

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

**Unaudited Interim Consolidated Financial Statements**

**For the nine-month period ended May 31, 2017**  
(Expressed in Canadian Dollars)

# **Applied Inventions Management Corp.**

**May 31, 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 May 31, 2017 and May 31, 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 May 31, 2017 and May 31, 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.**

May 31, 2017

Unaudited

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# Applied Inventions Management Corp.

## Unaudited Interim Consolidated Balance Sheets

(Expressed in Canadian Dollars)

As at	May 31, 2017	August 31 2016 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 629	\$ 726
<b>Liabilities</b>		
<b>Current</b>		
Account payable and accrued liabilities	\$ 113,697	\$ 108,105
Shareholder advances – interest bearing (Note 4a))	83,082	11,276
	<u>196,779</u>	<u>119,381</u>
Subordinate Voting Debenture (Note 4b))	319,736	287,912
Multiple Voting Debenture (Note 4b))	-	253,384
	<u>516,515</u>	<u>660,667</u>
<b>Shareholder's deficiency</b>		
Capital stock (Note 5)	2,526,009	2,192,923
Equity portion of convertible debenture (Note 4b))	68,108	128,048
Warrant Note 4b))	39,260	-
Contributed surplus	731,785	731,785
Deficit	(3,881,048)	(3,712,707)
	<u>(515,886)</u>	<u>(659,951)</u>
	<u>\$ 629</u>	<u>\$ 726</u>

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		Nine months ended	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
<b>Expenses</b>				
Interest - debentures accretion and shareholder advances	\$ 37,539	\$ 13,132	\$ 109,938	\$ 26,637
Professional fees	3,632	3,835	58,218	13,004
Bank charges	35	57	185	161
<b>Net Loss and Comprehensive Loss</b>	<b>(\$41,246)</b>	<b>(\$17,024)</b>	<b>(\$168,341)</b>	<b>(\$39,802)</b>
<b>Loss per share</b>				
Basic and fully diluted	<b>\$0.026</b>	\$0.011	<b>\$0.108</b>	\$0.026
<b>Weighted average number of shares outstanding</b>				
Basic and fully diluted	<b>1,601,403</b>	1,527,774	<b>1,552,317</b>	<b>1,527,774</b>

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

	May 31, 2017	May 31, 2016
<b>Capital Stock</b>		
Balance, beginning of year	\$ 2,192,923	\$ 2,192,923
Conversion of convertible debenture and accretion interest	333,086	-
Balance, end of period	<u>\$ 2,526,009</u>	<u>\$ 2,192,923</u>
<b>Contributed Surplus</b>		
Balance, beginning of year	\$ 731,785	\$ 731,040
Balance, end of period	<u>\$ 731,785</u>	<u>\$ 731,040</u>
<b>Equity Component of Convertible Debentures</b>		
Balance, beginning of year	\$ 128,048	\$ -
Adjustment of equity component on conversion of convertible debenture (Note 4b))	(59,940)	-
Equity component of convertible debentures (Note 4b))	-	57,782
Balance, end of period	<u>\$ 68,108</u>	<u>\$ 57,782</u>
<b>Equity Component of Warrants</b>		
Balance, beginning of year	\$ -	\$ -
Issue of warrants and conversion of convertible Debenture (Note 4b))	39,260	-
Balance, end of period	<u>\$ 39,260</u>	<u>\$ -</u>
<b>Deficit</b>		
Balance, beginning of year	\$ (3,712,707)	\$ (3,554,950)
Net Loss and Comprehensive Loss for the period	(168,341)	(39,802)
Balance, end of period	<u>\$ (3,881,048)</u>	<u>\$ (3,594,752)</u>
<b>Shareholders' Equity</b>		
Balance, beginning of year	\$ (659,951)	\$ (630,987)
Conversion of convertible debenture	333,086	-
Adjustment of equity component of convertible debenture	(59,940)	-
Issue of warrants	39,260	-
Net Loss and Comprehensive Loss for the period	(168,341)	(22,778)
Balance, end of period	<u>\$ (515,886)</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 nine months ended

	May 31, 2017	May 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net loss and comprehensive loss</b>	\$ (168,341)	\$ (39,802)
Interest and accretion accrued	109,938	26,637
	<u>(58,403)</u>	<u>(13,165)</u>
<b>Working capital adjustment:</b>		
Decrease in accounts payable and accrued liabilities	(9,709)	(18,367)
<b>Net cash flows used in operating activities</b>	<u>(68,112)</u>	<u>(31,532)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from shareholder	68,015	28,659
<b>Net cash flows generated from financing activities</b>	<u>68,015</u>	<u>28,659</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(97)</b>	<b>(2,873)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<u>726</u>	<u>3,674</u>
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 629</u>	<u>\$ 801</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**  
**May 31, 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 July 27, 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**  
**May 31, 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.

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 was estimated to be a maximum of \$1,000,000 if all milestones are achieved.

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. The Company is currently seeking other potential acquisitions.

**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.

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)

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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. On May 30, 2017, the Multiple Voting Debenture and accrued interest were converted into 6,700,260 Class "B" Multiple Voting Shares and 6,700,260 Class "A" detachable share purchase warrants (Note 6b)).

	<b>Subordinate Voting Debenture</b>	<b>Multiple Voting Debenture</b>
Nominal value of debentures issued	\$ 343,154	\$ 302,000
Equity Component	(68,108)	(59,940)
Liability component at date of issue	<u>\$ 275,046</u>	<u>\$ 242,060</u>
Accretion	44,690	39,333
Conversion	-	(281,393)
Liability component at May 31, 2017	<u>\$ 319,736</u>	<u>\$ -</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:**

	<b>May 31, 2017</b>		<b>August 31, 2016</b>	
	<b>Number of Shares</b>	<b>Amount</b>	<b>Number of Shares</b>	<b>Amount</b>
Class "A" Subordinate Voting Shares	<u>388,435</u>	<u>\$1,106,187</u>	<u>388,435</u>	<u>\$1,106,187</u>
Class "B" Multiple Voting Shares	<u>7,839,599</u>	<u>1,365,322</u>	<u>1,139,339</u>	<u>1,086,736</u>
	<u><b>8,228,034</b></u>	<u><b>\$2,471,509</b></u>	<u><b>1,527,774</b></u>	<u><b>\$2,192,923</b></u>

**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.

**Applied Inventions Management Corp.**  
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**6. RELATED PARTY TRANSACTIONS**

- a) The interest expense of \$41,231 (2016 - \$13,505) is due to the current controlling shareholder who is also a director and officer of the Company. Interest expense of \$3,791 (2016 - \$175) is interest accrued on outstanding shareholder advances that are interest bearing. Interest expense of \$37,440 (2016 - \$22,139) is interest accrued on the outstanding Subordinate and Multiple Voting Debentures.
- b) As at May 31, 2017 the Company has Shareholder Loans due to the current controlling shareholder who is also an officer and director of the Company of a \$83,082 (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)).

On May 30, 2017 WFE a company controlled by the controlling shareholder of the Company converted a secured Multiple Voting Debenture into 6,700,260, Multiple Voting Units, at \$0.05 per Unit comprising 6,700,260 Class "B" Multiple Voting Shares and 6,700,260 Class "A" detachable share purchase warrants totaling \$335,013.

The conversion was accounted for as the elimination of the Multiple Voting Debenture liability with a transfer of the recorded liability and the equity component of the debenture to be paid in value of the Class "B" Multiple Voting Shares and Class "A" detachable share purchase warrants (Note 4b)).

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