

# **INNOVATIVE PROPERTIES INC.**

## **Management's Discussion and Analysis**

For the Three and Six Months Ended April 30, 2018 and 2017

### **1. Date of this Report: June 29, 2018**

The following Management's Discussion and Analysis ("MD&A") has been prepared by management and is provided to enable readers to assess the results of operations and financial condition of Innovative Properties Inc. ("Innovative") for the three and six months ended April 30, 2018. This MD&A should be read in conjunction with the condensed interim financial statements and related notes for the three and six-month period ended April 30, 2018 and the annual audited financial statements at October 31, 2017 and accompanying MD&A dated February 28, 2018, and are based on known risks and uncertainties. The terms "Innovative", the "Company", "we", "us", and "our" in the following MD&A refer to Innovative Properties Inc. All amounts, unless noted otherwise, are in Canadian dollars and are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements, along with additional information on the Company, are available on SEDAR at [www.sedar.com](http://www.sedar.com), or on the Company's website at [www.innovativeproperties.com](http://www.innovativeproperties.com). The Board of Directors of the Company under the recommendation of its Audit Committee has approved the contents of this MD&A, and this report covers other relevant information available up to the date of this report.

### **2. Overall Performance and Going Concern**

#### ***Description of Business***

Innovative Properties Inc. (the "Company") was formed by amalgamation under the Canada Business Corporations Act on October 31, 2002. The amalgamated entity was named "Innovative Properties Inc." and its common shares became listed and posted for trading on the TSX Venture Exchange under the symbol "INR".

The Company invests in various stocks and real estate properties and other projects and actively seeks out viable investments. It has discontinued its administrative management aspect as it is no longer feasible.

On September 2, 2014, the Company announced that it had received final approval to list its common shares on the Canadian Securities Exchange ("CSE"). The Company's common shares commenced trading on the CSE effective September 3, 2014, under the symbol "INR". It

received consent from the Toronto Venture Stock Exchange to voluntarily delist its shares effective upon the closing of markets on September 5, 2014.

In late fiscal 2016, due to construction beside the main property managed by the Company, there was no access to parking, and there were some safety concerns. The building was sold by the landlord in January 2017. As a result, the property management contracts and the consulting services provided to the occupants in that property ended.

In January 2018, the Company executed a binding letter of intent (“LOI”) with Modular Block Mining Inc. (“Modular”) whereby the Company will acquire 100% of the issued and outstanding securities of Modular in exchange for 68,500,000 common shares of the Company along with the issuance of 15,000,000 Performance Warrants that vest on completion of certain milestones. As a condition of the agreement, the Company agreed to undertake a financing to raise a minimum of \$4,000,000 and up to \$12,000,000 via the issuance of equity units at a price of \$0.40 per unit. Modular is an arms-length private company that designs and develops application software.

During the three and six months ended April 30, 2018, the Company was not able to finance its day-to-day activities with income generated from its management contracts as the former contracts ended in fiscal 2016. The Company disposed some of its marketable securities and used the proceeds in its operations. There is an indication of material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

Management intends to finance operating costs over the next twelve months with cash and proceeds from private placements. As at April 30, 2018, the Company had over \$350,000 in its bank accounts and marketable securities; Management believes this amount is adequate to finance the Company’s operations in the next twelve months; in addition, the Company is actively seeking financing in this period.

### **3. Earnings**

Management reports that in the six-month period ended April 30, 2018, the Company had a net comprehensive loss of \$1,059,424.

## 4. Results of Operations

### *Selected Annual Information*

	2017		2016		2015
Revenue	\$	-	\$	642,700	\$ 1,169,204
Net Income (Loss)		(308,234)		(604,182)	438,275
Total Assets		1,439,705		(1,507,094)	1,777,109
Basic and Diluted EPS	\$	(0.02)	\$	(0.05)	\$ 0.04

- Revenue for the year ended October 31, 2017 was \$nil compared to \$642,700 in 2016 and \$1,169,204 in 2015 because the Company's management and service contracts ended in 2016.
- Net loss for 2017 was less than 2016 because the Company made a gain of \$104,500 in settlement of financial instruments and wrote off \$51,856 of loans receivable in 2017; while compared to 2016, the Company wrote off \$208,837 of loans receivable. In 2015, the Company had net income because of revenue earned from management and service contracts.
- Total assets of the company decreased slightly in 2017 compared to 2016 because in 2017, the fair value of marketable securities were less than the fair value in 2016, and loan receivable in 2017 was either written off or collected.

