will be offered incentives to shop by way of discounts and cash back to the LQID Card based on spending volumes. When a registered LiquidShopz user purchases from a LiquidShopz retailer, the Company will earn a commission that it splits with the purchaser in the form of cash rebates paid to the LQID Card. Unlike points and many other loyalty programs, users receive real money as the reward for shopping and will also be able to earn points towards digital products and service for redemption. Since Holders are verified individuals as LAMA users, over time it can become potentially easier to create custom baskets of offers to suit an individual’s needs, based on an individual’s express permissions. LiquidShopz is not operational and any immaterial revenues to date have been from pilot transactions with some of the online merchants. LiquidShopz has no development to complete, as it is simply dependent on LQID Card being operational.

During Q1 and Q2 2021 the Company shifted its core focus from KABN ID to LAVCE, a far more robust platform and product offering as described above. Original components of KABN ID were incorporated into LAVCE, however new technologies and services have also been incorporated into the Liquid Avatar Platform. The Liquid Avatar Platform has a much larger scope to support identity, access and qualification verifiable credentials. LAVCE is made up of three “pillars”, which are products and services to support Holders, Issuers and Verifiers of digital identity verifiable credentials, as explained herein.

LAVCE has various components from which revenue is expected to be derived. The Company can earn revenue from activities related to Customer (Holder) engagement with businesses (Issuers and Verifiers) and may potentially earn revenue through subscriptions by businesses or sponsorships from businesses (Issuers and Verifiers). When a Customer engages with the business, revenue is generated from affiliate fees and other fees, sponsorships and

commissions that are paid by the business to the Company when a Customer, on a permission basis, engages with the business (Issuer or Verifier) within the Liquid Avatar Mobile App. In the event a business uses a LAVCE service like age verification, they may pay for those services by way of sponsorship, cost per action or through a 3<sup>rd</sup> party sponsorship that covers the cost per action or subscription fee. When the LQID Card is used by a consumer, certain interchange and banking fee shares will be earned by the Company.

To have access to LAVCE, Verifiers and Issuers will have to be authenticated and will subscribe to a monthly SaaS plan for a monthly fee, which fee may be supplemented with usage charges, such as pay per use. Monthly fees may be offset or supplemented by fees from sponsors who have an interest in making sure that Holders meet the requirements of verification. LAVCE has currently not generated any revenues and is dependant on the combination of the adoption of Holders, Verifiers and Issuers being signed up and /or onboarded. There is therefore risk to the extent and timing of any revenues generated through LAVCE related to the rate at which Holders, Verifiers and Issuers are signed up and/or onboarded.

LAVCE and LAMA are expected to earn revenue from activities related to consumer engagement with businesses and may potentially earn revenue through subscriptions by businesses or sponsorships from businesses. When a consumer engages with a business within the LAMA. Potential revenue would be generated from affiliate fees and other fees, sponsorships and commissions that are paid to the Company by businesses when a consumer, on a permission basis, engages with the business. As mentioned above, when a retail partner sells products to a Holder, a potential portion of the sale is expected to be paid to the Company through its relationship with the vendor, affiliate program and / or sponsor. The precise arrangements will vary between retail partners and may be in the form of an affiliate fee – which is revenue sharing, or commission fee from a sale, if a Holder buys a product from a vendor associated with the LAMA program. The Company is anticipating revenue sharing of up to 20%. Sponsorships are an alternative source of revenue where, instead of paying a portion of the purchase price, a Vendor, organization or association may have an interest in one or more groups of Holders and may pay a fee to interact or support retailers on a permission-basis with the Holder. In the event a business uses a LAVCE-based services like age verification they may pay for those services by way of sponsorship, cost per action or through a 3<sup>rd</sup> party sponsorship that covers the cost per action or subscription fee.

The Company's Digital Identity business line is not subject to any special regulatory or quasi-regulatory requirements for approvals, licences or permits.

The Company's license with KABN Gibraltar (the "**KABN Gibraltar License**") enables the Company to exclusively operate LQID Card and LiquidShopz and use the KABN ID software service (now incorporated into LAVCE) for the North American region (Canada and the United States of America). KABN Gibraltar licensed components of this intellectual property from Crypto KABN Holdings Inc. to enable one direct license between KABN Gibraltar and the Company. As at June 30, 2022, Crypto KABN Holdings Inc. held 8.82% and KABN Gibcan Inc. held 9.07%, respectively, of the outstanding Common Shares of the Company. KABN Gibraltar controls KABN Gibcan Inc. and is beneficially owned by the Company's CEO and President.

### ***NFT Agency***

On March 9, 2021, the Company launched Oasis Digital Studios Limited ("**Oasis**"), an agency supporting artists and IP holders ("**Talent**"). Oasis is engaged to provide management, digital marketing, creative services and work with producers of enhanced Non-Fungible Tokens ("**NFTs**"), avatars and related digital credentials on behalf of such Talent, Oasis deals exclusively with NFTs that are digital collectibles, and not with NFTs that could be securities. Oasis' services also include assistance with platform listing, management, and other creative, and avatar and digital icon services. Oasis is focused on NFT program management for Talent, and only had one of its own projects late in 2021 being Aftermath Islands, which is not an Agency relationship (see below). It is not the owner of the collectible being sold, which is owned by the Talent, and does not interact with purchasers of NFTs. NFT platforms will sell the NFTs and will take fees for their services. Oasis does not own or operate, and is not affiliated, with any NFT platforms. A portion of the proceeds of any sale are paid to Oasis by the artist as program management fees, with the artist receiving the balance of the proceeds once hard costs of the specific project are paid. Oasis manages payments to Talent for the sale of an NFT following deductions by an independent third party NFT platform. Oasis earns its revenue out of the proceeds of the sale of NFTs for its support and management of various NFT, avatar and other creative services, including digital marketing services to Talent and other agencies. Oasis' mandate is to provide agency services only, it does not mint or activate NFTs.

The Oasis Digital Studios AR viewer app reveals hidden, and bonus content distributed by Talent. This technology supports AR enabled Digital Collectibles, NFTs, fan event experiences, scavenger hunts and contests. This is a feature that, on behalf of Oasis clients and other Company activities, is intended to help increase interest in the purchase from Talent of NFTs, and in other Oasis and promotional programs.

To date, Oasis has been engaged by 9 clients, including, but not limited to May Pang, Ron Campbell and the Outer Space Men, who have sold their NFTs across a number of NFT Platforms, including Wax and Sweet. Oasis' NFT Agency operations are considered an operating business although historical revenues have been limited. Oasis is also working to pursue other opportunities in the digital marketing and creative services arena to increase its potential opportunity for revenues.

The Company's NFT Agency business line is not subject to any special regulatory or quasi-regulatory requirements for approvals, licences or permits.

### ***Mixed Reality***

Aftermath Islands was originally a project managed by Oasis during 2021. Aftermath Islands Metaverse Barbados Limited commenced activities as of January 1, 2022, and the intellectual property of Aftermath Islands was transferred to it. Through Oasis, the Company holds 50% of the equity of Aftermath Islands Metaverse Barbados Limited and has effective control.

Aftermath Islands is a planned metaverse, which will ultimately provide online users with theme-based first-person, Augmented Reality (AR), Extended Reality (XR) and Virtual Reality (VR) experiences, quests, games, and integrated eCommerce activities, creating a virtual world supported by users and brands. While the sale of VL commenced in November 2021, to satisfy demand from users to acquire their initial holdings, full gameplay had not commenced. Additional items such as thematic dwellings, accessories, avatars, wearables, etc. designed for each island, community and estate and users are in the planning stage or under development, along with other interactive items, which will also ultimately be available for sale as NFTs. All NFTs are expected to be able to be transferred, at the discretion of the holder, using direct and / or 3<sup>rd</sup> party, non-affiliated marketplaces, and private sale programs.

In Aftermath Islands' virtual world, users can buy, develop, trade, and sell Virtual Land (VL) and items like buildings, crafted items, transport, and other items all through collectible NFTs that represents the ownership of virtual and other items. Each plot or parcel of VL is unique and owners are expected to have the opportunity to choose what content they want to publish on their VL based on future published guidelines. This can range from simple scenery and structures to an interactive game, store, warehouse, dwelling, facility, or destination. Users can purchase VL as well as all other goods and services in Aftermath Islands with CREDITS, the current code name for in-game currency, fiat and other authorized currencies, coins, and tokens. Aftermath Islands will "charge" users for certain services and in-game utility programs, including but not limited to professions creation and leveling, access to events and activities and other goods and services that can potentially enhance their in-game experiences.

All Aftermath Islands' players will also have access to create a Liquid Avatar account allowing them to manage their digital identity and certain 'cross-over' assets and activities connecting their in-game activities to their real-world activities and engagement. Potential opportunities include managing avatars including MetaHero Project (TM) customizable and personalized avatars, items, integrated AR events and programs, and purchasing conventional items like sneakers or trainers through LiquidShopz and receiving exclusive bonuses, like matching digital assets for use in Aftermath Islands.

Aftermath Islands will publish updated white papers and technical reviews and form a governing council that will create fair play rules prior to commercial launch. Additional themes, new communities, and estates will open from time to time following launch, allowing players to own Virtual Land across a wide range of islands. For entertainment, financial, game, product, and other brands, select island environments will allow commercial operations and ownership, providing enterprises with the tools to create and support economic opportunities.

