Eddy Smart Home Solutions Ltd. (formerly Aumento Capital VIII Corp.)

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the three and six months ended June 30, 2022 and 2021

Eddy Smart Home Solutions Ltd. ("Eddy" or the "Company") formerly Aumento Capital VIII Corp. ("Aumento") is a North American provider and developer of residential and commercial smart water metering products and monitoring services, helping property owners protect, control, and conserve water usage by combining water sensing devices with behavioural learning software.

This Management's Discussion and Analysis ("MD&A") is dated as of August 24, 2022 and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2022 and 2021, as well as the Company's audited consolidated financial statements for the years ended December 31, 2021 and 2020. Unless otherwise specified, dollar amounts are expressed in Canadian dollars. Additional information in respect of the Company can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements within the meaning of applicable Canadian securities laws ("**forward-looking statements**" or "**forward-looking information**") that involve various risks and uncertainties and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements and the notes thereto for the three and six months ended June 30, 2022 and 2021.

Statements other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning anticipated future events, results, circumstances, economic performance or expectations with respect to Company, including Company business operations, business strategy and financial condition. When used herein, the words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "goal", "intends", "may", "might", "outlook", "plans", "projects", "schedule", "should", "strive", "target", "will", "would," and similar expressions may be used to identify forward-looking information, although not all forward-looking information contains these identifying words. In particular, statements regarding the Company plans for 2022 the Company's liquidity risks and foreign currency risks, the estimated new MFR (as hereinafter defined) sales, and the expected revenue recognition of current units are forward-looking statements. Forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.

These forward-looking statements reflect the internal projections, expectations, future growth, results of operations, performance, business prospects and opportunities of the Company and are based on information currently available to the Company and/or assumptions that the Company believes are reasonable. Many factors may cause actual results to differ materially from the results and developments discussed in the forward-looking information.

In developing these forward-looking statements, certain material assumptions were made. These forward-looking statements are also subject to certain risks. These risks include, but are not limited to:

- actual future market conditions being different than anticipated by management;
- general economic and business conditions;
- the risk that the roll out of the monitoring of residential and commercial smart water metering products and related technologies does not meet anticipated results;
- the risks associated with the impact of existing or future waves in the COVID-19 pandemic; and
- the risks and uncertainties described under the "Risks and Uncertainties" section in this MD&A.

Such forward looking statements or information are based on a number of assumptions, all or any of which may prove to be incorrect. In addition to any other assumptions identified in this document, assumptions have been made regarding, among other things:

- management's views regarding current and anticipated market conditions;
- industry trends remaining unchanged;
- the Company's financial and operating attributes as at the date hereof and its anticipated future performance;
- assumptions regarding the volume and mix of business activities remaining consistent with current trends;

- the Company's ability to obtain financing on acceptable terms;
- the Company's ability to enter into long-term revenue agreements with established developers and insurance companies;
- the concentration risk of suppliers;
- assumptions regarding foreign exchange rates; and

Readers are cautioned that the preceding list of factors or assumptions is not exhaustive. Although forward-looking statements contained in this MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Accordingly, readers should not place undue reliance on such forward-looking statements and assumptions as management cannot provide assurance that 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.

All forward-looking information in this MD&A is made as of the date of this MD&A. These forward-looking statements are subject to change as a result of new information, future events or other circumstances, and the Company undertakes no obligation to update publicly or revise any forward looking statements or information, whether as a result of new information, future events, or otherwise, unless required by applicable securities law.

Please see the "Risks and Uncertainties" section in this MD&A for a discussion in respect of the material risks relating to the business of the Company.

"This MD&A includes references to financial measures such as Adjusted EBITDA. The Company feels that these financial measures are important to the understanding of its business activities. These financial measures are not defined by IFRS and are therefore referred to as non-IFRS measures. The non-IFRS measures may not be comparable to similar measures presented by other companies. The Company uses these measures to evaluate its performance. The non-IFRS measures should not be considered an alternative to, or more meaningful than, measures determined in accordance with IFRS, as an indication of the Company's performance. The non-IFRS measures are reconciled to their closest IFRS measures.

SENIOR MANAGEMENT CHANGES

The current Executive Chairman and Director, Mark Silver, will be taking on the role of Chief Executive Officer, as a result of the resignation by Travis Allan as both CEO and Director. Mark Silver has over 36 years of experience in business, real estate and building services. As a focused and successful entrepreneur, he previously co-founded Direct Energy and grew revenues to more than $1.3 billion before selling in 2000. He subsequently launched Universal Energy (purchased by Just Energy for $425 million) and National Home Services (purchased by Reliance Comfort for $505 million). Mr. Silver launched Eddy in 2014 with a goal to extend smart home service offerings to water protection and expand into other markets – such as building and commercial verticals. The board of directors wishes to thank Travis for all of his services.

Sajid Khan has been appointed as President & Chief Operating Officer. Mr. Khan has served in the role of Chief Operating Officer of Eddy since inception. His experience includes more than 20 years of leadership and operational experience in the home services sector. Mr. Khan has held various roles including Chief Operating Officer of Eco Energy Service, Vice President of Operations at both National Home Services and Universal Energy, as well as management positions in Direct Energy. He has extensive experience building and leading installation networks and teams and other operational departments such as call centres, billing, processing, and change management

The change in roles strengthens the overall senior management team and will position the Company for continued growth and maximize value creation from its rapidly expanding backlog of contracted revenue.

RECENT DEVELOPMENTS AND OUTLOOK

Contracted revenue is primarily measure of traction we are gaining in the market for our leak protection services. As a result of the building development cycle, in most cases, business garnered during the quarter will not translate into revenue generation until the building is constructed in the future (ranging from a few quarters to approximately two years). As a result, a key operating metric of our success and the value of the business can be measured by both the existing contracted revenue and the growth of this figure. With a mission to protect property and empower people with data and control, the Company's contracted sales backlog continues to grow, which during the first half of 2022, increased by $16.1 million and stands at $32.6 million, which represents the future contracted revenue. The Company earns revenue over the term of its contracts on a straight-line basis which commences upon installation. The term of the contracts are typically 84 months.

The Company's future contracted water monitoring revenue as at June 30, 2022 was $32.6 million (December 31, 2021 – $16.5 million), which an increase of over 100% and demonstrates significant sales momentum.

The following table summarizes the remaining future contractual water monitoring services revenue expected from the current contractual arrangements in place.

	June 30, 2022	**December 31, 2021**
	$	**$**
2022	1,983,540	2,609,793
2023	3,417,521	2,477,473
2024	3,515,813	2,373,814
2025	3,623,286	2,253,541
2026	3,705,110	2,183,897
2027	3,745,034	1,996,394
Thereafter	12,610,280	2,621,633
Total	**32,600,584**	**16,516,544**

Operationally, Eddy continues to evolve its product suite, with substantial focus on product refinement, with the introduction of water probe sensors, rope sensors, and the recent finalization of LoRaWAN (a low bandwidth/low radio frequency platform that provides enhanced connectivity in high interference environments) IQs (to complement Eddy's Cellular and WiFi Iqs) into the product suite.

These product enhancements provide greater applications of Eddy's protection, while addressing connectivity challenges of the IQ in building deployments. Some supply chain challenges persist as a result of COVID-19, with delayed shipments of materials from China, but this has not affected Eddy's inventory negatively, as Eddy is managing with current inventory reserves and diversifying product supply.

STRATEGIC ACQUISITION

On May 4, 2022, the Company acquired a 100% ownership interest in Reed Controls Inc. ("Reed"). Reed develops a robust water management technology platform of hardware and cloud software to manage water related risk, converge water and accelerate Internet of Things ("IoT") adoption among global plumbing manufacturers. The primary reason of the acquisition is to allow the Company to expand the product offering with a greater focus on commercial solutions for smart water metering products and monitoring services. The total purchase price for the transaction was $4,538,420 which was paid through the issuance of 12,266,000 common shares ("Share Consideration"). The Share Consideration is subject to a twenty-four (24) month lock-up period, provided that the Share Consideration will be released from the lock-up requirements on the first business day following each of the four, six, nine, twelve, fifteen, eighteen and twenty-one month anniversaries of the closing date. The Share Consideration will also be subject to a statutory four month hold period. Upon the closing of the transaction, Reed's founders joined the Company's leadership team. Reed has also been granted a right to nominate a director to serve on the Company's board of directors (the "Board"), and a Board observer. See condensed consolidated interim financial statements for the three and six months ended June 30, 2022 and 2021 (note 20).

