ARway.ai

ARway Corporation (formerly 1000259749 Ontario Ltd.)

Management's Discussion and Analysis

For the three months ended November 30, 2023 and 2022

(Expressed in Canadian dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of ARway Corporation (the "Company" or "Arway") provides analysis of the Company's financial results for the three months ended November 30, 2023 and 2022. This MD&A was prepared by management of the Company and should be read in conjunction with the condensed interim financial statements for the three months ended November 30, 2023 and 2022 (the "Financial Statements") as well as the audited financial statements for the year ended August 31, 2023 and the period from July 15, 2022 (incorporation) to August 31, 2022 (the "Annual Financial Statements"). The Company's Financial Statements and Annual Financial Statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in Canadian dollars. For further information on the Company, reference should be made to its public filings on SEDAR+ at https://www.sedarplus.ca.

For the purposes of preparing this MD&A, management, in conjunction with the Board, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

This MD&A is current as of January 26, 2024 and was approved by the Company's Board of Directors.

In this MD&A, the words "we", "us", or "our", collectively refer to ARway Corporation. The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively.

Management is responsible for the preparation and integrity of the Company's Financial Statements, including the maintenance of appropriate information systems, procedures, and internal controls. Management is responsible for ensuring that information disclosed externally, including the information contained within the Company's Financial Statements and MD&A, is complete and reliable.

This MD&A includes trademarks, such as "ARway", which are protected under applicable intellectual property laws and are the property of ARway. Solely for convenience, our trademarks and trade names referred to in this MD&A may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks and trade names. All other trademarks used in this MD&A are the property of their respective owners.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements that relate to our current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "anticipate", "aim", "estimate", "intend", "plan", "seek", "believe", "potential", "continue", "is/are likely to" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. Forward-looking statements are intended to assist readers in understanding management's expectations as of the date of this MD&A and may not be suitable for other purposes. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the economy generally;
- market participants' interest in ARway's services and products, both in respect of its current offerings and its proposed roll-out of future products and services;
- fluctuations in foreign currency exchange rates;
- business prospects and opportunities;
- anticipated and unanticipated costs;
- management's outlook regarding future trends;
- our expectations regarding our revenue, expenses and operations;

- our anticipated cash needs and our needs for additional financing;
- our plans for and timing of expansion of our solutions and services;
- our future growth plans including the entry into adjacent markets;
- the acceptance by our customers and the marketplace of new technologies and solutions;
- our ability to attract new customers and develop and maintain existing customers;
- our ability to attract and retain personnel;
- our future growth and its dependence on continued development of our direct sales force and their ability to obtain new customers;
- our expectations with respect to advancement in our technologies;
- our competitive position and our expectations regarding competition;
- regulatory developments and the regulatory environments in which we operate;
- anticipated trends and challenges in our business and the markets in which we operate
- an increased demand for 3D content and experiences;
- the anticipated benefits of our product offerings and services; and
- the retention of earnings for corporate purposes and the payment of future dividends.

Forward-looking statements are based on certain assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments and other factors we believe are appropriate. Expected future developments include growth in our target market, an increase in our revenue based on trends in customer behaviour, increasing sales and marketing expenses, research and development expenses and general and administrative expenses based on our business plans. Although we believe that the assumptions underlying the forward-looking statements are reasonable, they may prove to be incorrect.

Whether actual results, performance or achievements will conform to our expectations and predictions is subject to a number of known and unknown risks and uncertainties, including those set forth below under the heading "Risks and Uncertainties". These risks and uncertainties could cause our actual results, performance, achievements and experience to differ materially from the future expectations expressed or implied by the forward-looking statements. In light of these risks and uncertainties, readers should not place undue reliance on forward-looking statements.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, we do not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

Readers should read this MD&A with the understanding that our actual future results may be materially different from what we expect.

All of the forward-looking statements in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

BUSINESS OVERVIEW

The Company was incorporated under the Business Corporations Act (Ontario) on July 15, 2022 and is a spin out of Nextech3D.ai Corp. ("Nextech"), a Metaverse company and leading provider of AR solutions. The Company's registered and head office is located at PO Box 64039 RPO Royal Bank Plaza, Toronto, Ontario, M5J 2T6.

The Company's shares trade in Canada on the Canadian Securities Exchange ("CSE") under the trading symbol "ARWY", on the OTCQB Market under the trading symbol "ARWYF", and on the Frankfurt Stock Exchange under the trading symbol "FSE: E65".

