

SHELFIE-TECH LTD
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2023

Management's Discussion and Analysis

The following is management's discussion and analysis of the activities, results of operations and financial condition of **SHELFIE-TECH LTD** ("**Shelfie**", "**Shelfie Tech**", "**we**", "**our**", "**us**", or the "**Company**") for the year ended December 31, 2023, which has been prepared on the basis of information available up until December 4, 2024. This Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the Company's financial statements for the year ended December 31, 2023, together with the notes thereto.

All monetary amounts are reported in US dollars and in accordance with IFRS unless otherwise noted. This MD&A is dated December 4, 2024.

Forward-Looking Statements

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation ("forward-looking information"). Such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below and as detailed under **RISKS AND UNCERTAINTIES** in this MD&A.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking information contained herein is given as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results, except as may be required by applicable securities laws. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.

Description of Business

Corporate Structure

Name and Incorporation

SHELFIE-TECH LTD was incorporated on November 18, 2021 in Israel. The Company's robotic retail shelf monitoring system uses advanced machine learning and image processing algorithms to automatically optimize inventory management and retail store shelf filling while ensuring an enhanced customer experience. The Company's head office is located at 94, Yigal Alon St, Tel Aviv, Israel.

Significant developments during the year

On July 27, 2023, Shelfie effected a 1 for 5,294 share split of its common shares, on April 15, 2024, Shelfie completed a share consolidation of its Common Shares on a 3.96901:1 basis and on October 8, 2024, the Company effected a 1-for-1.0004 share split of its issued and outstanding shares. All common share and per common share amounts have been retroactively restated for all periods presented.

During 2023, the Company developed the first generation of the system and characterized the specific technology of the system for the first generation of product. In addition, during 2023 the Company worked on building the first generation of its product for pilots and exhibitions, and the Company has participated in two exhibitions in which it presented the system's capabilities.

During November 2024, the Company received \$1,143,860 from investors to be held by the Company ("Restricted Funds"). The Restricted Funds are in respect of subscription receipts to issue 1,733,121 Shares at \$0.66 per share (the "Underlying Shares"). The Restricted Funds will be released by the Company upon (a) the receipt by the Company of a final receipt from the Ontario Securities Commission (or such other securities regulator as the Company selects as its principal regulator) for a final long form prospectus qualifying the Underlying Shares; and (b) the Company being conditionally approved for listing on the CSE.

On December 2, 2024, the Company received \$200,000 in respect of a private placement and issued 303,030 Shares, representing a price per share of \$0.66.

Business of Shelfie

Shelfie is a technological company focused on providing retail automation solutions, in particular for large grocery stores and supermarkets.

Using innovative patented technology, the Company's robotic retail shelf monitoring system uses advanced machine learning and image processing algorithms to automatically optimize inventory management while ensuring an enhanced customer experience. In addition, the Company's software application ("App") ensures that supermarket employees do shelf filling efficiently and on-time.

The total global addressable market for Shelfie is estimated at approximately \$31 billion per year, based on the intended subscription revenue model.

Product & Technology

Shelfie Tech's robotic retail shelf monitoring system is designed to take the guesswork out of inventory management by improving visibility into the retail shelf supply.

Shelfie Tech's innovative solution consists of a digital image capturing system mounted on a shelf that automatically captures an image of all products on the shelf, a transportation system that moves the camera along the shelf, and a centralized management system.

The artificial intelligence ("AI") and computer vision-based system is equipped with advanced machine learning and image processing algorithms that analyze the images, determine the number of units on the shelf, and calculate the required number of items to be restocked. The innovative system can deliver item-level alerts in real-time to in-store personnel, pinpointing the exact products running low, allowing for rapid remediation and an enhanced customer experience.

The key features include:

- Suitable for multiple shelf types - unit can be mounted on a variety of shelving units, including those with fixed unmovable shelves or shelves that can be rearranged and adjusted.
- Flexible image capture options - unit can be configured to capture images at a defined time interval or a specified distance, ensuring complete coverage of the scanned shelf.
- Flexible product identification options - solution can capture an image of the barcode or use AI and computer vision to identify the products and count the number of units on each shelf.
- Unobtrusive operation - system recognizes if a shopper is standing in front of or in the vicinity of a shelf and can halt operation accordingly. This ensures inventory accuracy and does not interfere with the shopping experience.