Reed has grown to become a leading water management technology company with applications for water conservations, water risk mitigation and data insights. Since 2016, reed technology has been connecting plumbing fixtures (valves, meters & sensors) to the cloud, servicing clients, including plumbing manufacturers, plumbing engineers, property and facility managers, real estate developers, builders and asset management firms.

Reed has deployed its technology in across North America and its technology has been accepted and specified by some engineering firms as the basis of design for risk mitigation engineered system in tendered new construction projects.

Reed has strong brand partnerships with several global plumbing manufacturers to provide real time data insights on the condition of their products in installed environments. Additional reed capability includes white labelling the technology as part of a connected plumbing products under the reed open-source connectivity protocol and the cloud platform.

REVERSE TAKEOVER TRANSACTION

On January 12, 2022, the Company (Aumento at the time) completed a three-cornered amalgamation whereby Eddy Smart Home Solutions Inc. ("ESHSI") amalgamated with a subsidiary of the Company to form a wholly owned subsidiary of the Company and the shareholders of ESHSI exchanged their shares of ESHSI for common shares of the Company ("Common Shares"), such that following the completion of the transaction, the former shareholders of ESHSI became the majority shareholders of the Company and the business of ESHSI became the business of the Company (the "RTO Transaction").

Each issued and outstanding common share and class B preferred share of ESHSI was cancelled and replaced by 0.504867 Common Shares (the "Exchange Ratio"). Further, each option or warrant issued by ESHSI was exchanged for a corresponding option or warrant of the Company on substantially the same economic terms and conditions as the original option or warrant based on the Exchange Ratio.

Following completion of the RTO Transaction, the Company had 67,262,619 Common Shares issued and outstanding on a non-diluted basis with existing shareholders of Aumento holding approximately 2.97% and ESHSI shareholders holding approximately 97.03% of the outstanding Common Shares. As a result, the RTO Transaction is considered a reverse takeover of Aumento by ESHSI. For accounting purposes ESHSI is considered the acquirer and Aumento the acquiree.

Aumento's activities prior to the acquisition were limited to management of cash resources and the maintenance of its listing, and accordingly, did not constitute a business. As a result, the RTO Transaction is considered to be outside the scope of IFRS 3 Business Combinations and has been accounted for as an asset acquisition. Since ESHSI granted equity instruments as consideration for the acquisition, the arrangement has been accounted for under IFRS 2, Share-based Payments. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by ESHSI to Aumento. The share capital, reserves, and deficit of Aumento at the time of the RTO Transaction have been eliminated against the fair value of the consideration and the difference has been recognized as a listing expense in the statement of loss and comprehensive loss. The capital structure recognized in the condensed consolidated interim statement of financial position is that of the Company, but the dollar amount of the issued share capital prior to the RTO Transaction is that of ESHSI, including the value of the Common Shares issued prior to the RTO Transaction.

In the accounting for the RTO Transaction consideration was determined by reference to the fair value of equity the legal subsidiary, being ESHSI, would have issued to the legal parent entity, being Aumento, for the shareholders of Aumento to obtain the same percentage ownership interest of approximately 2.97% in the combined entity. The fair value of the issued equity was determined based on the most reliable and observable fair value measure being the market price per share from a recent ESHSI private placement to third party market participants ($0.60 per share).

The excess of the fair value of the RTO Transaction consideration to Aumento over the fair value of the assets and liabilities of Aumento acquired by ESHSI at January 12, 2022 are as follows:

FAIR VALUE OF CONSIDERATION ISSUED

ESHSI (issued 2,000,000 common shares at $0.60)	**$1,200,000**
Aumento common shares	630,988
Aumento surplus	111,037
Aumento deficit	(323,223)
Net assets acquired	$418,802
Aumento options assumed	51,280
Aumento agent warrants assumed	25,640
Reverse takeover listing expense	**$858,118**

GOING CONCERN BASIS OF ACCOUNTING

These unaudited condensed interim financial statements have been prepared on a basis which contemplates that the Company will continue in operation and be able to realize its assets and discharge its liabilities and commitments in the normal course of business for the foreseeable future. In assessing whether this assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue, management considers all available information and actions within its control with respect to the future which is at least, but not limited to, twelve months from the end of the reporting period.

For the six months ended June 30, 2022, the Company generated a net loss of $5,756,238 and negative cash flows from operating activities of $6,525,578. As at June 30, 2022, the Company has an accumulated deficit of $45,785,991, the working capital has improved to a surplus of $4,926,791. The overall events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuation of the Company is dependent on its ability to achieve positive cash flow from operations, to obtain the necessary equity or debt financing to continue with expansion in the water monitoring services market, and to ultimately attain and maintain profitable operations.

While management has a high degree of confidence that this trend of capital raising will continue, there is no assurance that it will be successful in closing additional financings in the future. These unaudited condensed consolidated interim financial statements do not give effect to any adjustments to the carrying value of recorded assets and liabilities, revenue and expenses, the statement of financial position classifications used and disclosures that might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

OVERVIEW

The Company was incorporated under the Business Corporations Act (Ontario) on November 20, 2020 and was a Capital Pool Company as defined in the Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Upon the closing of the RTO Transaction, the Company changed its name to Eddy Smart Home Solutions Ltd. ("Eddy" or the "Company").

ESHSI was incorporated under the Business Corporations Act (Ontario) on January 27, 2015. ESHSI is a North American provider and developer of residential and commercial smart water metering products and monitoring services, helping property owners protect, control and conserve water usage by combining water sensing devices with behavioural learning software.

Utilizing a direct sales approach, the Company's initial go-to-market strategy focused on the retail single-family residential ("SFR") market in California. Deploying a SaaS based model that included 24/7 monitoring and data, the Company offered subscribers the technology and tools to control their water usage. The earliest product included both a remote and automatic shutoff that utilized behavioural learning to understand the unique water usage patterns of homeowners.

ESHSI operates in three segments: Single-Family Residential ("SFR"), Multi-Family Residential ("MFR") and Commercial & Institutional ("C&I") buildings, a value proposition enhanced by an amplified threat of water damage that includes business interruption and the displacement of residents. As such, a significant pivot opportunity emerged that represented a total addressable market encompassing not only single-family homes, but also MFRs, and C&I properties, both for retrofit and in construction.

To enable this expanded market strategy long term and to further enhance its integrated leak protection and water management approach, the Company invested significant resources into both hardware and software, which would accommodate sub-metering, commercial-scale behavioral learning, large pipe sizes, humidity and temperature, and a commercial property management application, as well as a new form of connectivity specific to high interference environments.

The Company has invested and now has resources, knowledge base, and a fully developed product suite to meet the demands of the MFR, SFR, and C&I market at scale through its already established sales team and channel partners in insurance, telecommunications, constructors, and developers.

The wholly owned operating subsidiaries of the Company are Eddy Home Inc., Eddy Home Distribution Inc. (formerly Municipal Water Savings Corp.), Municipal Water Savings California Corp., and Reed Controls Inc.

The Company operates in three segments: SFR, MFR and C&I.

The Company's sales strategy encompasses direct sales and channel partners.

- For the three months ended June 30, 2022
  Total revenue was comprised of SFR at 27.1%, MFR at 71.6% and C&I at 1.3%.

- For the six months ended June 30, 2022,
  Total revenue was comprised of SFR at 31.1%, MFR at 68.0% and C&I at 0.9%.
- For the three months ended June 30, 2021
  Total revenue was comprised of SFR at 49.9%, MFR at 49.7% and C&I at 0.4%.

- For the six months ended June 30, 2021
  Total revenue was comprised of SFR at 47.7%, MFR at 51.8% and C&I at 0.5%.

The growth of the MFR segment is consistent with the Company's focus on diversifying revenue across segments outside of SFR.

The Company's cloud-based leak detection platform currently manages more than 34,452 in-building devices as of June 30, 2022 (December 31, 2021 – 29,778). The Company provides its subscribers with a fully integrated solution including device installation and 24/7 monitoring.

PROUDCTS AND SERVICES

The Company offers its products and services under the Eddy Solutions brand, which is an award-winning brand in North America synonymous with excellence and superior customer care in the water leak detection industry. The Company's main revenue stream is water leak detection monitoring services designed to detect and prevent water leaks in SFR, MFR and C&I. Upon the occurrence of certain initiating events such as a detected water leak, the Eddy Solutions leak detection system sends event-specific signals to the Company's monitoring center. The Company's monitoring center has 24/7 availability to respond to alerts by contacting the subscriber or subscriber's building manager and remotely activating shutoff valves to stop further leaks and water damage.