ARway is disrupting the augmented reality wayfinding market with its no-code, no beacon spatial computing platform enabled by visual marker tracking. Users can access a venue map by scanning a visual marker (e.g., quick response code ("QR code")) with their smartphone and navigate to any point of interest by following an augmented path and step-by-step directions, while interacting with rich augmented reality ("AR") content and experiences. ARway only requires end-users to scan a QR code with their smartphone to activate.

The ARway platform currently includes the following:

Web Creator Platform

The Web-Based Creator Platform provides 'advanced' authoring capabilities compared to the mobile app, including the ability for creators to upload their own OBJ/GLB files, and create their own 3D objects. Placing content in a large area using only mobile app required the user to physically be in the specific location which was unscalable. The web studio allows the user to place and author content remotely and at scale.

Mobile app

With the ARway mobile app, anyone can spatially map their location within minutes using their smartphone, and populate it with interactive 3D content, augmented reality wayfinding, audio, text, images, and more. Nextech3D.ai Corp. ("Nextech"), the Company's parent, provides several pre-loaded 3D objects which creators can leverage to populate their metaverse.

Software development kit ("SDK")

The SDK contains code libraries and an application programming interface ("API") information that allows developers to build their own white label and private label mobile apps on both iOS and Android leveraging ARway's technology and creator tools to build AR wayfinding and spatial experiences. Creators will be able to develop white label and private label apps and access ARway APIs to author maps using the web creator portal. The SDK features the latest and greatest of the ARway mobile app.

HIGHLIGHTS OF EVENTS AND MILESTONES

During the three months ended November 30, 2023 and up to the date of this report, the Company has experienced several events and milestones:

- In September 2023, the Company was selected to participate at Apple's Vision Pro Developer Labs in Cupertino, California. At the developer labs, the Company completed a first build of the ARway Platform on Apple's Vision Pro hardware and reality OS operating system at Apple Park, Cupertino where developers got exclusive access to early prototypes of the headsets.

- On October 3, 2023, the Company announced new strategic international partnerships, which will propel the Company's reach further into the indoor navigation industry and towards profitability. These partners, including AI Africa, Vraxa, and Brink Interactive, represent a significant growth opportunity for the Company.

- On October 17, 2023, the Company launched its custom augmented reality games as spatial experiences in the ARway studio. This strategic expansion is set to further solidify the Company's position as a leading innovator in AR technology as well as indoor spatial mapping.

- On October 31, 2023, the Company announced its collaboration with the prestigious Institut für Innovations-und Informationsmanagement (iFii) to create an innovative AR navigation system on the iFii campus in Germany. This is a paid-partner deal which represents a growth opportunity for the Company as well as enhances brand awareness within the European Union.

- In December 2023, the Company released the new version of its spatial mapping platform with new enhanced AI-powered process that automates the creation of 400,000 square feet 3D spatial maps from 2D floor plans, significantly improving ARway's platform performance for enterprises and developers. The deployment of this technology at Congohas Airport, Brazil, and a prominent shopping destination in South Africa, showcases its global applicability and scalability. On January 18, 2024, the contract with Congohas Airport was extended, expecting to enhance the travel experience for car rental customers.

- On January 17, 2024, the Company announced new developer deal with F3 Geomatic Solutions, a distinguished geospatial modeling and mapping agency based in Cuervo, Texas. Through ARway, F3 Geomatic aims to offer tailored geospatial solutions for museums, trade shows, and local governments, emphasizing enhanced user experiences.

(Expressed in Canadian dollars, except where noted)

RESULTS OF OPERATIONS

A summary of the Company's results of operations for the three months ended November 30, 2023 and 2022 is as follows:

	Three months ended November 30,	
	2023	2022
	$	$
Revenue	**148,409**	4,352
Operating expenses		
Amortization	**-**	13,889
Depreciation	**454**	-
General and administrative	**109,499**	61,206
Research and development	**129,701**	65,000
Sales and marketing	**113,289**	31,848
Share-based compensation	**152,941**	203,657
Loss on sales of shares	**63,983**	-
Total operating expenses	**569,867**	375,600
Loss from operations	**(421,458)**	(371,248)
Interest income	**1,539**	-
Net loss and comprehensive loss	**(419,919)**	(371,248)

Revenue

The Company had revenue of $148,409 in the current year period compared to $4,352 in the prior year comparable period. The current period's revenue includes $23,409 generated from platform license and mobile application sales, along with $125,000 from the license agreement with Nextech, a related party, as described in "Related Party Transactions and Balances" section below. In the comparable period, revenue solely comprised platform license and mobile application sales. The increase in non-related party revenue resulted from pilot agreements signed for the Company's platform license and mobile application sales which can be attributed to stronger demand in the augmented reality market.