The Company has completed an initial sample of potential test activities designed for Meta's (formerly Facebook) Oculus system using the Quest 2 VR headset and hand controllers as a showcase of potential capabilities, which is being extended to include other test activities like mountain climbing, western gun fights, light sword dueling, survival training. The Company is currently working to complete several additional initial pilots of virtual and interactive platforms and technologies, separate and apart from the Meta Quest platform, as it assesses a range of initiatives for its first launch program expected in the 3<sup>rd</sup> quarter of 2022. This is based on the Company's best estimate of how long

the remaining development will take to complete given current financial resources. Anticipated completion dates could be delayed if the Company's estimates of the remaining work and time to complete such work are incorrect.

Other initial launch programs include virtual escape rooms, with award winning, real world and virtual escape room creator Hourglass Escapes LLC and The Lost Kingdom of T'Sara (LKOt), the upcoming P2E (play to earn) game which will allow users to gather resources and Credits for Aftermath Islands, at no cost, for use in-game to purchase VL and / or other items and services. Both these programs are currently in development LKOt launched its closed Beta Testing prior to June 30, 2022, with escape rooms in review for the beta launch of Aftermath Islands Metaverse. The Company will use third parties for a portion of these development efforts. As part of its Metaverse program, Aftermath Islands is developing the Aftermath Islands Explorers League, creating a virtual location for Aftermath Island virtual landowners and account holders to start their journey in Aftermath Islands, getting acquainted with new products, features and services and create their avatars. Users will be able to hone skills, share experiences, visit a virtual café and stores, engage with other users, participate in a variety of activities and transport to their favorite islands all from the Explorers League. The Company will use third parties for a portion of these development efforts.

Aftermath Islands generated sales from VL starting from November of 2021. Total sales cumulatively to June 30, 2022 were \$1,982,227 which the Company has recorded as deferred revenue in the interim condensed consolidated financial statements for the three and six month period ended June 30, 2022. In the future, when revenue recognition criteria have been met, revenues are expected to be generated from the sale of VL, the sale of in game collectibles as described above, and potentially the sale of gameplay utility tokens. The facilitation and settlement, including the minting of any NFTs is handled by third party service providers. Aftermath Islands does not currently handle any cryptocurrency and receives payment in fiat currency only.

Within Aftermath Islands, customers can buy, develop and trade VL and items such as buildings and crafted items, all through NFTs that represent the ownership of digitally created items. The Company's identified performance obligation is to provide NFTs representing ownership of virtual items to the customers. The Company has no further obligation once the NFTs are delivered to the customers' wallets. Payments from customers are non-refundable and relate to non-cancellable contracts for a fixed price that specify the Company's obligations. The Company's performance obligation is satisfied at the point in time when the NFTs are transferred to the customers' wallets through its third party service provider, Masscult.

Potential opportunities include managing avatars including MetaHero Project (owned directly by Aftermath Islands subsequent to Q2), customizable and personalized avatars, integrated Augmented Reality (AR) and Extended Reality (XR) events and programs and purchasing conventional items like sneakers or trainers through LiquidShopz and receiving exclusive bonuses, like matching digital items for use in Aftermath Islands. This latter example may be facilitated through the LAMA and LAVCE programs similar to those described earlier in this MD&A. The precise approach to fees for these opportunities still need to be considered by management.

The Company's Mixed Reality business line is not subject to any special regulatory or quasi-regulatory requirements for approvals, licences or permits.

### **Discussion of Significant Projects Without Revenue**

The Liquid Avatar Mobile App, the LQID Card and LAVCE are significant projects of the Company that have not yet generated any appreciable revenues to date. The Company is developing proprietary technology and services in respect of these projects and as such the Company considers many factors related to these projects to be trade secrets and is reserving certain details as confidential until and unless otherwise disclosed publicly at various junctures of market readiness likely in conjunction with commercial release.

Information is set out below in tabular form to outline the status of these projects, their estimated stages of completion and approximate costs to date since the beginning of Q1 2021 (when cost estimation by project component began), approximate costs for the current quarter, as well as estimates of costs for the coming periods or to completion.

#### ***Liquid Avatar Mobile App***

The Liquid Avatar Mobile App is a component of the overall LAVCE. While the Liquid Avatar Mobile App is available for download on the Apple App Store and the Google Play Store, it is in the planning and development stage and is pre-revenue. LAMA is completed as at June 30, 2022. With respect to project activities that support  **Holders**  and initiatives related to digital wallets for various verifiable credentials, the Company launched Phases 1 & 2 of the Liquid Avatar Mobile App in Q1 of 2021, and during Q2 2021 rolled out Phases 3 & 4. The first two phases included creating functionality so users will have the ability to create multiple Liquid Avatars and manage different facets of

their personalities (personas). There were also multiple language capabilities, with several languages built into the functionality which provides greater potential reach to connect further social media and data sources to their Liquid Avatar personas. The next two phases included the pilot and further enhancements for the preliminary Liquid Avatar Mobile App, which included software development key connections for augmented reality applications, which could have relevance for retail chains that could ultimately use this technology to help expand their reach to customers who are using the Liquid Avatar Mobile App. The project has the basis for full commercial rollout, providing consumers with the ability to use a personal digital wallet to hold different types of verifiable identity credentials. These can be digitally verified for authenticity and accuracy without the owner having to divulge personally identifying information (PII) to the person or business that is doing the verification. Currently, LAMA can associate a biometric with verified devices, create a "test" Smart Age credential, a KYC credential, and a test derivative health verification credential. Additionally, LAMA can issue credentials, based on integration for a particular vendor for age verification, jurisdiction verification, account verification and to create unique user verification for the Metaverse and other online activities allowing a vendor, eCommerce or account based website to link a particular verified user to an account biometrically, potentially reducing nefarious activities and multiple accounts by a single individual, potentially enhancing efficiencies of marketing performance metrics.

Based on ongoing user feedback during the pilot programs, the Company has updated and continues to update various components of the Liquid Avatar Mobile App and is continuing to work to add new or improved features, which the Company released during Q3 and Q4 of 2021. The Company released such features in line with planned rollouts during these quarters, including revamped login, user experience and shareability, selectivity of PII for sharing a credential, and enhanced management of the credential's wallet. There are currently 7 verifiable credentials enabled: Verified Email, Verified Phone Number, Driver's License, Passport, National ID, Vaccination Credential, PCR test result, and a travel clearance credential that was successfully piloted in Aruba based on its Happy Traveler credential.

The Company was one of 14 entities that participated during Q4 2021 in a Linux Foundation supported Cardea interoperability event for verifiable credentials. The Liquid Avatar Platform proved its ability to Issue, Verify and Hold credentials from all participants and providers that met the open-source standard. This technical capability means the Company's LAMA will have the ability to integrate with a wide range of technical platforms, which ultimately will expand revenue and market potential. It was critical to have a robust independent testing environment to demonstrate the current capabilities for LAMA. The Company continued to support different ID and privacy standards and added agent servers in the US and Canada. It also improved the Company's server monitoring capabilities, which is important to the Company's future ability to be able to have a variety of credential options and to scale and deliver an appropriate product. The Company has completed the development as of June 30, 2022 to enable a commercial offering to the market.

	<b>Q2 2022 (and Cumulative to June 30, 2022)</b>
Status of the project relative to plan	The final development steps as previously referenced have been completed such that a commercial offering of the Liquid Avatar Mobile App is now available as of June 30, 2022.
Approximate expenditures made on the project during the period	\$203,321 (2 <sup>nd</sup> Quarter) and \$1,122,017 (cumulative to June 30, 2022).
Anticipated timing and costs to take the project to completion	No further costs to incur as of June 30, 2022 and the project is complete) ( <i>LQID CARD costs have historically been included in these project costs, and despite LQID CARD being delayed, no further project costs are required for LQID CARD – see below</i> )

### ***LQID Card***

With respect to the LQID Card project, the Company has experienced delays in having a fully live platform in Canada to onboard card holders and is, therefore, focused on US expansion. During the 4<sup>th</sup> quarter of 2021, the Company examined options to re-brand the KABN Card program for any potential geographical market to be better aligned with the Liquid Avatar brand and ecosystem. As a result, in 2022 the Company rebranded KABN Card to “LQID Card”. In addition, the Company advanced its planning for geographic expansion of the LQID Card program to the US and other global jurisdictions. The Company has partnered with OptimizeFT, a US financial solutions program manager, for a US payment card program for Liquid Avatar Mobile App holders that will be branded as LQID Card and managed by OptimizeFT. This payment card program will also include offers and incentive engagement and loyalty from 3rd party businesses to encourage consumers to engage with those business. The Company would earn fees from those engagements by way of affiliate fees and commissions. While there are no further costs to incur prior to having LQID Card available for commercial use, there have been delays in the process for OptimizeFT to be ready for launch and LQID is not yet available as at the date of this MD&A.

	<b>Q2 2022 (and Cumulative to June 30, 2022)</b>
Status of the project relative to plan	<p>The LQID Card initiative in Canada experienced delays in readiness to onboard users and concluding end to end testing and assessed re-branding of the program. The Company elected to move to a US launch as its first revenue opportunity and has deferred its launch in Canada.</p> <p>While significant progress made for US expansion by announcement of US card solutions provider for a US prepaid card program integrated with the Liquid Avatar Mobile App, the final aspects of the launch preparedness have been delayed on account of the vendor. Revenues will be driven by the number of Holders that acquire the LQID Card and their volume of purchases using the card. The Company now anticipated LQID Card to be available by October 31, 2022.</p>
Approximate expenditures made on the project during the period	Incremental system costs for US expansion began in the quarter and are included as projections in the above Liquid Avatar Mobile App costs.
Anticipated timing and costs to take the project to completion	The remaining delays are on the vendor’s side and no further expenditures are required by Liquid Avatar to get the LQID Card to a commercially ready state. The revised launch date is expected to be by October 31, 2022.