The Company's product and service offering consists of a hardware and software component that work together to provide comprehensive water protection. The primary hardware components include equipment such as water meters that measure the flow of water through pipes, wireless sensors that detect the presence of water leaks, shutoff valves that can turn off water flow in the building, and gateways which allow the devices to communicate with each other and with the Company’s monitoring center. The Company’s software component is its monitoring service which is based on its cloud-based water leak detection platform that tracks and stores data from the subscriber’s in-building devices. The Company’s behavioural learning algorithm builds a water usage profile for each subscriber based on historical water usage and flags irregular water flows as potential leakages or flood events, which the monitoring center can respond to.

SEGMENTS

The Company reports results on three operating and reportable segments: SFR, MFR, and C&I. The SFR segment consists of single-family homes, with each single-family home constituting one subscriber. The MFR segment consists of multi-residential buildings such as condominiums and apartments, with each unit within the multi-residential building constituting one subscriber. The C&I segment consists of buildings used for commercial and industrial activities such as office buildings and hospitals. The Company tracks performance in the C&I segment based on square footage managed as opposed to a subscriber count.

	Three months ended		**Six months ended**	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Canada	87%	68%	84%	69%
USA	13%	32%	16%	31%

SALES AND DISTRIBUTINON CHANNELS

The Company utilizes a mix of direct and indirect sales and distribution channels. The Company’s direct channel subscribers are generated by its sales outreach, marketing efforts, brand awareness, and subscriber referrals, and are supported by the Company’s internal salesforce. Direct channel subscribers include property owners (developers, asset managers, condominium corporations, and homeowner’s associations), insurance carriers, and sub-metering companies. The Company’s indirect channel customers are generated by commission-based agreements with independent third-party companies which include general contractors, developers, insurance carriers and brokers, sub-metering companies, property managers, telecom companies, restoration firms, architectural and engineering firms, and HVAC installers.

FIELD OPERATIONS

The Company serves its North American subscriber base from its head office in Toronto as well as its facilities in Toronto and California. The Company utilizes third-party subcontractor labor when appropriate to assist with installation and servicing. The Company maintains the relevant and necessary licenses related to the provision of installation, plumbing, and related services in the jurisdictions in which it operates. The Company’s objective is to provide a white glove service experience, including by providing same-day or next-day service to the majority of its subscribers.

MONITORING CENTRE AND SUPPORT SERVICES

The Company’s monitoring center and customer support personnel are located in the Company’s head office and a secondary location, both in Toronto. The Company’s monitoring center provides 24/7 around-the-clock protection to provide peace of mind to subscribers. The Company’s monitoring center is staffed with highly trained and skilled experts that provide immediate remediation co-ordination for water leak events. The Company’s monitoring center operates from high security facilities which implement defense-in-depth security architecture based on controls designed to protect the physical, technical, and administrative aspects of the company networks.

NET CHANGES IN SUBSCRIBERS

As at June 30, 2022, the Company had 1,734 subscribers in the SFR segment (December 31, 2021 – 1,794), the installations for the three months ended June 30, 2022 was 88 (2021 – 24). The additions for the six months ended June 30, 2022 was 134 (2021 – 73).

As at June 30, 2022, the Company had 9,153 subscribers in the MFR segment (December 31, 2021 – 8,561), the installations for the three months ended June 30, was 689 (2021 – 198). The additions for the six months ended June 30, 2022 was 1,070 (2021 – 1,779).

As at June 30, 2022, the Company has 349,201 square footage managed in the C&I segment (December 31, 2021 – 38,343), the installations for the three months ended June 30, 2022 was nil square feet (2021 – nil). The installations for the six months ended June 30, 2022 was 310,858 (2021 – nil).

For the six months ended June 30, 2022, the MFR attrition reflects some shorter term contracted installs done on a test basis, which was very successful and established a relationship with an insurance company. This has yielded a future pipeline of approximately 1,000 MFR units to come online over the next few years.

The majority of the SFR subscribers are based in California and Ontario. The Company initially focused on growing the SFR segment through direct sales. SFR subscriber count has experienced decline primarily due to the discontinuation of new subscriber acquisition efforts as the Company decided to diversify revenue across the MFR and C&I segments. The Company has also shifted the distribution strategy in the SFR segment away from direct sales and towards indirect sales through channel partners such as insurance carriers and home security firms. COVID-19 negatively impacted the Company's SFR segment as many on-site installations were put on hold. The growth in subscriber count for MFR and square footage managed for C&I reflects the Company's efforts to grow these segments. The Company is focusing on generating a robust pipeline of potential contracts in these two segments. COVID-19 negatively impacted the Company's MFR and C&I segments as there were mandated construction site shut down, which delayed the implementation of the Company's equipment and monitoring services.

The following tables summarize the Company's net change in SFR and MFR subscribers and C&I square footage:

June 30, 2022								
	Opening December 31, 2021	Additions Q1 2022	Additions Q2 2022	Additions Q3 2022	Additions Q4 2022	Total Additions	Attritions	Closing June 30, 2022
SFR Subscribers	1,794	46	88	-	-	134	(194)	1,734
MFR Subscribers	8,561	381	689	-	-	1,070	(478)	9,153
C&I Square Foot	38,343	310,858	-	-	-	310,858	-	349,201

December 31, 2021								
	Opening December 31, 2020	Additions Q1 2021	Additions Q2 2021	Additions Q3 2021	Additions Q4 2021	Total Additions	Attritions	Closing December 31, 2021
SFR Subscribers	1,922	49	24	42	60	175	(303)	1,794
MFR Subscribers	3,972	1,581	198	2,117	693	4,589	-	8,561
C&I Square Foot	38,343	-	-	-	-	-	-	38,343

SEASONALITY

The Company has exposure to the construction industry, particularly condominium construction, which in Canada is seasonal in nature. As a result, less work is performed in the winter and early spring months than in the summer and fall months. Accordingly, the Company will experience a seasonal pattern in its operating results, with the first half of the year, and particularly the first quarter, typically generating lower revenue and profits than the second half of the year. Therefore, results in any one quarter are not necessarily indicative of results in any other quarter, or for the year as a whole.

NON-IFRS FINANCIAL AND PERFORMANCE MEASURES

The Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2022 and 2021 are prepared in accordance with IFRS. The Company reports on certain non-IFRS measures that are used by management to evaluate the performance of the Company. Since non-IFRS measures do not have standardized meanings prescribed by IFRS, securities regulations require that non-IFRS measures be clearly defined, qualified, and reconciled with their nearest IFRS measure. These measures do not have standardized meanings or interpretations and may not be comparable to similar terms and measures provided by other issuers.

REPORTED EBITDA AND ADJUSTED EBITDA

Reported EBITDA and Adjusted EBITDA are non-IFRS measures that are used by management to evaluate the performance of the Company.

Reported EBITDA is defined as net income or loss adjusted for (a) finance costs / interest income, (b) income taxes, and (c) depreciation and amortization.

Adjusted EBITDA is defined as Reported EBITDA adjusted for (a) gains / losses on disposal of assets, (b) foreign exchange, (c) share-based compensation expense, and (d) non-recurring items.

	Three months ended		**Six months ended**	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	$	**$**	**$**	**$**
Net Loss	**(2,615,166)**	**(1,663,557)**	**(5,756,238)**	**(2,867,746)**
(+) Tax Expense / (Recovery)	--	--	--	--
(+) Finance Costs	16,450	141,094	132,088	443,793
(+) Depreciation, Property and Equipment	19,232	17,588	37,861	34,253
(+) Depreciation, Fulfillment Assets	64,875	36,142	116,771	66,798
(+) Amortizaiton, intangible assets	47,544	--	47,544	--
(+) Amortization, Right-of-Use Assets	26,870	26,870	53,739	53,739
Reported EBITDA	**(2,440,195)**	**(1,441,863)**	**(5,368,235)**	**(2,269,163)**
(+/-) Foreign exchange	18,625	(4,422)	34,531	(7,983)
(+) Share-based Compensation Expense	216,305	36,886	422,002	136,026
(+) Listing Expense	--	--	858,118	--
(-) Canadian Emergency Wage Subsidy	--	(7,265)	--	(36,152)
Adjusted EBITDA	**(2,205,265)**	**(1,416,664)**	**(4,053,584)**	**(2,177,272)**

Adjusted EBITDA for the three months ended June 30, 2022, decreased by $788,601to ($2,205,265) as compared to ($1,416,664) reported in the comparable period for 2021. For the three months ended June 30, 2022, the Reported EBITDA decreased by $998,332 to ($2,440,195) as compared to ($1,441,863) reported in the comparable period for 2021.

