

APPLIED INVENTIONS MANAGEMENT CORP.
(formerly Applied Inventions Management Inc.)

Unaudited Interim Consolidated Financial Statements

For the six-month period ended February 28, 2017
(Expressed in Canadian Dollars)

Applied Inventions Management Corp.

February 28, 2017

Notice to Reader

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by the auditor.

The accompanying unaudited interim consolidated financial statements of the Company for the interim periods ended February 28, 2017 and February 29, 2016, have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management.

The Company's independent auditors, Collins Barrow Toronto LLP, have not performed a review of the interim consolidated financial statements for the interim periods ended and as at February 28, 2017 and February 29, 2016 in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

Applied Inventions Management Corp.

February 28, 2017

Unaudited

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Applied Inventions Management Corp.
Unaudited Interim Consolidated Balance Sheet
(Expressed in Canadian Dollars)

As at	February 28, 2017	August 31, 2016 (Audited)
Assets		
Current		
Cash	\$ 664	\$ 726
<hr/>		
Liabilities		
Current		
Account payable and accrued liabilities	\$ 130,959	\$ 108,105
Shareholder advances – interest bearing (Note 4a))	77,061	11,276
	<hr/>	<hr/>
	208,020	119,381
Subordinate Voting Debenture (Note 4b))	308,333	287,912
Multiple Voting Debenture (Note 4b))	271,357	253,384
	<hr/>	<hr/>
	787,710	660,667
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Shareholder's deficiency		
Capital stock (Note 5))	2,192,923	2,192,923
Equity portion of convertible debenture (Note 4b))	128,048	128,048
Contributed surplus	731,785	731,785
Deficit	(3,839,802)	(3,712,707)
	<hr/>	<hr/>
	(787,046)	(659,951)
	<hr/>	<hr/>
	\$ 664	\$ 726
<hr/>		

Nature of Business and Going Concern (Note 1)

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

“Michael Stein

Director (signed)

“Gabriel Nachman”

Director (signed)

Applied Inventions Management Corp.
Unaudited Interim Consolidated Statement of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Three months ended		Six months ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Expenses				
Interest - debentures accretion and shareholder advances	\$ 37,182	\$ 7,035	\$ 72,359	\$ 13,505
Professional fees	53,369	3,144	54,586	9,169
Bank charges	71	51	150	104
Net Loss and Comprehensive Loss	(\$90,622)	(\$10,230)	(\$127,095)	(\$22,778)
Loss per share				
Basic and fully diluted	\$0.059	\$0.007	\$0.083	\$0.015
Weighted average number of shares outstanding				
Basic and fully diluted	1,527,774	1,527,774	1,527,774	1,527,774

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Applied Inventions Management Corp.
Unaudited Interim Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

As at

	February 28, 2017	February 29, 2016
Capital Stock		
Balance, beginning of year	\$ 2,192,923	\$ 2,192,923
Balance, end of period	<u>\$ 2,192,923</u>	<u>\$ 2,192,923</u>
Contributed Surplus		
Balance, beginning of year	\$ 731,785	\$ 731,040
Balance, end of period	<u>\$ 731,785</u>	<u>\$ 731,040</u>
Equity Component of Convertible Debentures		
Balance, beginning of year	\$ 128,048	\$ -
Equity component of convertible debentures (Note 4b))	-	128,048
Balance, end of period	<u>\$ 128,048</u>	<u>\$ 128,048</u>
Deficit		
Balance, beginning of year	\$ (3,712,707)	\$ (3,554,950)
Net Loss and Comprehensive Loss for the period	(127,095)	(22,778)
Balance, end of period	<u>\$ (3,839,802)</u>	<u>\$ (3,577,728)</u>
Shareholders' Equity		
Balance, beginning of year	\$ (659,951)	\$ (630,987)
Net Loss and Comprehensive Loss for the period	(127,095)	(22,778)
Balance, end of period	<u>\$ (787,046)</u>	<u>\$ (653,765)</u>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Applied Inventions Management Corp.
Unaudited Interim Consolidated Statement of Cash Flows
(Expressed in Canadian Dollars)

For the six months ended	February 28, 2017	February 29, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss and comprehensive loss	\$ (127,095)	\$ (22,778)
Interest and accretion accrued	72,359	13,505
	<u>(54,736)</u>	<u>(9,273)</u>
Working capital adjustment:		
Increase (decrease) in accounts payable and accrued liabilities	(9,314)	(20,466)
Net cash flows used in operating activities	<u>(64,050)</u>	<u>(29,739)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from shareholder	63,988	26,923
Net cash flows generated from financing activities	<u>62,988</u>	<u>26,923</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(62)	(2,816)
Cash and cash equivalents, beginning of the year	<u>726</u>	<u>3,674</u>
Cash and cash equivalents, end of the period	<u>\$ 664</u>	<u>\$ 858</u>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Applied Inventions Management Corp.
Notes to Unaudited Interim Consolidated Financial Statements
February 28, 2017
(Expressed in Canadian Dollars)

1. GOING CONCERN

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

Applied Inventions Management Corp. (the "Company") is incorporated under the laws of the Province of Ontario.

