# APPLIED INVENTIONS MANAGEMENT INC.

## Management Discussion and Analysis Of Financial Condition and Results of Operations for the fiscal years ended August 31$^{st}$, 2011 & 2010

The Management Discussion and Analysis (M.D. & A.) should be read in conjunction with Applied Inventions Management Inc.'s (the "Company") consolidated annual audited financial statements and the accompanying notes thereto. The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. All monetary amounts are expressed in Canadian dollars. Additional information regarding the Company is available on the SEDAR website at www.sedar.com

## FORWARD - LOOKING INFORMATION

The discussion and analysis and other sections of this report contain forward-looking statements. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause results to differ materially from those contemplated by these forward-looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared, but cautions the reader that they could cause actual results to differ materially from those anticipated.

## DATE OF M. D. & A.

This M. D. & A. was prepared on October 17, 2011.

## GENERAL OVERVIEW

A cease trade order ("CTO") was imposed by the Ontario Securities Commission on February 20, 2001 for failure to file its annual financial statements for the year ended August 31, 2000 and interim statements for the three months period ended November 30, 2000. These statements were subsequently filed on Sedar by the Company.

The Company has been inactive since 2002. Prior thereto, the Company manufactured, marketed and distributed the SAVE swimming pool intrusion alarm.

The Company is in the process of reorganizing its affairs.

On August 27, 2011 the Ontario Securities Commission issued a Revocation Order of the CTO. The Company is now seeking to complete a transaction that would allow the reinstatement of trading privileges on a recognized stock exchange.

## SELECTED ANNUAL INFORMATION

| For the years ended August 31st | **2010** | **2011** |
|---|---|---|
| Sales | Nil | Nil |
| Net Earnings (Loss) | ($ 22,895) | ($ 55,389) |
| Earnings (loss) per share | ($ 0.01) | ($ 0.03) |
| Total Assets | Nil | $ 21,079 |
| Current Liabilities | $ 412,663 | $ 489,131 |
| Total Long Term Debt | Nil | Nil |
| Cash Dividends | Nil | Nil |
| Deficit | ($ 3,286,626) | ($ 3,342,015) |

## RESULTS OF OPERATION AND QUARTERLY RESULTS

Applied Inventions Management Inc. has not had any operational revenues since 2002 and has been inactive. The Company has incurred administrative costs, professional fees and consulting fees associated with completing all outstanding annual audited financial statements, interim unaudited financial statements and all other regulatory filing requirements and continued to accrue interest on its secured demand Debenture payable. Professional fees incurred were $51,217 in fiscal 2011 and $20,000 in fiscal 2010. Interest accrued on the secured demand Debenture and shareholder advances was $3951 in fiscal 2011 and $2,895 in fiscal 2010. Consequently, the segmented information is based upon one segment and is not applicable. For more detailed information, see the Company's audited 2011 financial statements.

| | Aug. 31 2011 Q4 | May 31 2011 Q3 | Feb 28 2011 Q2 | Nov 30 2010 Q1 | Aug 31 2010 Q4 | May 31 2010 Q3 | Feb 28 2010 Q2 | Nov 30 2009 Q1 |
|---|---|---|---|---|---|---|---|---|
| Total Revenue | $Nil | $Nil | $Nil | $Nil | $NIL | $NIL | $NIL | $NIL |
| Net Income (Loss) | ($42,519) | ($6,278) | ($5,796) | ($796) | ($20,723) | ($724) | ($724) | ($724) |
| Net Income (Loss) per Share | ($0.01) | ($0.01) | ($0.01) | ($0.00) | ($0.01) | ($0.00) | ($0.00) | ($0.00) |

## LIQUIDITY

Since the Company ceased operations, it has been dependent upon one of its shareholders who is an officer and director of the Company, to provide financing for ongoing administrative expenses and cost of re-organizing the affairs of the Company. The shareholder who is an officer and director of the Company has indicated that he will continue to fund costs anticipated to be approximately $30,000. However, if the shareholder decides not to fund the ongoing costs, the Company will have to attempt to raise monies to fund ongoing operations from an alternative source. There is no assurance that the Company will be able to raise the required monies at competitive rates to continue operations.

As at August 31, 2011, the Due to Shareholder amount payable, which is owing to a principal shareholder who is a director and officer of the Company, was $ 343,154 (2010-$ 347,154), bears no interest and is secured by a General Security Agreement (GSA). An additional $38,271 was advanced to the Company by the same Shareholder which amount bears interest at 10% per annum and is secured by a GSA.

The Company continues to be indebted for $35,028 on the demand Debenture as at August 31, 2011 (2010- $31,844). Interest is included in the amount owing. It bears interest at 10% per annum, and matured on November 5, 1998 and is secured by a GSA The Debenture is in default and the conversion features which previously existed have lapsed.

## PROPOSED TRANSACTIONS

There are currently no proposed transactions**.**

## FINANCIAL INSTRUMENTS

All financial instruments are recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

***Financial Assets***

Held for trading assets are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity assets are subsequently measured at amortized cost using the effective interest rate method.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income, except for equity instruments without a quoted market price which are measured at cost.

***Financial Liabilities***

Held for trading liabilities are subsequently measured at fair value with the change in fair value recognized in net income during the period. Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders’ equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income and accordingly, a statement of comprehensive income has not been presented.