Adjusted EBITDA for the six months ended June 30, 2022, decreased by $1,876,312 to ($4,053,584) as compared to ($2,177,272) reported in the comparable period for 2021. For the six months ended June 30, 2022, the Reported EBITDA decreased by $3,099,072 to ($5,368,235) as compared to ($2,269,163) reported in the comparable period for 2021.

FINANCIAL HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Consolidated statement of operations highlights				
Revenue - SFR	$137,679	$164,125	$276,312	$328,412
Revenue - MFR	$363,128	$163,423	$604,811	$356,612
Revenue - C&I	$6,378	$1,360	$7,728	$3,306
Total revenue	**$507,185**	**$328,908**	**$888,851**	**$688,330**
Net loss	($2,615,166)	($1,663,557)	($5,756,238)	($2,867,746)
Net loss per share - basic and diluted	($0.03)	($0.03)	($0.08)	($0.05)
Non-IFRS measures				
Reported EBITDA 1	($2,440,195)	($1,441,863)	($5,368,235)	($2,269,163)
Adjusted EBITDA 1	($2,205,265)	($1,416,664)	($4,053,584)	($2,177,272)

	As at June 30, 2022	As at December 31, 2021
Consolidated statement of financial position highlights		
Total assets	$15,519,237	$6,973,298
Total liabilities	$5,346,297	$11,735,074
Total shareholders (deficiency)/equity	$10,172,940	($4,761,776)

1 Refer to the "Non-IFRS Financial and Performance Measures" section of this MD&A.

CONSOLIDATED RESULTS OF OPERATIONS

(Unaudited)

For the three and six months ended June 30, 2022 and 2021
(in Canadian dollars)

	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	$			$
Revenue	507,185	328,908	888,851	688,330
Expenses				
Cost of Sales	195,442	304,193	424,946	471,605
Selling	514,782	160,893	843,490	338,906
General and administrative	2,386,873	1,390,847	5,229,481	2,310,602
	3,097,097	1,855,933	6,497,917	3,121,113
Operating loss	**(2,589,912)**	**(1,527,025)**	**(5,609,066)**	**(2,432,783)**
Interest income	9,821	140	19,447	847
(Loss)/gain on foreign exchange	(18,625)	4,422	(34,531)	7,983
Finance cost	(16,450)	(141,094)	(132,088)	(443,793)
Net loss before income taxes	**(2,615,166)**	**(1,663,557)**	**(5,756,238)**	**(2,867,746)**
Income taxes	-	-	-	-
Net loss	**(2,615,166)**	**(1,663,557)**	**(5,756,238)**	**(2,867,746)**

REVENUE

Rental contracts with homeowners:

Contract revenue to provide water monitoring services are recognized on a monthly basis consistent with the terms of the contract on a straight-line basis. The Company makes significant judgements in determining when there is a significant change in facts and circumstances that indicate it is no longer probable that the consideration for the contract for water monitoring services provided will be collected.

Rental contracts with developers:

Contract revenue for water monitoring services with developers are recorded on a straight-line basis consistent with fulfilling the services over the enforceable period of a contract. For these customers, the enforceable period of the contract is estimated at the inception of the contract as the period until the point in time when the developer transfers the rights to the water monitoring services to another party that has statutory cancellation rights.

Revenue for the three months ended June 30, 2022, increased by $178,277 to $507,185 as compared with $328,908 reported for the comparable period in 2021. SFR revenue was $137,679 (2021 – $164,125), the decrease in revenue was due to attrition in California, MFR revenue was $363,128 (2021 – $163,423) and C&I revenue was $6,378 (2021 – $1,360).

Revenue for the six months ended June 30, 2022, increased by $200,521 to $888,851 as compared with to $688,330 reported for the comparable period in 2021. SFR revenue was $276,312 (2021 – $328,412), the decrease in revenue was due to attrition in California, MFR revenue was $604,811 (2021 – $356,612) and C&I revenue was $7,728 (2021 – $3,306).

COST OF SALES

Cost of sales primarily includes unrecoverable installation costs, stock-based compensation of operations staff, materials, provision for inventory, warehouse rent, monitoring service, depreciation on costs to obtain and fulfill a contract and licensing fees related to monitoring services and related costs. Cost of sales related to water monitoring equipment that is sold upfront, is allocated to contracted assets and recognized on a straight-line basis over the contract term.

Cost of sales for the three months ended June 30, 2022, decreased by $108,751 to $195,442 compared with $304,193 as reported for the same period in 2021 (which included a provision for inventory in the amount of $151,585). SFR cost of sales was $53,060 (2021 – $151,792), MFR cost of sales was $139,924 (2021 – $151,143) and C&I cost of sales was $2,458 (2021 – $1,258).

For the three months ended June 30, 2022, materials decreased by $32,633 and the provision for inventory decreased by $151,585. This was offset by increases in monitoring services by $14,474, depreciation on costs to obtain and fulfill a contract by $28,733 and licensing and network fees by $32,260.

Cost of sales for the six months ended June 30, 2022, decreased by $46,695 to $424,946 compared with $471,605 as reported for the same period in 2021. SFR cost of sales was $132,101 (2021 – $225,009), MFR cost of sales was $289,151 (2021 – $244,330) and C&I cost of sales was $3,695 (2021 – $2,265).

For the six months ended June 30, 2022, stock-based compensation decreased by $55,000, and the provision for inventory decreased by $140,549. This was offset by increases in materials of $41,770, monitoring services of $21,775, depreciation on costs to obtain and fulfill a contract of $49,973 and licensing and network fees of $35,372.

For the three months ended June 30, 2022, the gross margin for the SFR segment was $84,625 (2021 – $12,333), the gross margin for the MFR segment was $233,198 (2021 – $12,280), and the gross margin for the C&I segment was $3,920 (2021 – $102). The total gross margin was $311,743 (2021 – $24,715).

For the six months ended June 30, 2022, the gross margin for the SFR segment was $144,211 (2021 – $103,403), the gross margin for the MFR segment was $315,660 (2021 – $112,282), and the gross margin for the C&I segment was $4,031 (2021 – $1,041). The total gross margin was $463,905 (2021 – $216,725).

GENERAL & ADMINISTRATIVE EXPENSES

General & administrative expense primarily includes wages and benefits for office staff, consulting expense, professional fees, provision for expected credit losses, stock-based compensation for administrative staff, depreciation on property and equipment, amortization of right-of-use assets and administrative.

General & administrative expense for the three months ended June 30, 2022, increased by $996,026 to $2,386,873 as compared to $1,390,847 reported for the comparable period in 2021.

For the three months ended June 30, 2022, wages and benefits increased by $258,836, consulting expense increased by $158,814, professional fees increase by $52,113, provision for expected credit losses increased by $15,054, stock-based compensation increased by $179,419, deprecation on property and equipment increased by $1,644, amortization of intangible assets (related to the acquisition of Reed, which closed on May 4, 2022) was $47,544 and administrative expense increased by $282,602.

General & administrative expense for the six months ended June 30, 2022, increased by $2,918,879 to $5,229,481 as compared to $2,310,602 reported for the comparable period in 2021. Excluding the listing expense of $858,118 which is a non-recurring, non-cash items related to the Exchange listing, the adjusted general & administrative expense for the six months ended June 30, 2022, was $4,371,363 as compared to $2,310,602 reported for the comparable period in 2021 (for an adjusted increase of $2,060,761 over the comparable period).

For the six months ended June 30, 2022, wages and benefits increased by $522,841, consulting expense increased by $308,015, professional fees increase by $166,519, provision for expected credit losses increased by $56,772, stock-based compensation increased by $384,976, deprecation on property and equipment increased by $3,608, listing expense related to the Exchange listing was $858,118, amortization of intangible assets (related to the acquisition of Reed, which closed on May 4, 2022) was $47,544 and administrative expense increased by $570,486.

The increase in corporate expenditures is largely due to Increased wages and benefits, professional fees, including accounting and legal expenses, associated with the Company's public listing on the Exchange. However, as the Company grows, it is expected that general and administrative expenses will decrease as a percentage of revenue.