### ***LAVCE***

#### *Issuers Project:*

With respect to LAVCE project activities that support **Issuers**, the Company has continued to develop its strategy to create products and services supporting those organizations that will issue and manage verifiable credentials. The LAVCE platform successfully participated in a pilot for the government of Aruba to use the Liquid Avatar Platform to support travel to Aruba to meet health requirement for embarkation and to support access to restaurants, using unique verifiable credentials. The Company continues to build out its SDK strategy (whereby other entities can utilize a software development kit (“**SDK**”) to embed the Company’s ID wallet in their own App), toward enterprise revenue by enabling API support for enterprise agents providing the ability for partners to issue unique verifiable credentials, which drives this revenue arm of the LAVCE. The Company does not currently have any signed binding agreements with Issuers. Based on trial results and discussions with potential Issuers, the Company expects there will be market acceptance. A commercially ready product is currently in place, complete as of June 30, 2022, that permits all the basic functionalities to be operational.



	<b>Q2 2022 (and Cumulative to June 30, 2022)</b>
Status of the project relative to plan	<p>Previously conducted a successful pilot with a sovereign nation’s travel and tourism regulatory framework and powering of the “Aruba Happy Traveller” credential; SDK revenue strategy continues to be advanced.</p> <p>The project activities supporting Issuers was complete as of June 30, 2022 as noted above.</p>
Approximate expenditures made on the project during the period	\$162,779 (2 <sup>nd</sup> Quarter) and \$1,412,426 (cumulative to June 30, 2022).
Anticipated timing and costs to take the project to completion	The project is complete as of June 30, 2022.

*Verifiers Project:*

With respect to LAVCE project activities that support **Verifiers**, the Company continues to develop its strategy to create product elements and services that will support those organizations that will be actively engaged in the validation of verifiable credentials that have been created by an Issuer, retained in a digital wallet and would be presented by a Holder, whether a client of a 3<sup>rd</sup> party Issuer or a Liquid Avatar Mobile App holder. During Q4 2021, the Company announced its proprietary solution, Passmate™, in partnership with US-based payments technology provider Dynamics Inc. This solution will utilize existing infrastructure network access via Point of Sale (POS), payment terminals and other network devices to streamline verifications and allow Verifiers efficient and secure validation of a credential presented by a Holder seeking to verify said Holder’s identity, qualification, access, or any number of other credentials. In January 2022, the Company and its partner the Ontario Convenience Stores Association (“**OCSA**”) announced the successful completion of their previously announced pilot, an end-to-end, live working test of the Smart Age program. The Smart Age program aims to provide digital age verification, supported with biometric authentication for age-restricted product sales. Also subsequent to the quarter, the Company, with the OCSA’s support, was selecting a partner retailer to participate as the first adopter of the program. The Company does not currently have any other signed binding agreements with Verifiers. Based on the success of the OCSA pilot, the support of the OCSA (which represents over 8,000 stores) and ongoing discussions with other potential Verifiers, the Company believes there will be market acceptance of LAVCE for Verifiers.

	<b>Q2 2022 (and Cumulative to June 30, 2022)</b>
Status of the project relative to plan	<p>Proprietary solution Passmate™ was announced in the first quarter with technology provider Dynamics Inc., to utilize existing point-of-sale terminals in the validation of verifiable credentials of a Holder in their Liquid Avatar Mobile App wallet.</p> <p>The project is complete as of June 30, 2022 which should enable the Company to be in a position to gain business with Verifiers to provide revenue generating services to such Verifiers.</p>
Approximate expenditures made on the project during the period	\$50,000 (2 <sup>nd</sup> Quarter) and \$704,265 (cumulative to June 30, 2022).
Anticipated timing and costs to take the project to completion	The project is complete as of June 30, 2022.

### Discussion of Material Variances from Past Disclosures of Material Forward Looking Information

The Company has assessed various previous forward-looking information (“FLI”) that was material and provides the updates where events and circumstances have caused actual results to differ materially from that disclosed in prior FLI. When compared to previously disclosed material FLI, the updates below list which FLI have material updates and the events and circumstances have caused actual results to differ materially from that disclosed in prior FLI.

<i>Previous material forward-looking information</i>	<i>Location / Date</i>	<i>Material Update to prior disclosure</i>	<i>Events and Circumstances Causing Update</i>
LQID Card ready through OptimizeFT by Q2, 2022.	October 28, 2021 Press release  MD&A – most recently Q1, 2022	A more realistic projection is October 31, 2022.	The Company had completed everything it could do under its control with respect to the LQID Card through OptimizeFT. The delays in production and final steps are as a result of OptimizeFT’s internal process.

## SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the eight most recently completed quarters.

	Quarter Ended June 30, 2022 \$	Quarter Ended March 31, 2022 \$	Quarter Ended December 31, 2021 \$	Quarter Ended September 30, 2021 \$	Quarter Ended June 30, 2021 \$	Quarter Ended March 31, 2021 \$	Quarter Ended December 31, 2020 \$	Quarter Ended September 30, 2020 \$
Revenue	26	104	121	5,072	10,625	108	Nil	Nil
Net loss	(2,478,528)	(2,513,410)	(3,469,181)	(2,396,201)	(2,763,699)	(2,734,851)	(1,963,099)	(1,139,708)
Loss per share, basic and diluted	(0.017)	(0.018)	(0.025)	(0.020)	(0.026)	(0.027)	(0.028)	(0.017)

Net losses have increased more significantly in 2021 to date from prior quarters in 2020 due to the Company's increased product development activities and the costs to prepare for commercial activities in LAVCE and related projects. Oasis commenced in March 2021 and Aftermath business commenced in Q4 of 2021.

### OVERALL PERFORMANCE (for the quarter ended June 30, 2022)

The Company had a net loss of \$2,478,528 for the quarter ended June 30, 2022 compared to a net loss of \$2,763,699 for the quarter ended June 30, 2021. Stock based compensation of \$330,820 in the quarter ended June 30, 2021 resulted in the quarters having comparable net loss amounts. While there is some variation between the accounts from the comparative quarter period, additional amounts were incurred for the Company's controlled subsidiaries compared to the quarter ended June 30, 2021. The Company incurred costs related to Oasis and Aftermath Islands during the quarter ended June 30, 2022 that in the comparative period were limited in Oasis only, as Aftermath Islands did not exist.

The Company overall had similar operating expenses in the quarter ended June 30, 2022 as compared to the comparative period, with the largest exceptions noted above. The Company has substantial deferred revenue, which at the time revenue recognition criteria is met, will greatly reduce or eliminate operating losses for that quarter and will potentially reduce operating losses from that point going forward in future quarters. Fluctuations in the specific accounts are discussed below.

### RESULTS OF OPERATIONS (for the quarter ended June 30, 2022)

\$26 in revenue was recognized by the Company for test pilot revenue for Digital Identity. Revenues from Aftermath Islands are expected to form the majority of the Company's consolidated revenue in 2022, as \$1,982,227 in VL sales are currently recorded as deferred revenue in the financial statements. The timing of such change in classification is not certain. \$25 in revenue was recognized in the quarter ended June 30, 2021.

The Company incurred marketing and communications expenses of \$428,788 for the quarter ended June 30, 2022. The Company continues to engage in certain market awareness and general marketing and communications campaigns. The Company continued services initiated in the first quarter and initiated an additional vendor in the second quarter. \$211,950 was expensed for the three most significant vendors during the quarter ended June 30, 2022. \$58,429 was recognized as an expense during the current quarter from prepaid items initiated in prior quarters and \$100,304 will be recognized from prepaid arrangements initiated in 2021 and Q1 of 2022 as expenses in future quarters. The remaining marketing and communications expenses are consistent with recent quarters. Aftermath Islands incurred marketing and communications expenses of \$40,537 during the quarter ended June 30, 2022 that did not exist in the comparative period. Marketing and communications expenses incurred during the quarter ended June 30, 2021 were \$447,331 and relate mostly to the amortization of closing of prepaid agreements around the time of the completion of the RTO Transaction, with some occurring in the 4th quarter of 2021 that amortized into the quarter ended June 30, 2021. These expenses were designed to assist in activities for market awareness, business development and multiple communication strategies.

During the quarter ended June 30, 2022, the Company incurred \$335,735 for product development expenses. Product development expenses includes complex technical development expenses related to core technical development using

software engineering and related infrastructure coding, and less technical product costs including developing product features, benefits, their applications, and any program fees. No costs were incurred for services provided by KABN Gibraltar during the quarter ended June 30, 2022. \$271,100 in costs were incurred through direct vendors in regard to Liquid Avatar Digital Identity related products. As the Company has completed the pre-commercial stage of development, costs in recent quarters have been lower. There will continue to be product development costs spent on enhancements and ongoing technical requirements. \$47,284 related to Aftermath Islands and \$17,351 to Oasis were incurred in product development of the Aftermath Islands Metaverse programs and Oasis virtual gallery, which did not exist in the comparative period. During the quarter ended June 30, 2021, \$652,626 was incurred in product development. \$105,000 of the costs were incurred through KABN Gibraltar, with \$547,626 through direct vendors to the Company. The Company started to increase its product development activities post December 2020 financing and had continued to ramp up its product development activities throughout 2021. As the Company approached completion of its pre-revenue projects related to the Digital Identity line of business, product development costs have decreased in this area compared to the comparative quarter.