The Company has classified its financial instruments as follows:

| Financial Instrument | Classification |
| --- | --- |
| Cash | Held for trading |
| Account payable and accrued liabilities | Other liabilities |
| Shareholder advances – non-interest bearing | Other liabilities |
| – interest bearing | Other liabilities |
| Debenture | Other liabilities |

Transition costs related to financial instruments are expensed as incurred.

## FINANCIAL RISK MANAGEMENT- LIQUIDITY RISK

Risk management is the responsibility of management who is of the opinion that the Company is exposed to financial risks as described below. The Company's financial instruments, cash, accounts payable and accrued liabilities, debenture and shareholder advances, and approximate fair values due to the relatively short term maturities of the instruments. It is management's opinion that the Company is not exposed to significant interest and currency risks.

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk of the Company at year-end is the carry value of its cash. The Company minimizes its credit risk by maintaining cash at major banks and financial institutions.

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. As at August 31, 2011, the Company has current liabilities of $489,131 (2010 - $412,663) and no significant assets other than a cash balance of $21,079 (2010 - $NIL). As a result, the Company is dependent on obtaining additional financing to meet its current obligations.

The Company had no interest rate swap or financial contracts in place as at the year ended August 31, 2011, 2010.

## CAPITAL RISK MANAGEMENT

The Company considers capital stock and deficit to represent capital. As at August 31, 2011 and 2010 the Company has a negative capital balance and management's objective is to maintain its ability to continue as a going concern by identifying sources for additional financing for working capital and to fund the development of a business.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended August 31, 2011 and 2010.

## OFF BALANCE SHEET ACTIVITIES

At August 31, 2011 and 2010, the Company had no off balance sheet financial commitments and does not anticipate entering into any contracts of such nature.

## RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, other than item (d) listed below:

(a) The interest of $3,951 (2010-$2,895) is due to Michael Stein, who is a shareholder, director and officer**.**

(b) The debenture of $35,028 (2010-$31,844), consisting of principal plus accrued interest, is payable to Michael Stein, who is a shareholder, director and officer, which is secured by a general security agreement.

(c) During the year the Company accrued $5,000 (2010-$ 5,000) for consulting fees to Michael Stein, who is an officer, director and principal shareholder for assisting with the re-organization of the Company including obtaining the re-issuance of the Provincial charter and completing certain financial information for the auditors.

(d) Amounts due to Michael Stein, a shareholder, officer and director of the Company, were $343,154 non-interest bearing advances and $38,271 bearing interest at 10% per annum as at August 31, 2011 and are secured by a general security agreement.

(e) During the year $36,767 was paid for professional fees and disbursements to a law firm in which a director of the Company is a partner.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

As at the date of the M.D. & A., there have been no changes in the Company's accounting policies except as disclosed below and the Company has not provided any forward-looking statements or estimates related to future operations other than as described below.

## RECENT ACCOUNTING PRONOUNCEMENTS ISSUED AND NOT YET APPLIED

## INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

On February 13, 2008, the Accounting Standards Board ("AAcSB") confirmed that publicly accountable entities will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company has developed a three phase changeover plan to adopt IFRS on September 1, 2011 as follows:

(i) Scope and Plan: This first phase involves the development of an initial project plan and structure, the identification of differences between IFRS and existing Canadian GAAP, and an assessment of their applicability and the expected impact on the Company.

(ii) Design and Build: The second phase includes the detailed review, documentation and selection of accounting policy choices relating to each IFRS standard. This phase will also include assessing the impact of the conversion on business activities, including the effect on information technology and data systems, income tax, internal controls over financial reporting, and disclosure controls. In this phase, accounting policies will be finalized, first-time adoption exemptions and exceptions will be considered, and draft financial statements and note disclosures will be prepared.

(iii) Implement and Review: The final phase involves the actual implementation of IFRS will involve the finalization of IFRS conversion impacts, approval and implementation of accounting policies, implementation and testing of new processes, systems and controls, and the execution of detailed training where required.

As at August 31, 2011 the Company has completed a plan to meet the timelines imposed. The project completion is geared for the start of the August 31, 2012 fiscal year and to facilitate the preparation of interim financial statements for the purpose of comparison to the corresponding interim period for the year ended August 31, 2011.

There have been no other changes in the Company’s accounting policies for the fiscal periods covered by theses annual financial statements.

## CONTROLS AND PROCEDURES

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the period covered by this MD&A, management believes its internal controls and procedures, for the nature and size of the entity, are effective in providing reasonable assurances that financial information is recorded, processed, summarized and reported in a timely manner.

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, is made known to the Company’s certifying officers. Management has evaluated the effectiveness of the Company’s disclosure controls and procedures and has concluded that these controls and procedures are effective, for the nature and size of the entity, in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

## OUTSTANDING SHARE DATA

### Common Shares

As at August 31, 2011 the Company had 1,165,314 Class A common shares and 918,215 Class B multiple voting shares issued and outstanding. As at October 17, 2011 no additional shares have been issued.

### Stock Options and share purchase warrants

As at October 17, 2011 there are no stock options or share purchase warrants outstanding.

## OFFICERS AND DIRECTORS

As at August 31, 2011 the officers and directors of the Company include:

Michael Stein – President and Director

Gabriel Nachman FCA – Chair of Audit Committee, acting CFO and Director

Nicholas Hariton - Director

Barry Polisuk - Director

## ADDITIONAL INFORMATION

Additional information relating to the Company is available at:

- On the Internet at the SEDAR website at www.sedar.com or,
- By contacting Michael Stein at 416-816-9690