General and administrative expenses

General and administrative expenses for the current year period increased to $109,499 compared to $61,206 in the prior year comparable period. This increase is primarily attributed to the Company's heightened operational activity, with additional contracts signed, resulting in higher payroll expenses, consulting and professional fees as well as office rent expense. The lower expense in the prior year quarter is a result of the Company commencing operations in late October 2023, when it began incurring expenses.

General and administrative expenses consist primarily of personnel and related costs associated with administrative functions of the business including finance, human resources, operations, management, and internal information system support.

Research and development expenses

Research and development expenses for the current year period increased to $129,701 compared to $65,000 in the prior year comparable period due to higher developer fees and payroll expenses as the Company has been focusing on the development and improvement of the ARway platform. The lower expense in the prior year quarter is a result of the Company commencing operations in late October 2023, when it began incurring expenses.

(Expressed in Canadian dollars, except where noted)

Selling and marketing expenses

Selling and marketing expenses for the current year period increased to $113,289 compared to $31,848 in the prior year comparable period. The increase was primarily attributed to the Company's ongoing investment in marketing activities aimed at enhancing brand awareness, particularly through the sponsorship of various events. Management anticipates that selling and marketing expenses will continue to increase throughout the year once sustainable market opportunities are identified. The lower expense in the prior year quarter is a result of the Company commencing operations in late October 2023, when it began incurring expenses.

Loss on sales of shares

Loss on sale of shares for the current year period increased to $63,983 compared to $nil in the prior year comparable period. The loss resulted from the sale of shares in the employee pay program which is a program that involves the sale of the Company's own shares as part of employee remuneration. A loss on sale of shares results when the realized value of shares sold in the employee pay program is less than the cost of shares. Refer Note 7(c) in the Financial Statements for more detail on the employee pay program.

QUARTERLY FINANCIAL INFORMATION

	Q1 2024	Q4 2023	Q3 2023	Q2 2023
	$	$	$	$
Operating loss	**(421,458)**	(5,090,004)	(1,447,103)	(1,420,807)
Net loss and comprehensive loss	**(419,919)**	(5,150,728)	(1,368,701)	(1,264,001)
Net loss per share - basic and diluted	**(0.02)**	(0.19)	(0.05)	(0.05)

	Q1 2023	July 15, 2022 (incorporation) to August 31, 2022
	$	$
Operating loss	(371,248)	-
Net loss and comprehensive loss	(371,248)	-
Net loss per share - basic and diluted	(0.04)	-

The Company is in the early stages of operations, and most of the losses recorded are a direct outcome of investments in research and development, as well as selling and marketing expenses aimed at enhancing products and expanding into new markets. The Company had highest operating loss in Q4 2023 due to the impairment of intangible assets.

LIQUIDITY AND CAPITAL RESOURCES

The Company manages its capital structure based on the funds available to it in order to support the continuation of and expansion of its operations and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company's definition of capital includes all accounts of shareholders' equity. The primary cash flows have been through financing activities.

The following table provides a summary of the cash inflows and outflows by activity during the three months ended November 30, 2023 and 2022:

	2023	2022
	$	$
Cash used in operating activities	**(244,426)**	(122,072)
Cash provided by financing activities	**42,414**	1,657,351
Net change in cash	**(202,012)**	1,535,279

During the three months ended November 30, 2023, the Company had net cash outflow of $202,012 (2022 - net cash inflow of $1,535,279).

(Expressed in Canadian dollars, except where noted)

Cash used in operating activities for the for the current year period increased to $244,426 compared to $122,072 in the prior year comparable period, which is primarily due to higher operating expenses incurred as the Company, in its early stages of operations, continues to invest in marketing and research and development to support its growth.

Cash provided by financing activities for the current year period decreased to $42,414 compared to $1,657,351 in the prior year comparable period. The current period's financing is solely from the sale of shares in the employee pay program, used to cover payroll expenses, while the prior year involved a unit private placement for working capital purposes.

As at November 30, 2023, the Company had cash of $79,160 (August 31, 2023 - $281,172), working capital of $16,459 (August 31, 2023 - $176,586). We anticipate that the growth of our license revenue along with our license revenue with Nextech will generate cash flow to reduce the amount of working capital required to sustain operations, along with potential warrant exercises, and continued use of our employee warrant purchase program will all help improve the cash flow position of the Company. The Company may need to seek additional financing to continue to grow its operations. The amount and pricing of financing the Company is able to raise in the future is dependent on the cyclical nature of the equity markets, and the perception and adoption of AR and AR technologies in the mainstream.