During the quarter ended June 30, 2022, the Company incurred \$370,204 of expenses related to management and staff. The Company had entered into employment agreements with most of its executives and staff as of January 1, 2021 who were previously paid on a limited basis as consultants in 2020 (post-RTO Transaction). Included in this category are fees to KABN Gibraltar of \$30,000 representing management and staff paid through KABN Gibraltar that were consultants during the quarter. \$434,534 in management and staff costs were incurred for the quarter ended June 30, 2021 which includes \$90,000 for consultants paid through KABN Gibraltar. The employment agreements as of January 1, 2021 included lower salary rates from January 1, 2021 through June 30, 2021 with increased salary rates from July 1, 2021 and onward. While the remaining executives had increased rates as described above, there is one less executive in the current quarter compared to the comparative quarter, which is a reason for the decrease in expense.

The Company incurred legal fees and audit fees of \$131,460 during the quarter ended June 30, 2022. These expenses relate to ongoing services to support public company compliance, as well as other operational matters in the normal course. \$147,688 in legal and audit fees were incurred during the quarter ended June 30, 2021 for the same type of services. While there can be some period-to-period fluctuations, legal and audit fees have been overall consistent between the comparative quarters based on the nature of work incurred.

The Company incurred consulting fees of \$540,026 during the quarter ended June 30, 2022. The Company has engaged consultants to perform various functions for the Company including those for Oasis and Aftermath Islands which didn't exist or were very limited in the comparative quarter. Oasis incurred consulting expenses of \$130,767 and Aftermath incurred \$207,795 in consulting expenses. There are no employment agreements in either Oasis or Aftermath and all functions are fulfilled through consulting arrangements. The remaining \$201,464 in consulting is through Liquid Avatar operations, \$84,605 of the Liquid Avatar operations consulting expenses for the quarter relates to prepaid arrangements from prior periods that are being amortized in the current quarter. \$20,000 will be amortized to consulting expense in future quarters from existing arrangements, however the Company may incur new prepaid arrangements in the future. During the quarter ended June 30, 2021, \$236,421 was incurred for consulting work. The overall activity level of the Company has increased across the board and one executive had left that was employed in the comparative quarter had work efforts replaced with various consultants. Most consulting arrangements would not be ones that would be eligible for full time employment, however where applicable it provides more flexibility and efficiency for the Company to engage consultants rather than expand its employee headcount which also reduces exposure to termination obligations should they arise.

The Company incurred \$136,512 for general and administrative expenses during the quarter ended June 30, 2022. During the quarter ended June 30, 2021, \$129,229 was incurred for general and administrative expenses. The Company has increased in business with Aftermath Islands and Oasis carrying costs that were either not incurred or minimally incurred in the comparative period, however these costs have not been significant to date. There can be fluctuations in the general and administration account as one-time items may be included from time to time.

The Company incurred \$104,799 for web and infrastructure during the quarter ended June 30, 2022. During the quarter ended June 30, 2021, \$40,746 was incurred for web and infrastructure. In the comparative period, the technology infrastructure was not as developed as it is now, and the Company was smaller and did not have Aftermath Islands or Oasis contributing to these expenses all which contributed as the cause for the increased expense level.

The Company incurred \$67,255 in amortization during the quarter ended June 30, 2022 and 2021 related to intangible assets derived from the KABN Gibraltar License. The Company records amortization on a straight-line basis and therefore the expense is the same each quarter as expected.

During the quarter ended June 30, 2022, the Company recognized no stock-based compensation expense. All previous stock option grants that had vesting terms were fully vested before this quarter, and there were no grants of stock options during the quarter. During the quarter ended June 30, 2021, \$330,820 of stock-based compensation was recognized. \$21,131 of stock-based compensation was recognized on a graded vesting schedule in connection with a grant of stock options that occurred on June 1, 2020. \$298,890 of stock-based compensation was recognized in connection with grants of stock options on February 15, 2021 that are recorded based on a graded vesting schedule. \$10,800 of stock based compensation was recognized in connection with a grant of stock options issued on May 13, 2021 that had immediate vesting terms. Stock-based compensation is recognized as an operating expense with a corresponding amount recognized in contributed surplus and is valued using the Black-Scholes option pricing model. The expense level is highly dependent on the terms, inputs and timing of stock options granted in each period, which drives the amount recorded and can often cause significant variability between quarters. The Company issued a stock option grant in the first quarter of 2021 and did not issue any stock options during the quarter ended June 30, 2022, which is the main cause of the decreased stock based compensation expense.

Annual License fees of \$322,571 were incurred during the quarter ended June 30, 2022 compared to \$250,000 for quarter ended June 30, 2021. In the prior year a discount was provided by KABN Gibraltar based on an advance payment which allowed the annual license fee of \$250,000 USD to be paid in Canadian dollars. In the current year, the annual license fee remains outstanding as at the end of the quarter.

Foreign exchange loss of \$26,167 was incurred during the quarter ended June 30, 2022 and foreign exchange loss of \$11,723 was incurred during the quarter ended June 30, 2021. Foreign exchange losses are related to the exchange fluctuation between the Canadian dollar and the United States dollar on US denominated receivables and payables which have overall increase during the quarter ended June 30, 2022 vs. the quarter ended June 30, 2021. The change is immaterial and reflects the limited foreign exchange risk the Company currently has.

#### **OVERALL PERFORMANCE (for the six month period ended June 30, 2022)**

The Company had a net loss of \$4,991,938 for the six month period ended June 30, 2022 compared to a net loss of \$5,498,551 for the six month period ended June 30, 2021. Stock based compensation of \$1,024,024 in the six month period ended June 30, 2021 resulted in the comparative period having a larger net loss amount despite increased operational activity from subsidiaries in the current period. The Company incurred costs related to Oasis and Aftermath Islands during the six month period ended June 30, 2022 that in the comparative period were very limited in Oasis and for Aftermath didn't exist at all.

The Company overall had similar but slightly higher operating expenses in the six month period ended June 30, 2022 as compared to the comparative period, beyond the stock based compensation charge noted above with the main differences coming from increases consulting costs, general and admin, offset with lower product development costs. The Company has substantial deferred revenue, which at the time revenue recognition criteria is met, will greatly reduce or eliminate operating losses for that period and will potentially reduce operating losses from that point going forward in future periods. The specific fluctuations in the accounts are described below.

#### **RESULTS OF OPERATIONS (for the six month period ended June 30, 2022)**

\$130 in revenue was recognized by the Company during the six month period ended June 30, 2022 for test pilot revenue for Digital Identity as well as a small residual agency fee for Oasis. Revenues from Aftermath Islands is expected to form the majority of the Company's revenue for the coming year as \$1,982,227 in VL sales are currently recorded as deferred revenue in the financial statements. \$10,733 in revenue was recognized in the six month period ended June 30, 2021 largely related to Oasis NFT agency revenues.

The Company incurred marketing and communications expenses of \$867,514 for the six month period ended June 30, 2022. The Company continues to engage in certain market awareness and general marketing and communications campaigns. The Company initiated a few arrangements during the six month period ended June 30, 2022, in Liquid Avatar Operations, two were previously engaged in prior periods and entered new agreements and one was a new

engagement of a vendor for public relations work. \$298,738 was expensed for these three vendors during the six month period ended June 30, 2022. From previous prepaid arrangements \$100,304 will be recognized from prepaid arrangements initiated in 2021 and Q1 of 2022 as expenses in future quarters. The remaining marketing and communications expenses are consistent with comparative periods. Aftermath Islands incurred marketing and communications expenses of \$57,396 during the six month period ended June 30, 2022 that did not exist in the comparative period. Marketing and communications expenses incurred during the six month period ended June 30, 2021 were \$945,594 and relate mostly to the amortization of closing of prepaid agreements around the time of the completion of the RTO Transaction, with some occurring in the 4th quarter of 2021 which amortized over the six month period ended June 30, 2021. These expenses were designed to assist in activities for market awareness, business development and multiple communication strategies.

During the six month period ended June 30, 2022, the Company incurred \$774,851 for product development expenses. Product development expenses includes complex technical development expenses related to core technical development using software engineering and related infrastructure coding, and less technical product costs including developing product features, benefits, their applications, and any program fees. \$105,000 of product development costs were for services provided by KABN Gibraltar during the six month period ended June 30, 2022 which are less technical in nature. \$532,664 in costs were incurred through direct vendors to the Company related to Liquid Avatar Operations. \$72,471 was incurred by Aftermath Islands for Metaverse development activities, which did not exist in the comparative period and Oasis incurred \$17,351 related to the Virtual gallery. During the six month period ended June 30, 2021, \$1,089,781 was incurred in product development. \$217,975 of the costs were incurred through KABN Gibraltar, with \$871,806 through direct vendors to the Company. The Company started to increase its product development activities post December 2020 financing and had continued to ramp up its product development activities throughout 2021. As the Company approached completion of its pre-revenue projects related to the Digital Identity line of business, product development costs have decreased in this area compared to the comparative period as a result.

