

## **APPLIED INVENTIONS MANAGEMENT CORP.**

### **Management Discussion and Analysis of Financial Conditions and Results of Operations for the three month period ended November 30, 2016**

This Management Discussion and Analysis (M.D. & A.) should be read in conjunction with Applied Inventions Management Corp.'s (the "Company") consolidated annual audited financial statements and the accompanying notes thereto which have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 M.D. & A. 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 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 January 25, 2017.

#### **GENERAL OVERVIEW**

On August 29, 2014, the Company filed articles of amendment changing its name from Applied Inventions Management Inc. to Applied Inventions Management Corp.

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

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.

Prior to 2002, the Company manufactured, marketed and distributed the SAVE swimming pool intrusion alarm.

The Company is in the process of reorganizing its affairs.

## SELECTED ANNUAL INFORMATION

For the years ended August 31st	2015	2016
Sales	\$Nil	\$ Nil
Net Loss and Comprehensive Loss	(\$57,095)	(\$157,757)
Loss per share	(\$0.04)	(\$0.10)
Total Assets	\$3,674	\$726
Current Liabilities	\$634,661	\$119,381
Long-Term Liabilities	\$ Nil	\$ 541,296
Cash Dividends	\$ Nil	\$ Nil
Deficit	(\$3,554,950)	(\$3,712,707)

## RESULTS OF OPERATION AND QUARTERLY RESULTS

Applied Inventions Management Corp. has incurred administrative costs, professional fees and consulting fees associated with preparing and filing annual audited consolidated financial statements, unaudited interim consolidated financial statements and all other regulatory filing requirements and has continued to accrue interest on its interest bearing shareholder advances and its Multiple and Subordinate Voting Debentures. Professional fees incurred for the three month period November 30, 2016 were \$1,217 (November 30, 2015, - \$6,025). Interest accrued on the Multiple and Subordinate Voting Debentures and shareholder advances was \$35,177 (November 30, 2015 - \$6,470). Bank charges were \$79 during the three month period ended November 30, 2016 (November 30, 2015 - \$53).

	Nov 30	Aug 31	May 31	Feb 29	Nov 30	Aug 31	May 31	Feb 28
	2016	2016	2016	2016	2015	2015	2015	2015
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	\$NIL	\$NIL	\$ NIL	\$ NIL	\$NIL	\$NIL	\$NIL	\$ NIL
Net Loss and comprehensive loss	(\$36,473)	(\$117,955)	(\$17,024)	(\$10,230)	(\$12,548)	(\$21,491)	(\$9,356)	(\$10,425)
Net Loss per Share	(\$0.024)	(\$0.077)	(\$0.011)	(\$0.007)	(\$0.008)	(\$0.014)	(\$0.006)	(\$0.007)

## **LIQUIDITY**

The Company 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 for costs 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 recurring costs anticipated to be approximately \$15,000 per annum. 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 November 30, 2016, Shareholder advances payable which is owing to a principal shareholder who is also a director and officer of the Company was \$22,992 (August 31, 2016 - \$11,276) including accumulated interest advanced to the Company by the same Shareholder and bears interest at 10% per annum and is secured by a GSA.

## **PROPOSED TRANSACTION**

On May 12, 2016, the Company signed a letter of intent proposing to acquire all of the issued and outstanding shares of World Defense Holdings WDH Ltd. ("WDH"), a Montreal, Canada based company providing program based defense services in South America, the Middle East and to certain U.S. allied countries to combat terrorism and the ensure global security, subject to the Company's due diligence and entering into a definitive agreement with WDH and its principle shareholder. WDH holds exclusive license agreements with corporations that offer proprietary products and services servicing the military and public safety industry, including government contracting and procurement services to a wide range of police and military organizations across the world. WDH provides expertise in the areas of engineering design, systems development, assembly, integration and testing of diverse and complex military products, including project management and integrated logistics support management, training programs, maintenance programs for existing equipment and sourcing and advising on certain military equipment. WDH also works closely with certain industrial firms to develop products for their operations that WDH offers to governments worldwide under exclusive licensing.