### *Summary of Quarterly Results*

	April 30, 2018	January 31, 2018	October 31, 2017	July 31, 2017
Service revenue	-	-	-	-
Expenses	(484,571)	(351,580)	(401,450)	(68,318)
Other income (expenses)	(58,920)	(164,353)	(425,656)	(333,960)
Net income (loss)	(543,491)	(515,933)	(277,741)	(265,643)
Wt-avg number of shares outstanding	24,635,536	16,414,966	16,414,966	13,048,957
EPS	(0.02)	(0.03)	(0.00)	(0.02)

	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016
Service revenue	-	-	-	77,000
Expenses	(8,100)	(16,108)	(393,972)	(37,447)
Other income (expenses)	343,050	602,308	(348,367)	(5,489)
Net income (loss)	(351,050)	586,200	(901,646)	134,067
Wt-avg number of shares outstanding	13,048,957	13,048,957	13,048,957	11,928,105
EPS	(0.03)	0.03	(0.08)	0.01

### ***Results for the Three-Month Period ended April 30, 2018***

Service revenue for the three-month period was \$nil (2017 - \$nil).

During the three-month period ended April 30, 2018, the Company paid \$384,429 (2017 - \$nil) in consulting fees, \$54,750 in management fees, \$23,226 (2017 – \$5,580) in professional fees, \$8,470 (2017 - \$6,372) in filing fees, and \$1,500 (2017 - \$nil) in rent.

Total expenses increased by \$476,471 as compared to the same period in 2017. This is mostly because in 2018, the Company paid more in management and consulting fees, as well as professional fees compared to the same period in 2017.

### ***Results for the Six-Month Period ended April 30, 2018***

Service revenue for the six-month period was \$nil (2017 - \$nil).

During the six months ended April 30, 2018 the Company paid \$384,429 (2017 - \$nil) in consulting fees, \$224,375 (2017 - \$4,500) in management fees, \$192,461 (2017 - \$11,080) in professional fees, \$15,610 (2017 - \$7,532) in filing fees, and \$6,000 (2017 - \$4,500) in rent.

Total expenses increased by \$811,943 as compared to the same period in 2017. This is mostly because in 2018, the Company paid more in management and consulting fees, as well as professional fees compared to the same period in 2017.

## **5. Liquidity**

At April 30, 2018, the Company had \$163,250 in liabilities (October 31, 2017 - \$385,055). In addition, the Company had a working capital surplus of \$4,257,214 (October 31, 2017 – \$1,054,225).

	April 30, 2018	October 31, 2017
Current assets	\$ 4,420,464	\$ 1,439,280
Current liabilities	(163,250)	(385,055)
Working capital	\$ 4,257,214	\$ 1,054,225

The Company had a net loss of \$1,059,424 (2017 – net income of \$235,050) for the six months ended April 30, 2018. In addition, it had an accumulated deficit of \$2,583,169 (October 31, 2017 - \$1,523,745). The Company's ability to continue as a going concern is dependent upon its ability to finance operations with revenue derived from new business opportunities.

## 6. Capital Resources

No capital expenditure incurred for the six months ended April 30, 2018 and for the year ended October 31, 2017.

The Company anticipates that any acquisitions will be financed by a combination of issuance of common shares and some form of subordinated debt.

## 7. Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## 8. Transactions with Related Parties

### *Related Party Balances*

At April 30, 2018, the Company had balances receivable in the amount of \$8,589 (October 31, 2017 - \$6,368) from companies with directors in common.

As at April 30, 2018, an outstanding balance of \$11,288 (2017 - \$nil) of consulting fees to a company related to the CFO is included in accounts payable.

On March 8, 2017, the Company agreed with a related party to offset an account payable of \$94,500 and an account receivable \$109,036 and further, agreed to settle these amounts for consideration of \$10,000. In respect of its collectability, the receivable had been previously provided for in its entirety. Thus, the Company recorded a gain on settlement of financial instruments in the amount of \$104,500 in the statement of comprehensive loss for the year ended October 31, 2017.

### *Related Party Transactions*

All transactions with related parties have occurred in the normal course of operations. All amounts are unsecured, non-interest bearing and have no specific terms of settlement, unless otherwise noted.

	April 30, 2018	January 31, 2017
Consulting fees	\$ 384,429	\$ -
Management fees	5,250	4,500
Professional fees	20,357	5,500
Rent	6,000	4,500
	\$ 416,036	\$ 14,500

## **9. Subsequent Events**

In June 2018, the Company announced 2 new directors joined the board of directors to replace 2 departing directors. At the same time, new CEO and CFO were appointed to replace departing CEO and CFO.

## **10. Critical Accounting Estimates**

Not applicable to a venture issuer.

## **11. New Accounting Standards and Interpretations**

See Note 3 of the Company's financial statements for the year ended October 31, 2017 for a detailed summary of accounting standards issued but not yet effective.

## **12. Financial Instruments and Other Instruments**

The Company's financial instruments are cash, accounts receivable, and accounts payable and accrued liabilities.

The Company's carrying value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximates fair value due to the immediate or short-term maturity of these instruments.

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company may be exposed to interest rate price risk through fixed rate debt and interest rate cash flow risk through floating interest rate bank indebtedness and credit facilities.