During the six month period ended June 30, 2022, the Company incurred \$836,369 of expenses related to management and staff. The Company had entered into employment agreements with most of its executives and staff as of January 1, 2021 who were previously paid on a limited basis as consultants in 2020 (post-RTO Transaction). Included in this category are fees to KABN Gibraltar of \$120,000 representing management and staff paid through KABN Gibraltar that were consultants during the period. \$838,735 in management and staff costs were incurred for the six month period ended June 30, 2021 which includes \$180,000 for consultants paid through KABN Gibraltar. The employment agreements as of January 1, 2021 included lower salary rates from January 1, 2021 through June 30, 2021 with increased salary rates from July 1, 2021 and onward. This increased staff costs in the current period, however having one less executive and less expenses incurred by KABN Gibraltar resulted in a small net decrease over the comparative period.

The Company incurred legal fees and audit fees of \$199,276 during the six month period ended June 30, 2022. These expenses relate to ongoing services to support public company compliance, as well as other operational matters in the normal course. \$232,900 in legal and audit fees were incurred during the six month ended June 30, 2021 for the same type of services. While there can be some period to period fluctuations, legal and audit fees have been overall consistent between the periods.

The Company incurred consulting fees of \$1,109,222 during the six month period ended June 30, 2022. The Company has engaged consultants to perform various functions for the Company including those for Oasis and Aftermath Islands which didn't exist or were very limited in the comparative period. Oasis incurred consulting expenses of \$243,616 and Aftermath incurred \$396,284 in consulting expenses for the period. There are no employment agreements in either Oasis or Aftermath and all functions are fulfilled through consulting arrangements. \$195,693 of the expense for the six month period ended June 30, 2022 relates to prepaid arrangements that were initiated in 2021 and amortized during the current period in Liquid Avatar Operations. \$20,000 will be amortized to consulting expense in future quarters from existing arrangements, however the Company may enter into additional contracts under prepayment arrangements in the future. During the six month period ended June 30, 2021, \$318,179 was incurred for consulting work. The overall activity level of the Company has increased across the board and the Company has added consultants vs. employees in its approach. One executive had left at the beginning of the six month period ended June 30, 2022 that was employed in the comparative period and work efforts replaced with various consultants. Most consulting arrangements would not be ones that would be eligible for full time employment, however where it could be an option, retaining consultants provides more flexibility and efficiency for the Company rather than expand its employee headcount which also reduces exposure to termination obligations should they arise.

The Company incurred \$422,076 for general and administrative expenses during the six month period ended June 30, 2022. During the six month period ended June 30, 2021, \$202,278 was incurred for general and administrative expenses. The Company has increased in business with Aftermath Islands and Oasis carrying costs that were either not incurred or minimally incurred in the comparative period, which had some impact, however the largest impact was from the one time settlement with XTM Inc described below. There can be fluctuations in the general and administration account as one-time items, such as commercial settlements or a variety of items that don't have a more suitable classification may be included from time to time which can cause fluctuations.

On July 12, 2022, the Company terminated its agreement with XTM Inc. for the KABN Card program in Canada. Although intended to be released in 2021, the KABN Card program was not able to achieve its targeted commercial launch in Canada and, as a result, the Company determined to terminate the agreement with XTM Inc. A \$200,000 (plus HST) termination fee is being paid in installments to XTM Inc. At the date of this MD&A, a total of \$66,667 has been paid by the Company.

The Company recorded an expense of \$200,000 in Q1 related to a mutually agreed proposal regarding the termination of its agreement with XTM Inc. for the KABN Card program in Canada, based on the best estimate of the settlement outcome. There is no further expense recognized for the six months ended June 30, 2022. Further details are provided in the subsequent events section of this MD&A as the final settlement occurred after June 30, 2022.

The Company incurred \$203,505 for web and infrastructure during the six month period ended June 30, 2022. During the six month period ended June 30, 2021 \$78,583 was incurred for web and infrastructure. In the comparative period, the technology infrastructure was not as developed as it is now, especially infrastructure to support commercialization. The Company was also smaller in the comparative period as it did not have Aftermath Islands or Oasis to any material level. These factors are the cause for the increased expense level.

The Company incurred \$134,510 in amortization during the six month period ended June 30, 2022 and 2021 related to intangible assets derived from the KABN Gibraltar License. The Company records amortization on a straight-line basis and therefore the expense is the same each quarter as expected.

During the six month period ended June 30, 2022, the Company recognized \$49,815 in stock-based compensation expense. This expense was recognized in relation to stock options granted in February 2021 that were based on a graded vesting schedule and there is no further expense recognized for this stock option grant beyond Q1 2022. During the six month period ended June 30, 2021, \$1,354,844 of stock-based compensation was recognized. \$53,550 of stock-based compensation was recognized on a graded vesting schedule in conjunction with a grant of stock options that occurred on June 1, 2020. \$310,800 of stock-based compensation was recognized in connection with grants of stock options on February 15, 2021 that carry immediate vesting terms. \$979,695 of stock-based compensation was recognized in connection with grants of stock options on February 15, 2021 that are recorded based on a graded vesting schedule. \$10,800 of stock based compensation was recognized in connection with a grant of stock options issued on May 13, 2021 that had immediate vesting terms. Stock-based compensation is recognized as an operating expense with a corresponding amount recognized in contributed surplus and is valued using the Black-Scholes option pricing model. The expense level is highly dependent on the terms, inputs and timing of stock options granted in each period, which drives the amount recorded and can often cause significant variability. The Company issued a stock option grant in the quarter ended March 31, 2021, which includes an expense impact for the six month period ended June 30, 2021 for vesting terms and the Company did not issue any stock options during the six month period ended June 30, 2022 which is the main cause of the decreased stock based compensation expense.

Annual License fees of \$322,571 were incurred during the six month period ended June 30, 2022 compared to \$250,000 for the six month period ended June 30, 2021. In the prior year a discount was provided by KABN Gibraltar based on an advance payment which allowed the annual license fee of \$250,000 USD to be paid in Canadian dollars. In the current year, the annual license fee remains outstanding as at the end of the six month period ended June 30, 2022.

Foreign exchange loss of \$28,015 was incurred during the six month period ended June 30, 2022 and foreign exchange loss of \$19,322 was incurred during the six month period ended June 30, 2021. Foreign exchange losses are related to the exchange fluctuation between the Canadian dollar and the United States dollar on US denominated receivables and payables and are also impacted by the larger balances in the current period compared to the comparative period. The change is immaterial and reflects the limited foreign exchange risk the Company currently has.

## LIQUIDITY AND CAPITAL RESOURCES

During the six month period ended June 30, 2022, the Company incurred a net loss of \$4,991,938 and had a deficit of \$22,608,494. The Company held cash of \$53,883 and had working capital deficiency of \$5,119,364 as of June 30, 2022. The Company is an early-stage entity with limited revenue, while incurring costs to advance its critical marketing, business development and product development programs. The Company does not currently generate sufficient cash from operations and is reliant on external financing to fund its operations. As the Company completes additional financings and commercially launches certain programs, working capital and operational cash flow are expected to improve, but the Company will continue to have a negative operational cash flow until that time, may continue to have a working capital deficiency during the next twelve months. Such deficiency will require that the Company raise external financing, which financing cannot be assured.

The Company received \$119,288 from financing activities during the six month period ended June 30, 2022. \$75,000 was provided from option exercises, \$40,000 from advances on a private placement and \$117,069 was incurred for repayments of principal and interest on the outstanding short term loan. Aftermath Islands contributed additional cash to the consolidated financial statements of \$121,357 from issuances of short term loans.

On November 18, 2021 the Company received a short-term loan of \$500,000 for a three-month term, carrying interest of 12% and a 2% arrangement fee. There was no equity component for this loan. The Company has repaid \$100,000 in principal, the \$10,000 arrangement fee and accrued interest up to February 25, 2022. \$400,000 in principal and \$16,980 in interest remains outstanding as of June 30, 2022. There are no contractual penalties for default, and the debt is unsecured. The Company will repay the remainder of the debt and accrued interest as soon as it is able to.

As of the date of this MD&A there are approximately 86.5 million warrants, broker compensation options and stock options that are exercisable at prices between \$0.10 and \$0.345 per share for potential proceeds of up to approximately \$14.9 million. The Company's share price as of the date of this MD&A is below the lowest end of the exercise price range referenced above.

While financings that closed during 2021 have assisted in the Company meeting its cash requirements for the pre-revenue projects as described above, the Company's future capital requirements will depend upon many factors. At present the Company uses approximately \$500,000 of cash per month, which amount is expected to remain consistent for the near term. The Company does not have any commitments for capital expenditures by way of contract or obligation. Without substantial revenue from operations and positive cash flow from operations, the Company requires additional capital immediately, which could be potentially as debt and/or the additional sale of equity securities for cash required to meet its project plans, expand its operations, and to fund the administration of the Company. The Company subsequent to the quarter end has closed approximately \$1.1 million in private placements of units as described under "Subsequent Events". The Company's controlled subsidiary is working through potential direct financing ultimately through the sale of utility tokens, however both the extent of financing received and the amount that may be loaned or otherwise distributed to Liquid Avatar Operations for use in this part of the Company's business may be limited or non-existent.