These unaudited consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will realize its net assets and discharge its liabilities in the normal course of business. The Company has minimal assets. Without financial support from directors or shareholders, the Company will not be able to discharge its liabilities in the normal course of business and there are material uncertainties related to adverse conditions and events that cast significant doubt on the Company's ability to continue as a going concern. The Company carries on the business of identification and evaluation of assets or businesses with a view to completing a potential acquisition.

The registered office of the Company is located at 1 Adelaide Street East, Suite 801, Toronto, Ontario M5C 2V9.

The board of directors of the Company approved these unaudited interim consolidated financial statements on April 26, 2017

2. SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURE

These unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are in compliance with IAS 34, Interim Financial Reporting.

These unaudited interim consolidated financial statements do not include all disclosures normally provided in annual financial statements for the year ended August 31, 2016. In management's opinion, the unaudited interim consolidated financial information includes all the adjustments necessary to present fairly such information. Interim results are not necessarily indicative of the results expected for the year. The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended August 31, 2016 in accordance with International Financial Reporting Standards.

These unaudited interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional and reporting currency.

Applied Inventions Management Corp.
Notes to Unaudited Interim Consolidated Financial Statements
February 28, 2017
(Expressed in Canadian Dollars)

3. LETTER OF INTENT – POTENTIAL ACQUISITION

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.

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.

4. SHAREHOLDER ADVANCES AND DEBT SETTLEMENT

a) Shareholder Advances

Shareholder advances, principal plus accrued interest, include advances made by the shareholder on behalf of the Company since September 1, 2009. The advances bear interest at the rate of 10% per annum, are calculated on a monthly basis, are secured by a general security agreement and have no specified terms of repayment.

b) Debt Settlement – Voting Debentures

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 nominal principle amount of \$343,154 to the controlling shareholder and a first secured Multiple Voting Debenture in the nominal principle amount of \$302,000 to WFE. The debentures bear interest at a stated rate of 10% per annum. Interest is payable quarterly and the principle amounts outstanding are due on April 27, 2018, the maturity date.

Applied Inventions Management Corp.
Notes to Unaudited Interim Consolidated Financial Statements
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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 \$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.

	Subordinate Voting Debenture	Multiple Voting Debenture
Nominal 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	<u>33,287</u>	<u>29,297</u>
Liability component at February 28, 2017	<u>308,333</u>	<u>271,357</u>

5. CAPITAL STOCK

a) Authorized:

Unlimited Class "A" Subordinate Voting Shares, convertible into an equal number of Class "B" shares at the option of the holder upon an offer to purchase all or substantially all of the Class "B" shares of the Company;

Unlimited Class "B" Multiple Voting (20 votes per share) Shares, convertible into an equal number of class "A" Shares at the option of the holder;

Unlimited Class "C" Preference Shares.

b) Issued and outstanding:

	February 28, 2017		August 31, 2016	
	Number of Shares	Amount	Number of Shares	Amount
Class "A" Subordinate Voting Shares	388,435	\$1,106,187	388,435	\$1,106,187
Class "B" Multiple Voting Shares	1,139,339	1,086,736	1,139,339	1,086,736
	1,527,774	\$2,192,923	1,527,774	\$2,192,923

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Notes to Unaudited Interim Consolidated Financial Statements
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c) Stock Options

On April 26, 2016, 150,000 options to purchase Class "A" shares were granted under 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 these stock purchase options granted was determined, at the time of grant using the Black-Scholes option pricing model, to be \$745.

6. RELATED PARTY TRANSACTIONS

- a) The interest expense of \$72,359 (2016 - \$13,505) is due to the current controlling shareholder who is also a director and officer of the Company. Interest expense of \$1,972 (2016 - \$175) is interest accrued on outstanding shareholder advances that are interest bearing. Interest expense of \$54,307 (2016 - \$22,139) is interest accrued on the outstanding Subordinate and Multiple Voting Debentures.
- b) As at February 28, 2017 the Company has Shareholder Loans due to the current controlling shareholder who is also an officer and director of the Company of a \$77,061 (December 31, 2016 - \$11,276) bearing interest at 10% per annum secured by a general security agreement.

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 officer of the Company, and to WFE Investment 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 principal amount of \$343,154 to the controlling shareholder and a first secured Multiple Voting Debenture in the principal amount of \$302,000 to WFE (Note 4b)).

- c) Included in accounts payable and accrued liabilities is \$79,530 (December 31, 2016 - \$24,200) related to consulting fees owed to an officer, director and current controlling shareholder.