Selected Financial Information

The following financial data prepared in accordance with IFRS in US dollars is presented for the years ended December 31, 2023, and December 31, 2022.

	Year ended December 31, 2023	Year ended December 31, 2022
Operating Expenses		
Research and development costs	\$ 458,292	\$ 776,786
General and administration costs	95,059	272,479
Sales and marketing expenses	32,676	-
Operating Loss	(586,027)	(1,049,265)
Interest expenses		
Interest income	2,927	-
Foreign exchange loss	(6,044)	(50,643)
Total other expenses	(3,117)	(50,643)
Loss and comprehensive loss for the year	\$ (589,144)	\$ (1,099,908)
Basic and fully diluted loss per share **	\$ (0.03)	\$ (0.06)

Year ended December 31, 2023, compared to the year ended December 31, 2022

Research and development costs

For the year ended December 31, 2023, research and development costs amounted to \$458,292 year ended December 31, 2022 - \$776,786). The expenses consist of professional and consulting fees - \$48,562, hardware engineering and subcontractors - \$355,575, patent work - \$nil, software development and subcontractors - \$54,155 (year ended December 31, 2022 - professional and consulting fees - \$278,872, hardware engineering and subcontractors - \$447,073, patent work - \$11,187, and software development-subcontractors - \$39,654). Based on the research made by the Company during 2022 and the results of such research, the Company built the first generation of the system and characterized the specific technology of the system for the first generation.

General and administrative expenses

For the year ended December 31, 2023, general and administrative expenses amounted to \$95,059 (year ended December 31, 2022 - \$272,479). General and administrative expenses consist of professional and

consulting fees - \$79,030, office rental and other related office expenses - \$16,029, other miscellaneous expenses - \$nil (year ended December 31, 2022 – professional and consulting fees – \$221,156, office rental and other related expenses - \$18,724, and other miscellaneous expenses - \$32,599).

Sales and marketing expenses

For the year ended December 31, 2023, Sales and marketing expenses amounted to \$32,676 (year ended December 31, 2022 - \$nil). During 2023, the Company developed the first generation of the system and characterized the specific technology of the system for the first generation. In addition, during 2023 the Company worked on building the first generation for pilots and exhibitions, and the Company has participated in two exhibitions in which it presented the system's capabilities.

Net losses

The Company reported a net and comprehensive loss for the year ended December 31, 2023 of \$589,144 (year ended December 31, 2022 - \$1,099,908).

Inflation

During the year ended December 31, 2023 and the year ended December 31, 2022, inflation has not had a material impact on the Company's operations.

Summary of Quarterly Results

The Company does not have quarterly results for the year ended December 31, 2023 as it is not a public issuer.

Liquidity

Liquidity is a measure of a company's ability to meet potential cash requirements. The Company has historically met its capital requirements through the issuance of common shares.

Financial position

As at December 31, 2023, the Company had total assets of \$105,885 and a net deficit position of \$234,895. This compares with total assets of \$351,887 and a net equity position of \$136,364 as at December 31, 2022. The Company had current liabilities of \$340,780 as at December 31, 2023, as compared with \$215,523 as at December 31, 2022.

As at December 31, 2023, the Company had working capital deficit of \$234,895 compared to working capital of \$136,364 as at December 31, 2022. The Company had cash on hand of \$9,616 as at December 31, 2023, compared with \$214,178 as at December 31, 2022. Included in working capital, is \$90,749 being amounts that the Company advanced to a service provider in return for consultancy services in connection with the Company's IPO process. As of December 31, 2023, the Company has not received these services. The balance owed by the service provider to the Company accrues interest at 3% per annum. The services will be performed by December 31, 2024. To the extent that the service provider shall not render the services by December 31, 2024, the service provider shall be obligated to return the consultancy fee.

As of December 31, 2023, the Company has an accumulated deficit of \$2,393,385 (\$1,804,241 as of December 31, 2022).