The Company will prioritize expenses that have to be paid to maintain services while deferring certain management and staff salaries, short term debt obligations and accounts payable to the extent possible, which the Company has done already during the second quarter. The only past due obligations as of the date of this MD&A are short term debt and certain accounts payable greater than 30 days, which can and have been extended in the normal course of business without penalty. There are no assurances that vendors and other debtors will not take action against the Company if payment is not forthcoming on a reasonable basis. There is no assurance that future financing, whether debt or equity, will be available to the Company in the amount required by the Company at any particular time or for any period and that such financing can be obtained on terms satisfactory to the Company. The continued operations of the Company are dependent on its ability to generate future cash flows from operations and/or obtain additional financing as necessary, and the continued cooperation of vendors and debtors before cash flow from operations can sustain other cash needs of the Company. Management is of the opinion that, while in the absence of significant external financing, it expects the Company to continue to have a working capital deficiency over the next 12 months. Sufficient working capital will potentially be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. If the Company is unable to raise additional capital in the future, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures.



These foregoing issues raises substantial doubt about the Company's ability to continue as a going concern.

### ***Cash Used in Operating Activities***

The Company used net cash of \$711,501 in operating activities during the six month period ended June 30, 2022, and \$3,639,031 during the six month period ended June 30, 2021. For the six month period ended June 30, 2022, the Company's net loss was \$4,991,938 and had reductions for non-cash expenses including, stock-based compensation, amortization depreciation and unrealized foreign exchange totalling \$218,481. Change in non-cash working capital was \$4,061,956. The main driver for the change in non-cash working capital was the increase in deferred revenue as well as the increases in payables based on limited financial resources. For the six month period ended June 30, 2021, the Company's net loss was \$5,498,551 and had reductions for non-cash expenses including, stock-based compensation, amortization depreciation, expenses paid in shares and unrealized foreign exchange totalling \$1,612,287. Stock based compensation for \$1,354,844 was the most significant non-cash expense item. Change in non-cash working capital was \$247,233.

### ***Cash From Financing Activities***

The Company obtained \$119,288 in cash from financing activities during the six month period ended June 30, 2022. See above commentary for details of the financing activities. \$1,717,274 of financing in the six month period ended June 30, 2021 related to proceeds from the exercise of warrants and stock options.

### ***Cash Used in Investing Activities***

The Company did not have any cash used in investing activities for the six month period ended June 30, 2022. Investing activities for the six month period ended June 30, 2021 were \$140,938 comprised of \$18,216 used for the acquisition of computer related equipment and \$122,722 for the investment in Indicio PBC.

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **TRANSACTIONS WITH RELATED PARTIES**

The Company's related parties include its key management personnel, and companies related by way of directors or shareholders in common including KABN Gibraltar., which beneficially owns 9.07% of the issued and outstanding Common Shares and which is beneficially owned by David Lucatch, the Company's Chief Executive Officer and President, and a director.

An annual license fee of US\$250,000 is due to KABN Gibraltar. each year on the anniversary date of the license agreement. Royalties of 14% of gross margins of the Company are payable to KABN Gibraltar. calculated on annual calendar results. The annual license fee due May 15, 2022 remains outstanding as at June 30, 2022 (\$322,571). The Company was provided a discount to the May 15, 2021 license fee payment of US\$250,000 that enabled the obligation to be settled for \$250,000 as opposed to US\$250,000. The only consideration for the discount was that the payment be made in April 2021 instead of May 15, 2021.

During the three and six month period ended June 30, 2022, \$30,000 and \$120,000 has been billed by KABN Gibraltar. for management services with \$15,000 in unpaid management services as at June 30, 2022 (\$90,000 and \$180,000 was incurred during the three and six month period ended June 30, 2021 related to management services, all of which was paid during the six month period ended June 30, 2021).

During the three and six month period ended June 30, 2022 \$nil and \$105,000 was incurred in billings for product, technical development and usage by KABN Gibraltar, none of which was paid during the six month period ended June

30, 2022. (\$105,000 and \$217,975 was billed during the three and six month period ended June 30, 2021 with \$105,100 unpaid as at June 20, 2021 for these services).

\$52,500 was paid to KABN Gibraltar during the six month period ended June 30, 2022 from outstanding obligations as at December 31, 2021. \$532,551 is outstanding to KABN Gibraltar as at June 30, 2022. There are no fixed terms of repayment.

\$175,100 outstanding to KABN Gibraltar outstanding as of January 1, 2021 for product, technical development and operational services was paid during the first quarter of 2021.

## **SUBSEQUENT EVENTS**

On July 12, 2022, the Company terminated its agreement with XTM Inc. for the KABN Card program in Canada. Although intended to be released in 2021, the KABN Card program was not able to achieve its targeted commercial launch in Canada and, as a result, the Company determined to terminate the agreement with XTM Inc. A \$200,000 (plus HST) termination fee is being paid in installments to XTM Inc. At the date of this MD&A, a total of \$66,667 has been paid by the Company. Four additional payments of \$33,333 are required to be made with the final payment being October 17, 2022.

The Company recorded an expense of \$200,000 in Q1 2022 related to a mutually agreed proposal regarding the termination of its agreement with XTM Inc. for the KABN Card program in Canada, based on the best estimate of the settlement outcome. There is no further expense recognized for the six months ended June 30, 2022.

On July 15, 2022, the Company closed the first tranche of a non-brokered private placement of units for gross proceeds of \$915,700. 18,314,000 units were issued at a purchase price of \$0.05 per unit. Each unit consists of one Common Share and one Common Share purchase warrant. Each warrant is exercisable at a price of \$0.10 per Common Share for a period of 36 months from the date of the closing. In connection with the non-brokered private placement, the Company paid finder's fees in the aggregate sum of \$10,815 and issued 216,300 finder's warrants (the "Finder's Warrants") to certain eligible finders. Each Finder's Warrant entitles the holder to purchase one Common Share at an exercise price equal to \$0.10 per Common Share at any time up to 36 months following the closing.

On August 23, 2022, the Company closed the second tranche of a non-brokered private placement of units for gross proceeds of \$115,000 under the same terms as the first tranche private placement described above. 2,300,000 units were issued at a purchase price of \$0.05 per unit. In connection with the non-brokered private placement, the Company paid finder's fees in the aggregate sum of \$3,500 and issued 70,000 finder's warrants to certain eligible finders under the same terms as the first tranche private placement described above.

## **CHANGES IN ACCOUNTING STANDARDS**

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2022 that had a material effect on the financial statements of the Company.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2022 and have not been early adopted in preparing the financial statements. None of these are expected to have a material effect on the financial statements of the Company.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial instruments consist of accounts receivable, payables to KABN Gibraltar, short term loans payable, accounts payables and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values unless otherwise stated.

## **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

A breakdown of all material components of operating expenses of the Company is set forth in notes the unaudited interim condensed consolidated financial statements for the three and six month period ended June 30, 2022 and a breakdown of the material components of the product development expenses component of operating expense is set out under the headings "Results of Operations" (for both the quarter ended and six month period ended June 30, 2022).

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

### **Common Shares**

The Company has 164,292,473 Common Shares issued and outstanding, as of August 25, 2022.

### **Share Purchase Warrants**

The Company has 71,878,854 share purchase warrants outstanding exercisable into 71,878,854 Common Shares, as of August 25, 2022.

### **Broker Compensation Options**

The Company has 1,419,978 broker compensation options outstanding, which are each exercisable into one Common Share and one share purchase warrant. The broker compensation options are exercisable into an aggregate of 2,839,956 Common Shares, as of August 25, 2022.

### **Stock Options**

The Company has 11,894,000 stock options outstanding exercisable into 11,894,000 Common Shares, as of August 25, 2022.

## **RISK FACTORS**

Much of the information included in this report includes or is based upon estimates, projections, or other forward-looking statements. Such forward-looking statements include any projections or estimates made by the Company and its management in connection with the Company's business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. The Company cautions readers of this report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in

any such estimates, projections or other forward-looking statements. In evaluating the Company, its business and any investment in its business, readers should carefully consider the following factors:

### **Risks Related to the Company's Business**

***Because of the unique difficulties and uncertainties inherent in early stage development, the Company faces a high risk of business failure. The Company currently does not generate significant revenue from its operations, and as a result, the Company faces a high risk of business failure***

The Company has a history of operating losses and may never achieve profitability in the future. The Company is an early stage technology company.

The Company's ability to generate future revenue or achieve profitable operations is largely dependent on its ability to attract and retain the experienced management and know-how to develop and commercialize its programs. Successfully commercializing the current programs and gaining critical mass of client adoption may take several years and significant financial resources and the Company cannot assure that it can achieve these objectives.

***The Liquid Avatar Platform may not gain the level of market acceptance needed to make the Company profitable or achieve its growth objectives***

The Company could experience difficulty in securing Holders, Issuers and Verifiers within Canada and the United States of America, which would also reduce the number of users of the Liquid Avatar Platform. This would slow the Company's revenue growth and path to positive cash flow and profitability, and materially and adversely impact the Company's prospects, which could negatively impact market value of the Common Shares.

Even if the Company secures a significant level of Holders, Issuers and Verifiers within Canada and the US, the LQID Card could experience low adoption by end users or relatively low spend volume which could negatively impact related fees from the card and from LiquidShopz and thus have a material and adverse impact on the Company's revenues, cash flows, profitability, and financial position.

While the Company has a budget for marketing and communications to help support its efforts to gain market acceptance, secure new customers and promote revenue programs, such funds may not be sufficient to achieve the Company's revenue goals. If additional funds are required for marketing and communication, the Company may need to allocate funds from other uses, or raise additional capital, which could result in dilution to holders of the Common Shares, additional interest expense or both.

The Company could experience a limitation or stagnation in the ability to acquire cardholders in Canada and the United States of America which could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

The Company's card partners, payment card network and/or issuing banks could introduce new fees or assessments which could negatively impact the value proposition of LQID Card.