For the three and six months ended June 30, 2022, the Company received a subsidy of $nil (2021 - $7,265), and $nil (2021 - $36,152), respectively. During the COVID-19 pandemic to cover part of the employee wages, this was allocated to general and administrative expenses.

SELLING EXPENSES

Selling expense primarily includes salaries, marketing, stock-based compensation for sales staff, commission expense and general.

Selling expense for the three months ended June 30, 2022, increased by $353,889 to $514,782 as compared to $160,893 reported for the same period in 2021. During the three months ended June 30, 2022, salaries increased by $261,176, and general expense (which includes the warranty provision and subcontractor costs) increased by $115,555, which was offset by a decrease in marketing spend of $10,437 and commissions of $12,405.

Selling expense for the six months ended June 30, 2022, increased by $504,584 to $843,490 as compared to $338,906 reported for the same period in 2021. During the six months ended June 30, 2022, salaries increased by $398,569, commissions increased by $20,327, and general expense increased by $131,860, which was offset by a decrease in stock-based compensation expense of $44,000 and lower marketing spend in the amount of $2,172.

EXPECTED CREDIT LOSSES AND DERECOGNITION OF ACCOUNTS RECEIVABLE

Expected credit losses and derecognition of accounts receivable in all of the Company's operating segments (SFR, MFR and C&I). See the Credit Risk section of this MD&A and note 18 of the Company's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2022 and 2021 for additional details.

DEPRECIATION ON COSTS TO OBTAIN AND FULFILL A CONTRACT

The Company capitalizes costs incurred to fulfill its contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy the Company's performance obligation under the contract and (iii) are expected to be recovered through revenue generated under the contract. These costs primarily pertain to installation costs that relate to the satisfaction of a future performance obligation in the Company's contracts. Contract fulfillment costs are amortized on a straight-line basis over the expected contract term to cost of sales, which is consistent with the performance obligation of providing the water monitoring services to which the contract fulfillment asset relates.

Depreciation on costs to obtain and fulfill a contract for the three months ended June 30, 2022, increased by $28,733 to $64,875 as compared to $36,142 reported in the comparable period for 2021. As at June 30, 2022 the carrying amount of the cost to obtain and fulfill a contract as was $1,780,173 (December 31, 2021 – $958,011), mainly due to more MFR projects completed during the period.

Depreciation on costs to obtain and fulfill a contract for the six months ended June 30, 2022, increased by $49,973 to $116,771 as compared to $66,798 reported in the comparable period for 2021. The carrying amount of the cost to obtain and fulfill a contract as at June 30, 2022, increased as more MFR projects were completed during the period.

DEPRECIATION ON PROPERTY AND EQUIPMENT

Depreciation on property and equipment primarily consists of the depreciation of office equipment, furniture and fixtures, computer hardware and leasehold improvements.

Depreciation on property and equipment for the three months ended June 30, 2022, increased by $1,644 to $19,232 as compared to $17,588 as reported for the comparable period in 2021.

Depreciation on property and equipment for the six months ended June 30, 2022, increased by $3,608 to $37,861 as compared to $34,253 as reported for the comparable period in 2021.

DEPRECIATION ON RIGHT-OF-USE ASSETS

Depreciation on right-of-use assets consists of depreciation related to the Toronto head office and office equipment leases.

Depreciation on right-of-use assets for the three months ended June 30, 2022, was $26,870, inline with the comparable period.

Depreciation on right-of-use assets for the six months ended June 30, 2022, was $26,870, inline with the comparable period.

AMORTIZATION OF INTANGIBLE ASSETS

The intangible assets relate to the acquisition of Reed (which includes the estimated fair value of customer relationships $215,000, order backlog $401,000, technology $301,000 and brand $165,000) and amounted to $1,082,000.

Amortization of intangible assets for the three months ended June 30, 2022, was $47,544 (2021 - $nil).

Amortization of intangible assets for the six months ended June 30, 2022, was $47,544 (2021 - $nil).

INCOME TAXES

Note 21 of the Company's audited consolidated financial statements for the years ended December 31, 2021, and 2020 presents the reconciliation of income tax for the years ended December 31, 2021, and 2020.

BASIC AND DILUTED LOSS PER SHARE

	Three months ended		**Six months ended**	
	June 30, 2022	**June 30, 2021**	**June 30, 2022**	**June 30, 2021**
	$	$	$	$
Net loss for the period	(2,615,166)	(1,663,557)	(5,756,238)	(2,867,746)
Weighted average number of Common Shares outstanding	74,945,718	61,169,428	68,723,488	61,169,428
Basic and diluted loss per share	**($0.03)**	**($0.03)**	**($0.08)**	**($0.05)**

On January 12, 2022, the Company completed the RTO Transaction and a share exchange from ESHSI common shares and class B preferred shares to Common Shares. As at June 30, 2022, 79,528,619 Common Shares were outstanding.

Following the closing of the RTO Transaction each ESHSI common share outstanding immediately before the effective date was exchanged for a number of Common Shares equal to the number of ESHSI common shares multiplied by 0.504867.

Diluted income per share is calculated by adjusting the weighted average number of Common Shares outstanding to assume conversion of all dilutive potential Common Shares. For the three and six months ended June 30, 2022 and 2021, the Company's source of potential dilution to the Common Shares are stock options, warrants and the term loan (see note 12). For the three and six months ended June 30, 2022, an adjustment related to 410,835 (2021–- 511,177) in-the-money stock options have been excluded from the calculation of diluted earnings per share as they were anti-dilutive. As a result, diluted earnings per share is equal to basic earnings per share for the three and six months ended June 30, 2022 and 2021.

CONSOLIDATED FINANCIAL POSITION

TOTAL ASSETS

Total assets as at June 30, 2022 increased by $8,546,881 to $14,854,591 as compared to $6,307,711 reported as at December 31, 2021. The increase is a result of higher carrying values for cash in the amount of $1,901,542, accounts receivable in the amount of $697,624, prepaid expenses in the amount of $307,891 inventory in the amount of $590,281, costs to obtain and fulfill a contract in the amount of $822,162, goodwill in the amount of $3,258,472 and intangible assets in the amount of 1,034,456, which is offset by decreases in the carrying values of right-of-use assets in the amount of $53,739 and property and equipment in the amount of $11,915.

TOTAL LIABILITIES

Total liabilities as at June 30, 2022, decreased by $6,388,777 to $5,346,297 as compared to $11,735,074 reported as at December 31, 2021. The decrease is a result of the conversation of the term loan into ESHSI common shares (on January 12, 2022) that had a carrying value of $2,556,125 and a conversion derivative of $778,680, and the repayment of the demand loans (on January 13, 2022) which had a carrying value of $3,102,666 as at December 31, 2021. Also, the carrying value of the accounts payable and accrued liabilities was lower by $768,883 and lease liabilities was lower by $65,360, this was offset by an increase in deferred revenue which amounted to $842,937 and an increase in loans payable of $40,000.

TOTAL SHAREHOLDERS' EQUITY

Total shareholders' equity as at June 30, 2022, was $9,508,295 as compared to the total shareholders' deficiency of $5,427,363 as at December 31, 2021, a change of $14,935,658. Share capital increased by $20,178,902 (see Strategic Acquisition and Reverse Takeover Transaction sections of the MD&A) and contributed surplus increased by $508,779 (see Share Capital section of this MD&A), deficit increased by $5,756,238 and accumulated other comprehensive income increased by $4,215.

SHARE CAPITAL

The following Common Shares were issued and outstanding as at June 30, 2022:

	ESHSI common and class B preferred shares				Common Shares	
	Number of ESHSI common shares	ESHSI common shares	Number of ESHSI class B preferred shares	ESHSI class B preferred shares	Number of Common Shares	Common Shares
Balance, January 1, 2022	**61,469,428**	**$ 29,401,826**	**12,594,566**	**$ 3,904,316**	**-**	**$ -**
Conversion of ESHSI common shares to Common Shares	(61,469,428)	(29,401,826)	-	-	31,033,886	29,401,826
Conversion of ESHSI class B pref shares to Common Shares	-	-	(12,594,566)	(3,904,316)	6,358,581	3,904,316
Private placement	-	-	-	-	20,713,449	12,308,260
Share issue costs	-	-	-	-	-	(1,281,203)
Agent warrants	-	-	-	-	-	(478,832)
Conversion of Term Loan to Common Shares (note 12)	-	-	-	-	5,702,936	3,421,759
Issuance of Common Shares to a developer and customer	-	-	-	-	1,453,767	470,497
Common shares issued in reverse takeover	-	-	-	-	2,000,000	1,200,000
Acquisition of Reed (note 24)					12,266,000	4,538,420
Balance, June 30, 2022	**-**	**-**	**-**	**-**	**79,528,619**	**$ 53,485,043**

On May 4, 2022, the Company acquired 100% of Reed. The total purchase price for the transaction was $4,538,420. The purchase price was paid in common shares of the Company with 12,266,000 common shares being issued.