Year ended December 31, 2023

During the year ended December 31, 2023 the Company's overall position of cash decreased by \$204,562. This decrease can be attributed to the following activity:

Cash flows used in operating activities were \$450,018. The cash was used to pay research and development and general administrative expenditures.

Cash flow from financing activities for the year ended December 31, 2023 of \$245,456 was the result of a private placement, issuance of shares to a related party and money received from a related party.

Year months ended December 31, 2022

During the year ended December 31, 2022 the Company's overall position of cash decreased by \$380,696. This decrease can be attributed to the following activity:

Cash flows used in operating activities were \$1,099,434. The cash was used to pay research and development and general administrative expenditures.

Cash flow from financing activities for the year ended December 31, 2022 of \$718,738 was the result of a private placement and amounts owned from related parties.

Capital Resources

As of December 31, 2023, the Company has a working capital deficit of \$234,895 (December 31, 2022 – working capital of \$136,364).

Commitments

On October 30, 2022, the Company entered into an agreement with Buchwalter Presentation and Storage Ltd. ("Buchwalter") under which Buchwalter, a leading supplier of products (including shelving) and technologies to supermarkets in Israel will serve as exclusive representatives of the Company in Israel. Buchwalter will have exclusive distribution rights for the Company's products in Israel until December 31, 2024.

If by the end of the initial period, the distributor has purchased products and services from the Company for an aggregate amount of at least \$4,000,000, then the initial period will continue for a period of 3 additional years.

Disclosure of Outstanding Share Data

As of the date of this report, the Company has 20,368,578 ordinary shares outstanding (December 31, 2023 – 19,855,378). There are no warrants or options outstanding at this date.

Management of Capital

The Company's capital comprises share capital and accumulated other comprehensive loss. The Company manages its capital structure, and makes adjustments to it, based on the funds available to the Company in order to support the Company's business activities. The Board of Directors does not establish quantitative return on capital criteria for management; it relies on the expertise of the Company's management to sustain future development of the business.

The intellectual property in which the Company currently has an interest is in the development stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned research and development and pay for administrative costs, the Company intends to raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

Off-Balance Sheet arrangements

See "Commitments" above.

Transactions with Related Parties

The following are the expenses incurred with related parties for the year ended December 31, 2023 and for the year ended December 31, 2022, and the balances owing as of December 31, 2023 and December 31, 2022:

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
CEO	\$ 14,388	\$ 162,866
CFO	24,000	16,000
President	<u>14,168</u>	<u>43,270</u>
	<u>\$ 52,556</u>	<u>\$ 222,136</u>

Balances with related parties:

	<u>December 31,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Amounts owed to the CEO	\$ -	\$ 16,624
Amounts owed to the CFO	24,000	8,000
Amounts owed to the President	-	14,209
Amounts owed to a company controlled by the CEO	29,197	6,681
	<u>\$ 53,197</u>	<u>\$ 45,514</u>

On February 1, 2022, a CEO services consulting agreement was signed between the Company and Mida Consulting and Investments Ltd (“Mida”), a company controlled by the CEO of the Company, pursuant to which the Company shall pay the CEO of the Company NIS 50,000 per month (approximately \$13,500) (“2022 CEO Compensation Agreement”). From the month following the completion of an IPO, RTO or listing of the Company’s shares for trade on an international stock exchange or a similar transaction the fee shall increase to NIS 100,000 per month (approximately \$27,000). On February 1, 2023, the Company and the CEO verbally agreed to terminate the agreement. A new agreement was signed on January 1, 2024, pursuant to which the Company shall pay the CEO \$5,000 per month. On June 3, 2024 an amendment to the new agreement was signed between the Company and Mida, pursuant to which the CEO, will not be paid any compensation until such time as Shelfie is a publicly listed company and has raised an additional \$1,000,000 post such listing.

On February 1, 2022, the Company entered into a rental agreement with A2Z Cust2Mate Solutions Corp, (“A2Z”), a company controlled by the CEO (“A2Z”). The rental agreement expired on January 31, 2023 and was renewed for a further 12 months. The Company’s base rent is ILS2,000 per month (\$590) The Company has elected to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets.