***The Company's business is reliant on certain new technologies and sectors gaining sufficient broad based adoption demonstrating ongoing economic viability.***

The Company including its controlled subsidiaries are operating in sectors that involve new technologies and business lines which are reliant on the overall acceptance by the market at large and can involve substantial volatility in sentiment. NFTs may involve a highly volatile market and can be impacted by market trends and sentiment substantially. The Metaverse is a very new concept under which there is great uncertainty as to the economic viability or practical application to drive revenues. Digital items including digital credentials are relatively new technology without current broad market acceptance or application. These factors may result in delays, volatile, limited or unsustainable revenue for the Company.

***We may not be successful in our metaverse strategy, which could adversely affect our business, reputation, or financial results.***

We believe the metaverse, an embodied internet where people have immersive experiences beyond two-dimensional screens, is the next evolution in social technology. We expect this will be a complex, evolving, and long-term initiative that will involve the development of new and emerging technologies, continued investment in infrastructure as well as privacy, safety, and security efforts, and collaboration with other companies, developers, partners, and other participants. However, the metaverse may not develop in accordance with our expectations, and market acceptance of features, products, or services we build for the metaverse is uncertain. In addition, we have limited experience with consumer hardware products and virtual and augmented reality technology, which may enable other companies to compete more effectively than us. We may be unsuccessful in our product development efforts, including if we are unable to develop relationships with key participants in the metaverse or develop products that operate effectively with metaverse technologies, products, systems, networks, or standards. In addition, as our metaverse efforts evolve, we may be subject to a variety of existing or new laws and regulations, including in the areas of privacy, safety, competition, content regulation, consumer protection, and e-commerce, which may delay or impede the development of our products and services, increase our operating costs, require significant management time and attention, or otherwise harm our business. As a result of these or other factors, our metaverse strategy may not be successful in the foreseeable future, or at all, which could adversely affect our business, reputation, or financial results.

***Financial Liquidity***

The Company has not yet generated substantial revenues and will likely operate at a loss as it looks to launch commercialized programs driving future revenue. The Company will require additional financing in order to execute its business plan. The Company's ability to secure required financing will depend in part upon investor perception of the Company's business and prospects. Capital market conditions and other factors beyond the control of management may also play important roles in the ability to raise capital. The Company can offer no assurance that it will be able to successfully obtain additional financing, or that future financing occurs on terms satisfactory to management. If funds are unavailable in the future, or unavailable in the amounts that management considers necessary, or unavailable on acceptable terms, the Company may be required to cease operating or modify its business plans in a manner that undermines its ability to achieve planned business objectives.

***A decline in the price of the Common Shares could affect its ability to raise further working capital and adversely impact its ability to continue operations***

A prolonged decline in the price of the Common Shares could result in a reduction in the liquidity of the Common Shares and a reduction in its ability to raise capital. The Common Shares are currently trading below \$0.10. Because a significant portion of the Company's operations have been and will be financed through the sale of equity securities, a decline in the price of the Common Shares could be especially detrimental to the Company's liquidity and its operations. Such reductions may force the Company to reallocate funds from other planned uses and may have a significant negative effect on the Company's business plan and operations, including its ability to develop new products and continue its current operations. If the Company's stock price declines, it can offer no assurance that the Company will be able to raise additional capital or generate funds from operations sufficient to meet its obligations. If the Company is unable to raise sufficient capital in the future, the Company may not be able to have the resources to continue its normal operations.

***Reliance on KABN Gibraltar License***

The intellectual property used under the KABN Gibraltar License is built upon the intellectual property developed by or licensed to KABN Gibraltar and in particular verification IP. The Company's business will be highly dependent on the availability to it of the verification IP and the right to use it to operate the Liquid Avatar Platform. A loss of, or restriction on using, any material part of the IP, would significantly impact the operations of the Company, including its ability to offer services to current and future Holders, Issuers and Verifiers which could have a material and adverse impact on the Company's revenues, results of operations, cash flows and prospects.

***Reliance on payment card networks and related financial services providers***

The KABN Gibraltar License includes the ability to offer the LQID Card within Canada and the United States of America, subject to approvals by payment card networks and issuing banks. Payment card networks and issuing banks

could exclude the Company from their approval which would require the Company to seek approval from an alternative payment card network and/or issuing bank, which could delay or eliminate the Company's ability to issue a digital currency-linked card in Canada and/or the United States of America, as payment card networks provide program approvals regionally.

Although KABN Gibraltar has been conditionally approved to run a digital currency-linked network branded prepaid card program in the United Kingdom and Europe, and the Company has been approved to run a similar prepaid card program in Canada, there is no guarantee that a similar program will be approved in the United States of America.

Once approved, payment card networks and issuing banks could create new governance/franchise rules which could negatively impact the Company's card products which could require the Company to seek approval from an alternative payment card network which could suspend the Company's ability to issue a digital currency linked card for an unknown period of time.

The Company's financial and related services, which will include card partners, payment card networks and issuing banks in Canada and the United States of America, could change their position and/or rescind approved program status which would require the Company to seek approval from an alternative issuing bank which could delay or eliminate the Company's ability to issue or continue to issue the LQID Card.

The Company's card program, payment card network and issuing banks(s) could implement new rules and/or fees that impact revenues for the LQID Card, which could material and adverse impact on the Company's revenues, results of operations, cash flows and prospects.

The Company will be reliant on payment card networks and issuing banks to conduct its business, particularly to provide functionality for the LQID Card. There is a risk that one or more of these issuing banks may cease to deal with the Company (which may occur on short notice), cease to deal with international payments services generally, substantially reduce the services it offers, substantially alter the terms on which it is willing to offer services to the Company, or exit one or more of the markets for which the Company uses its services.

***The Liquid Avatar Platform will be subject to competing service offerings, including new technologies***

Alternative payment card network, banking or payment solutions could be introduced to the Canadian and American markets which could compete or outsell the Company's offerings and suite of services. Additionally, unknown new programs for the movement of funds, alternative banking and payment solutions may be introduced in the future that may have an impact on the Company's ability to compete in the marketplace.

The Company believes that the Liquid Avatar Platform provides a unique market proposition in providing identity verification that is portable, secure, and cost effective. Notwithstanding this, the industry in which the Company will operate is competitive and includes companies with significantly greater financial, technical, human, research and development, and marketing resources than the Company. Numerous entities around the world may compete with the Company's efforts to commercialize, develop and expand products and services. Competitors may develop products in advance of the Company, products that are more effective than those developed by the Company, or that have or gain greater market acceptance. As a consequence, the Company's current and future technologies and products may become obsolete or uncompetitive, resulting in a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

The identity verification and financial and related solutions markets are highly competitive, and the Company's offering competes with other financial related services businesses, including other businesses focused on identity verification and management. Many existing providers either compete directly with the Company or provide services that are potential substitutes. The Company's major existing competitors will include identity verification companies, banks, money transfer organizations and other international payments specialists. New competitors, services and business models that will compete with the Company are likely to arise in the future. Many of these existing and potential competitors have or may have substantially more resources than the Company and have or may have product and service solutions that are more attractive to Holders, Issuers and Verifiers.

There is a risk that an existing or future competitor:

- allocates significantly more resources to competing in the Company's markets, including resources devoted to marketing, developing technology and/or client service;
- develops a lower cost or more effective business model, for example by developing or acquiring a more sophisticated technology platform or service delivery method;
- responds to changes to regulations, new technologies or changes in client requirements faster and more effectively than the Company; or
- develops new services that compete more directly with the Company than their current services.

A substantial increase in competition for any of these reasons could result in the Company's services becoming less attractive to existing and potential Holders, Issuers and Verifiers, requiring the Company to increase its marketing or capital expenditure, lower prices or fees, or alter other aspects of its business model in order to remain competitive, any of which could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

***There are significant regulatory and legislative risks***

The Liquid Avatar Platform assists Issuers with their AML and KYC compliance obligations in relation to their customers. Future legislative changes to AML, KYC or other similar requirements, may result in the Company's verification program not being as effective or losing its competitive advantage, and it may therefore become less attractive to current and prospective Issuers and Verifiers, which may have a significant effect on the business, operations and prospects of the Company. If Issuers and Verifiers change providers, the growth in the number of new users of the Liquid Avatar Platform will slow, impacting revenues across all aspect of the Company's business.

The international financial and related services market is a highly regulated area of economic activity around the world. Regulations applicable to those providing services and earning revenues in the market for international financial and related services include regulation relating to money laundering and financing of terrorism, sanctions laws and other regulations. There is a risk that the Company may fail to comply with these laws or government regulations. Any breach of law by the Company could have significant consequences for the Company. The further development, acceptance and use of digital currencies is subject to a variety of factors that are difficult to evaluate.

***The growth of the Neo Bank and identify verification industries in general, and the use of digital currencies in particular, is subject to a high degree of uncertainty***

The growth of the Neo Bank and identify verification industries in general, and the use of digital currencies in particular, is subject to a high degree of uncertainty, and the slowing, or stopping of the development or acceptance of developing protocols may adversely affect the Company's services related to future digital currencies-to-fiat link via the LQID Card which is operated by a partner party. The factors affecting the further development of these industries and digital currencies, include, but are not limited to:

- Continued worldwide growth in the adoption and use of digital currencies;
- Governmental and quasi-governmental regulation of digital currencies and their use;
- Restrictions on or regulation of access to and operation of the network or similar digital currency systems;
- Changes in consumer demographics and public tastes and preferences;
- The maintenance and development of the open-source software protocol of the network;
- The availability and popularity of other forms or methods of buying and selling goods and services, including new means of using fiat currencies;
- General economic conditions and the regulatory environment relating to digital assets; and
- Negative consumer sentiment and perception digital currencies generally.