In consideration for the WDH shares, it is proposed that the principle shareholder of WDH will receive an aggregate of 4,000,000 Units of the Company at a deemed price of \$0.25 per Unit of which 3,000,000 Units will be held in escrow for a three-year period, to be released upon WDH achieving certain revenue and gross margin targets, or otherwise cancelled. Each Unit will consist of one Class "A" subordinate voting share of the Company and one share purchase warrant exercisable into one Class "A" share at a price of \$0.50 per share for a period of two years from the date of issue. Further a broker/finders fee of 200,000 Class "A" shares may be payable.

The total cost of the proposed transaction to the Company, including the contingent acquisition cost but excluding transaction expenses is estimated to be a maximum of \$1,000,000 if all milestones are achieved. The current value of the share purchase warrants is deemed to be nominal at this stage.

Subsequent to the period end, November 30, 2016, the definitive agreement contemplated under the Letter of Intent has not been entered into and the time to complete such a definitive agreement has lapsed. It is highly unlikely that a transaction in the form contemplated under the Letter of Intent will take place.

## **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, fair value through profit or loss ("FVTPL"), available for sale, FVTPL liabilities or other liabilities.

FVTPL assets and liabilities are subsequently measured at fair value with the change in the fair value recognized in net income (loss) during the period.

Held to maturity assets, loans and receivables, and other liabilities 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 (loss), except for equity instruments without a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

The Company has classified its financial instruments as follows:

<b>Financial Instrument</b>	<b>Classification</b>
Cash	FVTPL
Accounts payable and accrued liabilities	Other liabilities
Shareholder advances - non - interest bearing	Other liabilities
- interest bearing	Other liabilities
Subordinate and Multiple Voting Debentures	Other liabilities

The Company's financial instruments measured at fair value on the balance sheet consist of cash. The three levels of the fair value hierarchy are as follows:

Level 1: Values based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## **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 comprised of cash, accounts payable and accrued liabilities, shareholder advances and subordinate and multiple voting debentures, 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. Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. As at November 30, 2016 the Company had current liabilities of \$137,164 (August 31, 2016 - \$119,381) and assets of \$747 (August 31, 2016- \$726). As a result, the Company has liquidity risk and 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 not exposed to interest rate risk on its debentures and shareholder loan payable which bear interest at a fixed rate.

The Company's accounts payable outstanding for over 90 days amount to \$26,750 (August 31, 2016 – \$21,512).

## **CAPITAL RISK MANAGEMENT**

The Company considers capital stock and deficit to represent capital. As at November 30, 2016 and August 31, 2016 the Company has a shareholders' deficiency and management's objective is to maintain its ability to continue as a going concern.

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 three month period ended November 30, 2016 and the year ended August 31, 2016.

## **OFF BALANCE SHEET ACTIVITIES**

As at November 30, 2016, 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 listed below and incurred in the normal course of business and are measured at the exchange amount:

- (a) As at November 30, 2016 debenture interest expense, accretion expense and shareholder advances expense was \$35,177 (November 30, 2015 - \$6,470) and is due

to the controlling shareholder who is a director and officer or to a company controlled by the controlling shareholder.

- (b) As at November 30, 2016 the Company has Shareholder Loans due to the controlling shareholder, officer and director of the Company, consisting of \$22,992 (August 31, 2016 - \$11,276) advance bearing interest at 10% per annum, advances being secured by a general security agreement.
- (c) On April 27, 2016, the Company agreed to settle an aggregate of \$645,154 of indebtedness owing to the controlling shareholder who is a director and President of the Company, and to WFE Investments Corp. (“WFE”), a company controlled by the controlling shareholder of the Company, in exchange for the Company issuing a first secured Subordinate Voting Debenture in the principle amount of \$343,154 to the controlling shareholder and a first secured Multiple Voting Debenture in the principle amount of \$302,000 to WFE. The debentures bear interest at a rate of 10% per annum. Interest is payable quarterly and the principle amounts outstanding are due on April 27, 2018, the maturity date.