On April 1, 2022, the Company and the CFO of the Company entered into a CFO services consulting agreement pursuant to which the CFO shall receive \$2,000 per month. From the month following the completion of an IPO, RTO or listing of the Company’s shares for trade on an international stock exchange or similar transaction, the amount shall be increased to \$3,000 per month.

On November 1, 2022, the Company and the President of the Company entered into an agreement pursuant to which the President of the Company shall receive NIS 50,000 per month (approximately \$13,500). The Company also paid the president one month fee as a signing bonus. On February 1, 2023, the Company and

the President verbally agreed to terminate the agreement. A formal agreement to this effect was signed on May 22, 2024.

Critical Accounting Policies and Estimates

Our results of operation and financial condition are based on our consolidated financial statements, which are presented in accordance with IFRS. Certain accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at that time. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies and estimates that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of a past event; and b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

A contingent liability is not recognized in the case where no reliable estimate can be made; however, disclosure is required unless the possibility of an outflow of resources embodying economic benefits is remote. By its nature, a contingent liability will only be resolved when one or more future events occur or fail to occur. The assessment of a contingent liability inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

There were no changes to the Company's internal controls over financial reporting during the year ended December 31, 2023, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

Credit risk

The Company manages credit risk, in respect of cash, by holding them at major Israeli financial institutions in accordance with the Company's investment policy. The Company places its cash with high credit quality Israeli financial institutions. Concentration of credit risk exists with respect to the Company's cash. The Company's exposure as of December 31, 2023 was \$105,885 which consisted of \$9,616 in cash held in bank accounts, and \$5,520 in VAT tax and \$90,749 in prepaid expenses. (December 31, 2022 - \$351,887, which consisted of \$214,178 in cash held in bank accounts, \$35,497 in VAT tax and \$102,212 in prepaid expenses).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet current obligations and future commitments. The Company's approach to managing liquidity risk is to forecast cash requirements to provide reasonable assurance that it will have sufficient funds to meet its liabilities when due. As of December 31, 2023, the Company had cash of \$9,616 to settle current liabilities in the amount of \$340,780 (December 31, 2022 – cash of \$214,178 to settle current liabilities in the amount of \$215,523). The tables below present the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

As of December 31, 2023:

	Carrying amount	
Accounts payable	\$	273,831
Related parties		53,197
Accrued expenses		13,752
	\$	340,780

As of December 31, 2022:

	Carrying amount	
Accounts payable	\$	142,314
Related parties		45,514
Accrued expenses		27,695
	\$	215,523

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of two types of risk: interest rate risk, and foreign currency risk.

(i) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its cash equivalents.

(ii) Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Israel and most of the Company's expenditures are currently incurred in USD. However, the Company also has expenditures in NIS. The Company has not hedged its exposure to currency fluctuations. As of December 31, 2023, if the Company's functional currency (USD) had strengthened/ weakened by 5% against the ILS, with all other variables held constant, the loss for the period would decrease /increase by approximately \$1,600.

Development Stage Company

Shelfie has only a limited history upon which one can evaluate its business and prospects as its technologies are still at an early stage of development and thus Shelfie has limited experience and has not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. The likelihood of the success of the Company must be considered in light of the risks inherent in, and the difficulties, costs and complications associated with the early growth stages of a business enterprise, as well as with the development and marketing of new products.

Future Capital Needs

The Company may not be able to fully implement and execute its business strategy without additional financing. There can be no assurance that such additional financing will be available, and if available, there can be no assurance that the cost of obtaining such financing will be on favorable or reasonable commercial terms or that it will not result in substantial dilution to its shareholders. If additional funds are raised through the issuance of equity or equity-linked debt securities, the percentage ownership in Shelfie of the shareholders will be reduced, and such securities may have rights, preferences, or privileges senior to or equal to those of the Company's shares held by the current shareholders, or any other securities outstanding on the date hereof.

If adequate funds are not available to satisfy ongoing capital requirements, the Company may be required to curtail its operations significantly or to obtain funds, if available, through arrangements with strategic

partners or others that may require the Company to relinquish material rights to certain technologies or potential markets. There is no certainty that financing will be available in amounts or on acceptable terms, if at all.

Any failure to raise additional funds on favorable terms is likely to have a material adverse effect on the Company's liquidity and financial condition.