On October 12, 2021, ESHSI completed the second tranche of a private placement, issuing an additional 2,898,499 subscription receipts (the "Second Tranche") for additional aggregate gross proceeds of $1,739,099. Including the subscription receipts sold under the First Tranche, the Company issued an aggregate of 20,513,768 subscription receipts for aggregate gross proceeds of $12,308,260 under the private placement, which resulted in the issuance of 20,713,449 Common Shares in connection with the RTO Transaction.

On September 14, 2021, ESHSI completed the first tranche of a private placement of an aggregate of 17,615,269 subscription receipts for aggregate gross proceeds of $10,569,161 (the "First Tranche"), which were exchanged for Common Shares at a ratio of 0.504867 for each Common Share (resulting in the issuance of 17,786,736 Common Shares) in connection with the RTO Transaction.

Prior to the completion of the RTO Transaction 61,469,428 ESHSI common shares were issued and outstanding and 12,594,569 ESHSI class B preferred shares were issued and outstanding. Upon closing of the RTO Transaction, on January 12, 2022, the issued and outstanding ESHSI common shares and class B preferred shares were exchanged for 0.504867 Common Shares.

A term loan of $2,500,000 and accrued interest of $211,018 was converted into 11,295,908 ESHSI common shares, which were subsequently exchanged into 5,702,936 Common Shares (on the exchange basis of 0.504867 Common Shares for every one ESHSI common share held).

The Company also issued an aggregate of 1,453,767 Common Shares upon consummation of the RTO Transaction to a developer pursuant to an addendum to an exclusive supplier agreement, the value of the share consideration at the time of issuance was $872,260. Upon amendment the total value assigned to this exclusive supplier agreement amounted to $982,545 (including $470,497 related to shares) and is reflected in prepaid expenses and will be allocated to the consolidated interim statement of loss and comprehensive loss based on future equipment installs.

Aumento had 2,000,000 common shares issued and outstanding prior to the completion of the RTO Transaction.

Approximately 72% of the Common Shares calculated on a non-dilutive basis, are subject to a contractual restriction on transfer pursuant to the terms of a lock-up agreement entered into by certain holders of ESHSI securities and ESHSI. The Common Shares subject to such a lock-up agreement may not be transferred until the day that is 24-months following the effective date of the RTO Transaction, provided that 12.5% of the Common Shares will be released on transfer on the first business day following each of the three, six, nine, twelve, fifteen, eighteen, twenty-first and twenty-four month anniversaries of the effective date of the RTO Transaction. Shares issued in the acquisition of Reed are subject to 24-months lockup period.

SEGMENTED RESULTS OF OPERATIONS

The Company operates in three operating segments, which are based on the Company's organizational structure and how the information is reported internally on a regular basis. The Company's revenue is generated from its customers in the following market sectors: SFR, MFR and C&I. The Company's revenue is generated from customers in Canada and the USA.

The Company's results by operating segments are as follows:

Three months ended June 30, 2022	**SFR**	**MFR**	**C&I**	**Corporate**	**Total**
	$	**$**	**$**	**$**	**$**
Revenue	137,679	363,128	6,378	-	507,185
Cost of sales (note 8)	53,054	139,930	2,458	-	195,442
Selling (note 9)	139,741	368,567	6,474	-	514,782
General and administrative (note 7)	-	-	-	2,386,873	2,386,873
Interest income	-	-	-	(9,821)	(9,821)
Loss/(gain) on foreign exchange	-	-	-	18,625	18,625
Finance costs (note 12)	-	-	-	16,450	16,450
Income taxes	-	-	-	-	-
Net loss	**(55,116)**	**(145,369)**	**(2,553)**	**(2,412,127)**	**(2,615,166)**

Three months ended June 30, 2021	SFR	MFR	C&I	Corporate	Total
	$	$	$	$	$
Revenue	164,125	163,423	1,360	-	328,908
Cost of sales (note 8)	151,792	151,143	1,258	-	304,193
Selling (note 9)	80,286	79,942	665	-	160,893
General and administrative (note 7)	-	-	-	1,390,847	1,390,847
Interest income	-	-	-	(140)	(140)
Loss/(gain) on foreign exchange	-	-	-	(4,422)	(4,422)
Finance costs (note 12)	-	-	-	141,094	141,094
Income taxes	-	-	-	-	-
Net loss	**(67,953)**	**(67,662)**	**(563)**	**(1,527,379)**	**(1,663,557)**

Six months ended June 30, 2022	SFR	MFR	C&I	Corporate	Total
	$	$	$	$	$
Revenue	276,312	604,811	7,728	-	888,851
Cost of sales (note 8)	132,101	289,151	3,695	-	424,946
Selling (note 9)	262,211	573,945	7,334	-	843,490
General and administrative (note 7)	-	-	-	5,229,481	5,229,481
Interest income	-	-	-	(19,447)	(19,447)
Loss/(gain) on foreign exchange	-	-	-	34,531	34,531
Finance costs (note 12)	-	-	-	132,088	132,088
Income taxes	-	-	-	-	-
Net loss	**(117,999)**	**(258,285)**	**(3,300)**	**(5,376,653)**	**(5,756,238)**

Six months ended June 30, 2021	SFR	MFR	C&I	Corporate	Total
	$	$	$	$	$
Revenue	328,412	356,612	3,306	-	688,330
Cost of sales (note 8)	225,009	244,330	2,265	-	471,605
Selling (note 9)	161,697	175,581	1,628	-	338,906
General and administrative (note 7)	-	-	-	2,310,602	2,310,602
Interest income	-	-	-	(847)	(847)
Loss/(gain) on foreign exchange	-	-	-	(7,983)	(7,983)
Finance costs (note 12)	-	-	-	443,793	443,793
Income taxes	-	-	-	-	-
Net loss	**(58,294)**	**(63,300)**	**(587)**	**(2,745,565)**	**(2,867,746)**

See the Revenue, Cost of Sales, General & Administrative Expense and Selling Expenses sections of the MD&A.

QUARTERLY FINANCIAL INFORMATION

The Company does not have quarterly financial information that is readily available.

OFF-BALANCE SHEET ITEMS

The Company has no material off-balance sheet arrangements in place.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Note 18 of the accompanying unaudited condensed consolidated interim financial statements presents the fair value hierarchy of the Company's financial instruments as at June 30, 2022 and December 31, 2021.

RELATED PARTY TRANSACTIONS

On January 13, 2022, following the completion of the RTO Transaction the Company repaid the September 3, 2021 tranche of the Demand Loan of $1,500,000 in principal plus accrued interest of $50,129.

On January 13, 2022, following the completion of the RTO Transaction the Company repaid the October 7, 2021 tranche of the Demand Loan of $1,500,000 in principal plus accrued interest of $48,958. The fee consideration for this loan was $15,000.

Prior to the RTO Qualifying Transaction closing on January 12, 2022, the term loan principal of $2,500,000 and accrued interest of $211,018 was converted into 11,295,908 ESHSI common shares, which were subsequently exchanged into 5,702,936 Common Shares (on the exchange basis of 0.504867 Common Shares for every one ESHSI common share held).

On January 6, 2021, the Company received a convertible loan, from several shareholders, for interim financing in the amount of $2,000,000, maturing on September 30, 2021 (amended to mature on February 28, 2022) and bearing interest at 9% per annum, payable at maturity. The loan had conversion rights, in the event the Company completes a raise of equity prior to the termination date, the lenders have the right, at their option, to have their share of the loan converted into the shares of the borrower at a twenty percent discount to the amount paid for the shares by the other participants in the equity raise. On June 4, 2021, the convertible loan was further increased by $500,000 (for a total of $2,500,000), with the same terms as stated for the January 6, 2021 loan.

The Company leases warehouse space on a month-to-month basis, for the three and six months ended June 30, 2022 the lease expense was $16,500 (2021 - $16,500), and $33,000 (2021 - $33,000), respectively. Included in accounts payable on June 30, 2022 is an amount owing of $5,500.