OUTSTANDING SHARE DATA

As at November 30, 2023 and as at the date of this MD&A, the Company had the following securities outstanding:

	November 30, 2023	**Date of MD&A**
Common shares	27,291,026	27,663,238
Warrants	7,527,636	7,185,424
Options	2,928,000	4,050,000

RELATED PARTY TRANSACTIONS AND BALANCES

The Company considers the executive officers and directors as the key management of the Company. During the three months ended November 30, 2023, the Company incurred $nil (2022 - $nil) in remuneration to management personnel including those persons having the authority and responsibility for the planning, directing, and controlling of the activities of the Company.

Related party agreements

On July 13, 2023, the Company entered into an intellectual property license agreement with Nextech, which is a major shareholder of the Company. As full consideration for the rights granted under this agreement, Nextech will pay an annual royalty fee of $500,000 payable in monthly installments of $41,667. After Nextech has earned $500,000 in revenue generated from the use of the licensed intellectual property, a royalty equal to 10% of all revenue generated thereafter from the use of such property will be payable. During the three months ended November 30, 2023, the Company received $125,000 (2022 - $nil) in fees as part of revenue.

On October 25, 2022, the Company entered into a management agreement with Nextech. The contract stipulates that a management fee of up to $100,000 per month will be paid to Nextech for consulting services, which consists of services performed by executive officers, technology consultants, and shared services such as, finance, human resources, and sales operations. The monthly amount represents the Company's portion of shared expenses with Nextech based on fair market rates. During the three months ended November 30, 2023, the Company paid $nil (2022 - $100,000) in fees as part of general and administrative expense.

A summary of the Company's related party transactions during the three months ended November 30, 2023 and 2022 is as follows:

	2023	2022
	$	$
Revenue (representing 84% of total revenue)	**125,000**	-
Management fees and remuneration for services	**-**	100,000

As at November 30, 2023, accounts payable and accrued liabilities included $79,985 (August 31, 2023 - $63,174) in respect of the services rendered. These are non-interest bearing with standard payment terms.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and related disclosures. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Judgment is used mainly in determining how a balance or transaction should be recognized in the financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. Actual results may differ from these estimates.

All critical accounting estimates and judgements are fully disclosed in Note 3 of the Annual Financial Statements.

FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

As at November 30, 2023, the Company's financial assets and liabilities were classified as amortized cost.

The carrying values of cash and cash equivalents, receivables (except for GST receivables), and accounts payable and accrued liabilities approximate their fair values because of their short-term nature.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet an obligation under contract. Credit risk exposure arises with respect to the Company's cash and cash equivalents. The risk exposure is limited because the Company places its instruments in banks of high credit worthiness within Canada. At November 30, 2023, receivables of $35,576 (August 31, 2023 - $24,045) is comprised of $4,183 due from customers (August 31, 2023 - $135) and GST receivable of $31,393 (August 31, 2023 - $23,910). The risk exposure on receivables is assessed as low as it is limited to the total amount of receivables from customers which comprise immaterial amounts.

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's main source of cash resources is through equity financing. The Company's financial obligations are limited to its current liabilities which have contractual maturities of less than one year.

c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has assessed that interest rate risk is low for the financial assets as most investments are made in highly liquid instruments.

d) Foreign exchange risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rates. Foreign currency risk exposure arises with respect to some of the Company's cash and cash equivalents, receivables, and accounts payable and accrued liabilities denominated in a foreign currency. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar could affect the Company's results of operations, financial position, or cash flows. Assuming all other variables constant, an increase or a decrease of 10% of the US dollar against the Canadian dollar would impact the Company by $1,186 during the three months ended November 30, 2023.

The Company had no hedging agreements in place with respect to foreign exchange rates.

Management of Capital

The Company's definition of capital includes equity, comprising share capital, reserves and accumulated deficit. The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. As at November 30, 2023, the Company had shareholders' equity of $21,182 (August 31, 2023 - $181,763).

The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business. The Company obtains funding primarily through equity issuance. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company. There were no changes to the Company's approach to capital management during the three months ended November 30, 2023.

As at November 30, 2023, the Company was not subject to any externally imposed capital requirements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes during the three months ended November 30, 2023, in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as of the date of this report.

PROPOSED TRANSACTIONS

The Company has no proposed transactions as of the date of this report.

RISKS AND UNCERTAINTIES

For a detailed listing of the risks and uncertainties faced by the Company, please refer to the Company's MD&A for the year ended August 31, 2023 and the period from July 15, 2022 (incorporation) to August 31, 2022