Dependence on Key Personnel

The Company's future success depends on its ability to retain key employees and attract, train, retain and successfully integrate new talent into its management team. Shelfie is dependent on the services of its senior management team. The loss of any of the members of the Company's senior management team could have a material adverse effect on the Company's results of operations, business and prospects. The Company's future success also depends, to a significant extent, on its ability to attract and retain talented personnel. Recruiting and retaining talented personnel, particularly those with the expertise required for the Company's business is vital to the Company's success and may prove difficult.

Applicability of Patents and Proprietary Technology

Competitors may have filed patent applications, or hold issued patents, relating to products or processes competitive with those Shelfie has developed or will in future develop. The Company's patent applications for a product may not be approved or approved as desired. The patents of the Company's competitors may impair its ability to do business in a particular area. Others may independently develop similar products or duplicate any of the Company's unpatented products or technologies. The Company's success will depend, in part, on its ability in the future to obtain patents, protect trade secrets and other proprietary information and operate without infringing the proprietary rights of others. Patent protection is uncertain and involves many complex legal, scientific and technical questions. The degree of legal protection afforded under patents is unclear. As a result, the scope of patents issued to Shelfie, or their partners may not successfully prevent third parties from developing similar or competitive products.

Shelfie has and will continue to enter into confidentiality agreements with its employees, suppliers and vendors. However, these confidentiality agreements may be breached, and the Company may not have adequate remedies for such breaches. Others may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology belonging to the Company. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner.

In addition, the coverage claimed in a patent application can be significantly reduced before a patent is issued. Also, Shelfie faces the following intellectual property risks: (i) some or all patent applications may not result in the issuance of a patent; (ii) patents issued may not provide the holder with any competitive advantages; (iii) patents could be challenged by third parties; (iv) the patents of others could impede our ability to do business; (v) competitors may find ways to design around our patented products; and (vi) competitors could independently develop products which duplicate our products.

Economic and military instability in Israel and in the Middle East

The Company's operational offices are located in Israel. In addition, a majority of the Company's employees, officers and directors are residents of Israel. Accordingly, political, economic and military conditions in the Middle East may directly affect the business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect the Company's operations and results of operations.

In October 2023, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets. Hamas launched extensive rocket attacks on the Israeli population and industrial centers located along Israel's border with the Gaza Strip and in other areas within

the State of Israel. These attacks resulted in thousands of deaths and injuries, and Hamas additionally kidnapped many Israeli civilians and soldiers. Following the attack, Israel's security cabinet declared war against Hamas and commenced a military campaign against Hamas and these terrorist organizations in parallel continued rocket and terror attacks. As a result of the events in October 2023, the Israeli government declared that the country was at war and the Israeli military began to call-up reservists for active duty. To date, none of our members of management nor significant number of employees is in active military reserve duty. Military service call ups that result in absences of personnel from us for an extended period of time may materially and adversely affect our business, prospects, financial condition and results of operations.

The Company is continuing with its operations in Israel. The Company continues to assess the effects of the state of war on its financial statements and business. The intensity and duration of Israel's current war against Hamas is difficult to predict at this stage, as are such war's economic implications on our business and operations and on Israel's economy in general. If the war extends for a long period of time or expands to other fronts, such as Lebanon, Syria and the West Bank, our operations may be adversely affected.

Any hostilities, armed conflicts, terrorist activities involving Israel or the interruption or curtailment of trade between Israel and its trading partners, or any political instability in the region could adversely affect business conditions and our results of operations and could make it more difficult for us to raise capital. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary in order to meet our business partners face to face.

Continued hostilities between Israel and its neighbors and any future armed conflict, terrorist activity or political instability in the region could adversely affect our operations in Israel and adversely affect the market price of our ordinary shares. An escalation of tensions or violence might result in a significant downturn in the economic or financial condition of Israel, which could have a material adverse effect on our operations in Israel and our business.

Our commercial insurance does not cover losses that may occur as a result of events associated with war and terrorism. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or that it will sufficiently cover our potential damages. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could adversely affect our results of operations.

Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or the expansion of our business. A campaign of boycotts, divestment and sanctions has been undertaken against Israel, which could also adversely impact our business.

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