KEY MANAGEMENT PERSONNEL COMPENSATION

For the three months ended June 30, 2022 and 2021, the compensation awarded to key management personnel is as follows:

	Three months ended		**Six months ended**	
	June 30, 2022	**June 30, 2021**	**June 30, 2022**	**June 30, 2021**
	$	$	$	$
Salaries, fees and other short-term benefits	364,666	221,385	743,426	433,885
Stock-based compensation	145,457	37,161	324,301	70,161
	510,123	258,546	1,067,727	504,046

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company defines key management personnel as being the directors and key officers.

CONTRACTUAL OBLIGATIONS

Contractual obligations as at June 30, 2022, are due as follows:

	Total	Less than 6 months	6 - 12 months	1 - 3 years	4 - 5 years
Accounts payable and accrued liabilities (note 11)	2,575,501	693,373	1,797,020	85,108	-
Lease obligation, office	779,910	98,059	98,863	411,521	171,467
Lease obligation, equipment	2,578	1,105	1,105	368	-
Loan payable (note 12)	80,000	-	-	80,000	-
	3,437,989	**792,537**	**1,896,988**	**576,997**	**171,467**

Contractual obligations as at June 30, , 2022, totaled $3,437,989 with $792,537 due within six months, $1,896,988 due between 6-12 months, 576,997 due between 1-3 years and $171,467 due between 4-5 years. Accounts payables & accrued liabilities are amounts owed to vendors related to expenses that arise from business operations.

During 2021, the Company received the Canada Emergency Business Account ("CEBA") loan in the amount of $20,000 (2020 - $40,000, which was provided interest free with 33% of the amount forgivable if repaid on or before December 31, 2023. With the completion of the acquisition, the CEBA loan amount increased by $40,000. The Company will fully repay the outstanding balance of $80,000 on or before December 31, 2023, and $40,000 will be forgiven.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objective and polices for managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company manages its capital structure and makes changes based on economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities. In order to maintain or adjust its capital structure, the Company may issue new equity instruments or considers other financing opportunities.

The Company's principal liquidity requirements are to finance current operations, invest in acquiring and retaining subscribers, purchase inventory and property and equipment, and finance potential mergers and acquisitions. The Company's primary source of liquidity has been cash from the issuances of debt and equity.

The Company's cash flows provided by operating activities include cash received from monthly recurring revenue and upfront fees received from subscribers, less cash costs to provide services to subscribers, including general and administrative costs, and certain costs associated with acquiring new subscribers.
The water monitoring equipment is purchased by the Company at the start of the contract. The Company recoups the cost through monthly payments from the subscriber over the life of the term. The contract periods are usually seven years for MFR, five years for SFR and seven years for C&I.

The Company is developing a pipeline with long term revenue agreements with established developers and insurance companies. To date, the Company has generated losses from operations, and we anticipate that the Company may continue to generate losses for the medium term as we continue to focus on building the pipeline of future business and deploying equipment on the contracts that come due. We also expect to incur additional costs associated with operating as a public company.

The Company may require additional working capital to fund growth. We believe the ability to obtain financing will continue and will be sufficient to fund our anticipated operating expenses for more than the next twelve months from December 31, 2021. Please see the "Recent Development and Outlook" section of the MD&A.

	Three months ended		**Six months ended**	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Cash Flow From Operating Activities	($3,359,340)	($986,812)	($6,525,578)	($2,009,731)
Cash Flow From Investing Activities	$115,719	($38,104)	$524,510	($41,425)
Cash Flow From Financing Activities	$6,921	$1,114,352	$7,902,610	$2,836,561
Change in Cash During the Period	($3,236,700)	$89,436	$1,901,542	$785,405
Opening Cash Balance	$5,249,467	$888,487	$111,225	$192,518
Ending Cash Balance	$2,012,767	$977,923	$2,012,767	$977,923

Cash flow used in operating activities
The cash flows used in operations for the three months ended June 30, 2022, decreased by $2,372,528 ($3,359,340) from ($988,812) over the comparable period. The decrease in the operating cash flows is primarily due to larger net losses for the period, and changes in the non-cash and working capital items.

The cash flows used in operations for the six months ended June 30, 2022, decreased by $4,515,847 ($6,525,578) from ($2,009,731) over the comparable period. The decrease in the operating cash flows is primarily due to larger net losses for the period, and changes in the non-cash and working capital items.

Cash flow used in investing activities
The cash flows used in investing activities for the three months ended June 30, 2022, increased by $153,823 to $115,719 from ($38,104) over the comparable period which largely related to cash acquired through the acquisition of Reed.

The cash flows used in investing activities for the six months ended June 30, 2022, increased by $565,935 to $524,510 from ($41,415) over the comparable period which largely related to cash acquired through a Reverse Takeover in the amount of $418,802 and the cash acquired through the acquisition of Reed.

Cash flow from financing activities
The cash flows from financing activities for the three months ended June 30, 2022, decreased by $1,107,431 to $6,921 from $1,114,352 over the comparable period. During the comparable quarter in 2021, the Company received $643,250 in proceeds from an equity offering (ESHSI Class B Preferred Shares) and $500,000 in proceeds from the issuance of a convertible term loan.

The cash flows from financing activities for the six months ended June 30, 2022, increased by $5,066,049 to $7,902,610 from $2,838,561 over the comparable period. The financing activities for the current period primarily reflects proceeds from an equity offering which amounted to $12,308,260 (which had issuance costs of $1,281,203), repayment of demand loans of $3,000,000 and the corresponding interest of $99,087 and lease payments of $65,360.

CREDIT RISK

Credit risk is the risk one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's main credit risks relate to its trade accounts receivable. The Company installs residential and commercial water leak mitigation technology at its customers locations in the normal course of its operations.

Credit risk is the risk of a financial loss to the Company if a customer fails to meet its contractual obligation of the monthly water monitoring services payments. Management of the Company monitors the creditworthiness of its customers by performing background checks on all new customers focusing on publicity, reputation in the market, and relationships with customers and other vendors. Further, management monitors the frequency of payments from ongoing customers and performs frequent reviews of outstanding balances.

Provisions for outstanding balances are established based on forward-looking information and revised when there are changes in circumstances that would create doubt over the receipt of funds. Such reviews are conducted on a continued basis through the monitoring of outstanding balances as well as the frequency of payments received. Accounts receivables are completely written off once management determines the probability of collection to be remote. For the three months ended June 30, 2022, $8,600 receivables were written off (2021 - $1,110 in receivables were written off). For the six months ended June 30, 2022, $21,005 receivables were written off (2021 - $888) in receivables were written off). The amounts that were written off are still subject to collection enforcement activity. Payment terms are usually 30 days after the invoice is issued.

The following tables presents the provision for credit losses on accounts receivable as at June 30, 2022:

Accounts receivable		Current		60 - 120 days		Over 120 days		Total
SFR	$	333,757	$	45,220	$	5,191	$	384,168
MFR		859,219		44,318		70,993		974,530
C&I		241,727		-		-		241,727
	$	**1,434,703**	**$**	**89,538**	**$**	**76,184**	**$**	**1,600,425**
Provision for credit losses		**Current**		**60 - 120 days**		**Over 120 days**		**Total**
SFR	$	66,751	$	22,610	$	3,894	$	93,255
MFR		73,952		6,648		17,748		98,348
C&I		12,042		-		-		12,042
	$	**152,745**	**$**	**29,258**	**$**	**21,642**	**$**	**203,645**
Accounts receivable, net							**$**	**1,396,780**

The following tables presents the provision for credit losses on accounts receivable as at December 31, 2021:

Accounts receivable		Current		60 - 120 days		Over 120 days		Total
SFR	$	200,854	$	1,526	$	1,428	$	203,808
MFR		332,282		18,492		41,236		392,010
C&I		201,500		-		-		201,500
	$	**734,636**	**$**	**20,018**	**$**	**42,664**	**$**	**797,318**
Provision for credit losses		**Current**		**60 - 120 days**		**Over 120 days**		**Total**
SFR	$	39,643	$	763	$	1,071	$	41,477
MFR		33,635		2,774		10,201		46,610
C&I		10,075		-		-		10,075
Expected credit losses	**$**	**83,353**	**$**	**3,537**	**$**	**11,272**	**$**	**98,162**
Accounts receivable, net							**$**	**699,156**

FOREIGN CURRENCY RISK

A portion of the Company's income is generated in US dollars and is subject to currency fluctuations. The performance of the Canadian dollar relative to the US dollar could positively or negatively affect the Company's income, due to the expectations of growing the US operations. Thus, the Company may from time to time, experience losses resulting from fluctuations in the value of its foreign currency translations, which could adversely affect its operating results. Translation risk is not hedged.