The secured Subordinate Voting Debenture and the Multiple Voting Debenture and any unpaid interest thereon are convertible, at the option of the holders into Subordinate Voting Units and Multiple Voting Units respectively at a conversion price of \$0.05 per Subordinate Voting Unit or Multiple Voting Unit respectively prior to the maturity date. Each Subordinate Voting Unit and each Multiple Voting Unit will consist of one Class “A” subordinate voting share and one Class “B” multiple voting share respectively and one detachable share purchase warrant. Each warrant shall entitle the holder thereof to acquire one Class “A” subordinate voting share at a price of \$0.06 per share until two years from the date of issuance.

The fair value of the liability component at the time of issue of \$275,046 and \$242,060 for the subordinate voting and multiple voting debentures, respectively, was calculated as the discounted cash flows for the convertible debenture assuming a 22% interest rate which was based on the estimated market interest rate for a convertible debenture without a conversion feature. The fair value of the equity component (conversion feature) of \$68,108 and \$59,940 for the subordinate voting and multiple voting debentures, respectively, was determined at the time of issue as the difference between the fair value of the compound convertible debentures and the fair value of the liability component corresponding to a rate that the Company would have obtained for a similar financing without the conversion option.

	<b>Subordinate Voting Debenture</b>	<b>Multiple Voting Debenture</b>
Principal Value of Debentures Issued	\$343,154	\$302,000
Equity Component	<u>(68,108)</u>	<u>(59,940)</u>
Liability component at date of issue	\$275,046	\$242,060

Accretion  
Liability component at November 30, 2016

22,818  
\$297,864

20,083  
\$262,143

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in compliance with IFRS requires the Company's management to make certain estimates and assumptions that they consider reasonable and realistic. Despite regular reviews of these estimates and assumptions, based in particular on past achievements or anticipations, facts and circumstances may lead to changes in these estimates and assumptions which could impact the reported amount of the Company's asset, liabilities, equity or earnings. There have been no judgments made by management in the application of IFRS that have a significant effect on the financial statements for the period ended November 30, 2016 and the year ended August 31, 2016. Actual results could differ from those estimates.

## **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 IFRS. 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 November 30, 2016 the Company had 388,435 (August 31, 2016 – 388,435) Class "A" Subordinate Voting Shares and 1,139,339 (August 31, 2016 – 1,139,339) Class "B" Multiple Voting Shares issued and outstanding. As at January 25, 2017 no additional shares have been issued

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

The Company's stock option plan provides options that can be exercised for a maximum of 10% of the issued and outstanding Class "A" Subordinate Voting Shares and a maximum of 10% of the issued and outstanding Class "B" Multiple Voting Shares on the date of grant.

On April 29, 2016, 150,000 options to purchase Class “A” shares were granted pursuant to the Company’s stock option plan to directors of the Company. The options were fully vested at the date of granting, have an exercise price of \$0.05 per share and expire on April 29, 2021. The fair value of the options granted of \$745 is estimated at the time of the grant using the Black-Scholes option pricing model with the inputs as set out in note 9 to the Consolidated Financial Statements for the year ended August 31, 2016.

## **OFFICERS AND DIRECTORS**

As at November 30, 2016 the officers and directors of the Company were:

Michael Stein	- President and Director
Gabriel Nachman FCPA, FCA	- Acting CFO, Director and Chair of Audit Committee
Nicholas Hariton	- Director
Barry Polisuk	- Director

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available:

- On the Internet at the SEDAR website at [www.sedar.com](http://www.sedar.com) or,
- By contacting Michael Stein at 416-816-9690