***Data and privacy breaches can significantly harm the Company***

The majority of the Company's transactions will be conducted over the Internet and will therefore be subject to an element of risk. The Company's information technology infrastructure is designed to be secure, but is not immune to outside rogue elements, including computer viruses, computer hackers, and organized activities among groups of persons designed to breach the Company's security systems.

Privacy breaches may expose the Company to additional liability and result in the loss of Holders, Issuers and Verifiers, or an inability to conduct business. Any inability on the Company's part to protect the privacy in the Company's electronic transactions or systems could have a material effect on future revenue, financial conditions, and profitability. A privacy breach could expose the Company to additional liability under the privacy legislation of different jurisdictions, which could result in fines, additional compliance costs, or significant costs to remedy the breach and strengthen security; result in a customer or user's personal and/or financial information falling into the hands of criminal elements, exposing the Company to lawsuits, loss of revenue and reputations risks; and deter potential Holders, Issuers and Verifiers from using LAVCE or the Liquid Avatar Platform.

***The Company's failure to manage its growth successfully may adversely impact its operating results***

The Company's failure to manage its growth successfully may adversely impact its operating results. The Company's ability to manage growth will require it to continue to build its operational, financial and management controls, contracting relationships, marketing and business development plans and controls and reporting systems and procedures. The Company's ability to deal with growth may have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

***The Company's business is based on software and information systems and is exposed to the risks associated with such technologies***

While the Company's verification software was developed by KABN Gibraltar and through internally developed derivative works under the KABN License Agreement, such software may be subject to external factors, such as deprecation of operating systems, libraries, components, third party interfaces, drivers, patches, or other related issues. In addition, software requires regular updating and maintenance to keep it operating efficiently, continually, and robustly. If updates and maintenance are not carried out regularly or are carried out negligently, the software may be subject to operational outages, slowdowns, or errors. In addition, these external factors may affect the ability of the Company and KABN Gibraltar to effectively upgrade and maintain the Liquid Avatar Platform. The market in which the Company will operate is continually evolving, which can often lead to product and software obsolescence. If the Company does not successfully adapt to changes in the market and technology, its business and results may adversely be affected.

In addition, services based on sophisticated software and computing systems often encounter development and upgrade delays, and the underlying software may contain undetected errors or failures when introduced or when the volume of services provided increases. The Company may experience delays in the ongoing development of the software and computing systems underlying their services. In addition, despite testing, it is possible that the software may contain errors, and this could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

The Company depends on the performance, reliability, and availability of the Liquid Avatar Platform. There is a risk that these systems may be adversely affected by a number of factors including damage, equipment faults, power failure or natural disasters. Events of that nature may cause part or all of the Liquid Avatar Platform or its website to become unavailable. This in turn could reduce the Company's ability to generate income, impact client service levels and cause damage to the Company's reputation and, potentially, have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

There is also a risk that potential faults in the Liquid Avatar Platform could cause transaction errors that could result in legal exposure from Issuers and Verifiers, potentially leading to a loss of Customers and other business partners, damage to the Company's reputation or even cause a breach of certain regulatory requirements (including those affecting any required license) and could, in turn, have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

***Dependency on the Internet and/or Cloud based services***

The Company will rely on the availability of its website(s) and related cloud services to provide Holders, Issuers and Verifiers (both current and prospective) access to the Liquid Avatar Platform. The Company will depend on the continued acceptance of the Internet and/or cloud as a communications and commerce platform for individuals and enterprises. The Internet and/or cloud could become less viable as a business tool due to delays in development or



adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility, and quality-of service. Hackers or Internet service provider outages could render one or more of the Company's website(s) and/or technology related services unavailable. If for any reason the Internet and/or cloud does not remain a widespread communications medium and commercial platform, or the Company's websites and/or technology related services are unavailable for an extended period, the demand for the Liquid Avatar Platform and the Company's services would be significantly reduced, which would have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

***Customer service and reputational risk***

The reputation of the Company, along with the Liquid Avatar Platform, is important in attracting new and retaining existing Holders, Issuers and Verifiers of the Liquid Avatar Platform. Reputational damage could arise due to a number of circumstances, including errors or defects, data or privacy breaches, inadequate services or unsatisfactory client outcomes. Negative publicity could adversely impact the reputation of the Company, along with the Liquid Avatar Platform, which may potentially result in a fall in the number of persons seeking the products and services of the Company.

***The Company may become involved in legal matters that may materially adversely affect it***

From time to time in the ordinary course of business, the Company may become involved in various legal proceedings, including commercial, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. Furthermore, because litigation is inherently unpredictable, and can be highly expensive, the results of any such actions may have a material adverse effect on the Company's business, operations or financial condition.

***Fraud***

Combatting fraud is a significant challenge in the online identity, financial and related services industry because transactions are conducted between parties who are not physically present, which in turn creates opportunities for misrepresentation and abuse.

Companies in this sector are especially vulnerable because of the convenience and immediacy of verifying and validating identity and movement of funds, both digital currencies and fiat, from one account to another and subsequently withdrawing them. The Company's partners that facilitate identity, financial and other services over the Internet makes dealing with the risk of fraud a cost of doing business.

The Company will face significant risks of lost revenues due to fraud and disputes between parties. If the Company is unable to deal effectively with losses from fraudulent transactions the Company's business would be harmed.

Examples of such risks include:

- unauthorized use of personal information and undetected identity theft;
- client fraud;
- breaches of system security;
- employee fraud; and
- unauthorized use of the Liquid Avatar Platform or the LQID Card or associated mobile wallets.

***The Company's operations in the future may be adversely affected by other risks outside the control of the Company***

The Company's operations in the future may be adversely affected by labour unrest, civil disorder, war, terrorist attacks, computer viruses, telecommunications failure, power loss, subversive activities or sabotage, fires, earthquakes, floods, explosions or other catastrophes, epidemics or quarantine restrictions. For example, a system outage or data loss resulting from such an event could have a material and adverse impact on revenues, cash flows, profitability and financial position and market value.

***Conflicts of Interest***

Certain executive officers and directors will dedicate a portion of their time to other ventures. Management may have conflicts of interest in allocating management time, services and functions among the Company and any present and future ventures which are or may be organized by officers or directors and/or their affiliates. While management dedicates a full-time equivalent effort to the Company they are not required to direct the Company as their sole and exclusive function, and they may have other business interests and engage in other activities in addition to those relating to the Company. This includes rendering advice or services of any kind to other investors and creating or managing other businesses.

It is possible, however, that certain directors and officers may owe similar consideration to another organization(s). It is possible that these and other conflicts of interest are resolved in a way that has a material adverse impact on the Company.

***Dependence on Key Personnel***

The Company depends on support from existing directors and officers and its ability to attract, and retain, new directors, officers, and other personnel with appropriate skill sets. Inability to retain key team members or find new professionals to serve in important roles could have a material adverse effect on the Company's business. There can be no assurance that we will be able to attract or retain the quality of personnel required in the future.

***Financial Statements Prepared on Going Concern Basis***

The Company's financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the successful completion of financing and the creation of profitable operations deemed successful according to the standards of the industry in which it operates. The Company cannot guarantee that it will be successful in obtaining financing in the future or in achieving profitable business operations. The Company's consolidated financial statements may not contain the adjustments relating to carrying values and classification of assets and/or liabilities that would be necessary should the Company be unable to continue as a going concern.

***Costs of Maintaining a Public Listing***

As a result of having a public listing, the Company incurs greater legal, accounting and other expenses related to regulatory compliance than it would have had it remained a private entity under its prior operation. The Company may also elect to devote greater resources than it otherwise would have on communication and other activities typically considered important by publicly traded companies.

***Risks Relating to the Company's Common Shares******Active Trading Market***

Currently the volume of trading in the public market for the Common Shares has at certain times been limited, and there can be no assurance that an active market for the Securities will be sustained at any time. If an active public market for the Company's securities is not sustained or enhanced, the liquidity of an investor's investment may be limited, and the share price may decline.

***Share Price Volatility and Speculative Nature of Share Ownership***

Factors both internal and external to the Company may significantly influence the price at which the Common Shares trade, and the volatility of the share price. Quarterly operating results and material developments reported by the Company can, and likely will, influence the price of the Common Shares.

Sentiment toward technology and early stage business stocks, as well as toward the stock market in general, is among the many external factors that may have a significant impact on the price of the Common Shares. The Company is not generating material revenue and does not possess significant cash reserves. As such, it should be considered a speculative investment. There is no guarantee that a liquid market for the Common Shares will exist at any time or be maintained.

***The Company does not intend to pay dividends***

The Company has never paid any cash dividends and currently does not intend to pay any dividends for the foreseeable future. To the extent that the Company requires additional funding, those funding sources may prohibit the payment of a dividend. Because the Company does not intend to declare dividends, any gain on an investment in the Company will need to come through an increase in the price of the Common Shares. This may never happen, and investors may lose all of their investment in the Company.

**ADDITIONAL INFORMATION**

Additional information about the Company is available on SEDAR at <http://www.sedar.com>.

**BOARD APPROVAL**

The Board of Directors of the Company has approved this MD&A.