

## **APPLIED INVENTIONS MANAGEMENT INC.**

### **Management Discussion and Analysis Of Financial Condition and Results of Operations for the fiscal years ended August 31<sup>st</sup>, 2010, 2009 & 2008**

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](http://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 May 30<sup>th</sup>, 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.

Upon receipt of a Revocation of the CTO outstanding, the Company seeks 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 31 <sup>st</sup>	2010	2009	2008
Sales	Nil	Nil	Nil
Net Earnings (Loss)	(\$ 22,895)	\$ 47,368	(\$ 7,165)
Earnings (loss) per share	(\$ 0.01)	\$ 0.02	(\$ 0.00)
Total Assets	Nil	Nil	Nil
Current Liabilities	\$ 412,663	\$ 389,768	\$ 437,136
Total Long Term Debt	Nil	Nil	Nil
Cash Dividends	Nil	Nil	Nil
Deficit	(\$ 3,286,626)	(\$ 3,263,731)	(\$ 3,311,099)

## 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 filing requirements and continued to accrue interest on its secured demand Debenture payable. Consequently, the segmented information is based upon one segment and is not applicable. For more detailed information, see the Company's audited financial statements.

## 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.

As at August 31, 2010 the Due to Shareholder amount payable was \$ 347,154 (2009-\$ 343,154 and 2008-\$ 343,154), bears no interest and is secured by the assets of the Company and its subsidiaries.

The Company continues to be indebted for \$ 31,844 on the demand Debenture as at August 31, 2010 (2009- \$28,949 and 2008-\$ 78,817 ). 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 general security agreement and a Personal Property Security Agreement (PPSA). 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.

The Company has classified its financial instruments as follows:

Financial Instrument	Classification
Cash	Held for trading
Account payable and accrued liabilities	Other liabilities
Loan Payable	Other liabilities
Shareholder loan	Other liabilities

The carrying values of accounts payable and accrued liabilities and loans payable approximate fair values due to the relatively short term maturities of these instruments.

## **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 is not exposed to currency risk or credit risk.

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. As at August 31, 2010, the Company had current liabilities of \$412,663 (2009 -\$ 389,768 and 2008-\$ 437,136) and no significant assets. As a result, the Company is dependent on obtaining additional financing to meet its current obligations.

Interest rate risk includes the risk that future cash flows or fair value will fluctuate as a result of changes in market interest rates. The Company is exposed to price interest rate risk on its loan payable as it bears interest at a fixed rate.

The Company had no interest rate swap or financial contracts in place as at the year ended August 31, 2010, 2009 and 2008.

## **CAPITAL RISK MANAGEMENT**

The Company considers capital stock and deficit to represent capital. As at August 31, 2010, 2009 and 2008 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, 2010, 2009 & 2008.

## **OFF BALANCE SHEET ACTIVITIES**

At August 31, 2010, 2009 & 2008, 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 \$2,895 (2009-\$2,632, 2008-\$7,165) is due to a shareholder who is also a director and officer.

- (b) The debenture of \$31,844 (2009-\$28,949 and 2008-\$78,817), consisting of principal plus accrued interest, is payable to a shareholder who is also a director and officer.
- (c) During the year the Company accrued \$5,000 (2009-\$ Nil and 2008 \$ Nil) for consulting fees to an officer, director and principal shareholder.
- (d) In 2009, the Company sold its 581,000 common shares of Danbel Industries Inc. to a shareholder for a nominal amount representing fair market value. The transaction was recorded at the carrying amount and no gain or loss was realized on the transaction.
- (e) In 2009, the Company recorded forgiveness of debt related to prior unpaid amounts due to a shareholder who is also a director and officer.

## **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**

In January 2009 , the CICA issued Sections 1582 – Business Combinations, 1601 – Consolidated Financial Statements and 1602 – Non –controlling Interests which replaces CICA Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements, Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”) . Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011.

## **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 by January 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, 2010 the Company has completed a plan to meet with the timelines imposed. The project completion is geared for the start of the August 31, 2011 fiscal year to facilitate the preparation of interim financial statements for the purpose of comparison to the corresponding interim period for the year ended August 31, 2010.

There have been no other changes in the Company's accounting policies for the fiscal periods covered by these 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 May 30, 2011 the Company had 1,165,314 Class A common shares, 918,215 Class B multiple voting shares issued and outstanding. As at May 30, 2011 no additional shares have been issued.

### **Stock Options and share purchase warrants**

As at May 30, 2011 there are no stock option or share purchase warrants outstanding.

## **OFFICERS AND DIRECTORS**

As at August 31, 2010 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](http://www.sedar.com) or,
- By contacting Michael Stein at 416-816-9690