Regarding translation exposure, if the Canadian dollar had been 5% stronger/weaker versus the US dollar for the six months ended June 30, 2022, with all other variables held constant, income for the period would have been $172 higher/lower (2021 – $3,658).

Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. For the three months ended June 30, 2022, approximately 13% (2021 – 20%) of the Company's total sales were in US dollars. For the six months ended June 30, 2022, approximately 16% (2021 – 31%) of the Company's total sales were in US dollars. Consequently, some assets are exposed to foreign exchange fluctuations.

As at June 30, 2022, operating cash was $238,971 (US $185,426) and accounts receivable of $12,359 (US $9,591). As at December 31, 2021, operating cash was $80,282 (US $58,625) and accounts receivable of $2,296 (US $1,890).

RISKS AND UNCERTAINTIES

The Company is faced with a number of risks, among others, including the risk factors set out below.

Attrition and Competition

The Company operates in a competitive environment and hence its financial condition and result of operations, growth, sustainability and defensive tactics may be negatively impacted by loss of market share to its competitors or due to changes in subscriber behaviors, which could result in a loss of customers and attrition to the number of subscribers.

Concentration of Suppliers

The Company relies principally on a few suppliers for its supply of equipment. Should any of these suppliers fail to deliver in a timely manner, there could be delays or disruptions in the supply and installation of equipment.

COVID-19

Those risks and uncertainties include risks associated with the impact of existing or future waves in the COVID-19 pandemic.

Credit Risk

The Company has financial instruments that are subject to risk of a counterparty failing to meet its contractual obligations. The Company has accounts receivables due from subscribers that it may fail to collect. The non-performance of these subscribers can be directly impacted by a decline in economic conditions, which could impair the subscribers' ability to satisfy their obligations to the Company.

Cybersecurity

The Company collects, processes, transmits and retains confidential, sensitive and personal information including personal financial information ("Confidential Information") regarding its subscribers, employees, and contractors. Some of this Confidential Information is held and managed by third party service providers. The Company has implemented processes, procedures, and controls to prevent unauthorized access to Confidential Information and to build and sustain a reliable information technology infrastructure. Despite these measures, all of the Company' information systems and any third-party service provider systems that it employs are vulnerable to damage, interruption, disability or failures due to a variety of reasons. The Company or its third-party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Company's or its third-party service providers' security measures. Any system vulnerability or failure of security measures of the Company or its third-party service providers could result in, among others, operational interruption, harm to the Company's reputation or competitive position, the loss of or unauthorized access to Confidential Information or other assets, remediation costs, litigation, regulatory enforcement proceedings, violation of privacy or other laws and damage to the Company's customer relationships.

Foreign Exchange Impacts

The Company generates sales of product in Canadian and U.S. dollars and incurs its expenses in both U.S. and Canadian dollars and is therefore exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in U.S. dollars that expose the Company to foreign exchange risks. The Company does not utilize any financial instruments or cash management policies to mitigate the risks arising from changes in foreign currency rates.

Geographic Concentration and New Building Construction

The income generated by the Company is sensitive to changes in economic conditions in Ontario and California. Adverse changes in Ontario and California economic conditions may have a material adverse effect on the Company's business, cash flows, financial condition and results of operations. Furthermore, most of the growth in the number of installed equipment in recent years has been principally as a result of new building construction, both residential and commercial. A slowdown in such new building construction may lead to an adverse effect on demand for the Company's products and services.

Labour Relations

The Company's success will depend in part upon the continued services of talented personnel, including, the management team, sales representatives, installation and service technicians and call center talent. The Company's ability to recruit and retain key personnel could be adversely impacted by a competitive labour market. The loss, incapacity, or unavailability for any reason of key members of the Company's management team, higher than expected payroll and other costs associated with the hiring and retention of key personnel and the inability or delay in hiring new key employees could materially adversely affect the Company's ability to manage its business and its future operational and financial results.

Leverage Risk and Restrictive Covenants

The Company has debt service obligations. The degree to which the Company is leveraged could have material adverse consequences for the Company, including but not limited to: (i) having to dedicate a portion of its cash flows from operations to the payment of interest on its indebtedness and not having such cash flows available for other purposes, including operations, capital expenditures and future business opportunities; and (ii) restricting its flexibility and discretion to operate its business.

Litigation Risk

In the normal course of the Company's operations, it may, directly or indirectly, become involved in, named as a party to or become the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to, among others, personal injuries, property damage, and contract disputes. The outcome with respect to outstanding, pending, or future proceedings cannot be predicted and may have a material adverse effect on the Company's financial condition and results of operations and on its ability to satisfy its debt service obligations. Even if the Company prevails in any such legal proceedings, the proceedings could be costly and time consuming and may divert the attention of management and key personnel away from operations. Furthermore, the Company may become involved, as defendant or plaintiff, in litigation in other matters from time to time.

Regulatory Matters

The Company is subject to consumer protection laws (including the Consumer Protection Act, 2002 (Ontario)). Although the Company believes that it is in compliance with such consumer protection laws in all material respects, given the likelihood that regulatory determinations are likely to favour consumers in the event of any ambiguity in such laws, no assurance can be given that the Company will be able to comply with such laws. Furthermore, there can be no assurance that the Company will be able to comply with any future laws, regulations and policies or, if it does so comply, what the impact may be on its costs or ability to originate or retain customers. Failure by the Company to so comply may subject it to civil or regulatory proceedings, including fines, injunctions, recalls or seizures, which may have a material adverse effect on the Company's financial condition and results of operations and on its ability to satisfy its debt service obligations.

Reliance on Third Party Contractors

The Company at certain times utilizes third-party service providers for the installation of equipment at the subscribers' premises. As a result, the Company is reliant on the personnel, good faith, expertise, technical resources and information systems, and judgment of those service providers in providing such services. Accordingly, the Company may be exposed to adverse developments in the business and affairs of such service providers.

Uninsured or Underinsured Risks

The Company's current insurance coverage in respect of potential liabilities and the accidental loss of value of the assets of the Company from risks is in the form of comprehensive property and casualty insurance in respect of claims for bodily injury or property damage arising out of assets or operations (subject to deductible amounts).

However, not all risks are covered by insurance and insurance may not be consistently available on an economically feasible basis or at all. The amounts of insurance may not at all times be sufficient to cover all losses and/or claims.

Useful Life of Equipment

Experience indicates that the average useful life of the batteries within the wireless sensors is approximately 7 years. However, there can be no assurance that the batteries within the wireless sensors will continue to have an average useful life of that length. The Company will be responsible for the capital cost and installation fees related to replacing the wireless sensors. In the event that the Company does not have sufficient cash flow or financing capabilities to fund the purchase and installation of replacement wireless sensors, the Company may not have the ability to maintain the leak detection portfolio, which could have a material adverse effect on its financial condition and results of operations.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures, and controls to ensure that the information used internally by management and disclosed externally is complete, reliable, and timely. In addition, the Company's Board of Directors provide an oversight role with respect to all public financial disclosures by the Company and have reviewed and approved this MD&A as well as the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2022 and 2021.

UPDATE ON THE RESTATEMENT OF THE FINANCIAL STATEMENTS

On August 19, 2022, the Company announced the intentions to restate its financial statements and MD&A, related to the interpretation and application of certain technical accounting standards related to non-cash consideration provided to a developer and customer (the "Developer") through an amended exclusive supplier agreement dated December 15, 2021 (the "Addendum"), which upon further analysis the estimate amount has been revised.

For the year ended December 31, 2021, the impact is expected to be isolated to the consolidated statement of financial position, increasing prepaid expenses and contributed surplus by approximately $944K (initially estimated at $1.6 million). For the three months ended March 31, 2022, the impact to prepaid expenses is expected to be slightly less than the December 31, 2021 impact, with a further impact of an expected reduction to general and administrative expenses and deficit of approximately $1.55 million, along with immaterial adjustments to contributed surplus and revenue.

This restatement has no impact on cash flows and business operations.

The Company intends to file its restated financial statements and the corresponding management discussion and analysis on or about September 30, 2022.