## **13. Share Capital**

### ***Common Shares***

Authorized: unlimited common voting shares without nominal or par value

Issued: 27,598,865 common shares as at the report date.

### ***Warrants***

As at the report date, the Company has 5,591,949 common share purchase warrants and 528,796 broker's warrants outstanding.

### ***Stock Options***

As at the report date, the Company had no common share purchase stock option outstanding.

### **14. Financing**

In February 2018, the Company closed its first tranche of financing via the issuance of 6,746,118 units at a price of \$0.40 per unit for gross proceeds of \$4,698,447. Each unit consists of one common share and one-half share-purchase warrant. Each whole warrant entitles the holder to acquire an additional share at a price of \$0.75 until August 14, 2019.

In March 2018, the Company closed its second and third tranches of financing via the issuance of 4,437,781 units at a price of \$0.40 per unit for gross proceeds of \$1,775,112. Each unit consists of one common share and one-half share-purchase warrant. Each whole warrant entitles the holder to acquire an additional share at a price of \$0.75 for 19 months following date of issuance.

In addition, the Company paid an aggregate of \$211,519 in cash commission to eligible finders; furthermore, 528,796 broker's warrants were issued to eligible finders to purchase up to 528,796 common shares for 18 months following the date of issuance.

### **15. Marketable Securities**

As at January 31, 2018 and October 31, 2017, the Company's marketable securities were comprised of investments in shares and share-purchase warrants.

	April 30, 2018	October 31, 2017
<b><i>Common Shares</i></b>		
Fair value, beginning of period	\$ 725,851	\$ 635,942
Additions	-	-
Dispositions	(302,867)	(332,977)
Change in fair value	(422,894)	422,886
Fair value, end of period	\$ 90	\$ 725,851

	April 30, 2018	October 31, 2017
<b><i>Warrants</i></b>		
Fair value, beginning of period	\$ 14,333	\$ 221,106
Dispositions	-	(212,186)
Change in fair value	10,818	5,413
Fair value, end of period	\$ 25,151	\$ 14,333
Total	\$ 25,241	\$ 740,184

During the period ended January 31, 2018, the Company realized a gain of \$184,488 (January 31, 2017 - \$nil) with respect to its dispositions of marketable securities.

The fair value of the warrants was determined using the Black-Scholes option pricing model using the following weighted-average assumptions:

	April 30, 2018	October 31, 2017
Expected life of warrants	1.56 years	2.31 years
Annualized volatility	107%	173%
Risk-free interest rate	1.9%	1.3%
Dividend rate	0.0%	0.0%

#### **16. Option Agreement with Chimata Gold Corp.**

On August 31, 2016, the Company entered into an option agreement with Chimata Gold Corp. (“Chimata”), a related party, wherein Chimata would earn 100% interests in the Company’s Maggie claims located in British Columbia, Canada. Chimata will earn its interests by:

- (i) Cash payment of \$5,000 upon execution of the agreement. The Company has recognized this amount as revenue when received on December 1, 2016.
- (ii) Cash payment of \$50,000 on or before April 30, 2017. The Company has yet to receive this amount.
- (iii) Incurring work costs of \$50,000 on or before the end of December 31, 2016; and
- (iv) Incurring further work costs of \$50,000 before April 30, 2017.

As at October 31, 2017, the option agreement lapsed and the Company no longer held the mining claims.



## **17. Management's Report on Internal Control over Financial Reporting**

Venture issuers are not required to include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109"). In particular, the Company's certifying officers are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's generally accepted accounting principles.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they make. Investors should be aware that inherent limitations on the ability of the Company are certifying officers to design and implement on a cost effective basis.

## **18. Financial Risk Management and Capital Management**

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows.

### ***Credit Risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts and its trade receivables. Cash is deposited in bank accounts held with major banks in Canada. As most of the Company's cash is held by one bank, there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

### ***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the

funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

### ***Foreign Exchange Risk***

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign currency risk.

### ***Interest Rate Risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk is minimal.

### ***Capital Management***

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any internally imposed capital requirements.

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## **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute "forward-looking statements". The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "intend", "plan" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors outside of management's control that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct; such forward-looking statements are based solely on information available up to the date of this MD&A. The Company assumes no responsibility for the accuracy and completeness of the forward-looking statements and does

not undertake any obligations to publicly revise these forward-looking statements to reflect subsequent events or circumstances, unless required to do so by Securities Regulators.

By their very nature, forward-looking statements involve numerous factors and assumptions, and are subject to inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such statements. These factors include general business and economic conditions in Canada, the effects of competition in the markets where we operate, the impact of changes in laws and regulations (including tax laws), successful execution of our strategy and our ability to complete and integrate acquisitions successfully, our ability to attract capital, our ability to attract and retain key employees and executives, the financial position of our customers, our ability to refinance our debts upon maturity and changes in interest rates.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

### **Officers and Directors**

Kevin Ma, CEO and Director

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