

**Upco International Inc.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
For the nine months ended September 30, 2019  
(Expressed in US Dollars)

**Upco International Inc.**  
Management Discussions and Analysis  
For the quarter ended September 30, 2019

This management discussion and analysis of financial position and results of operations (“MD&A”), prepared as of August 26, 2019 provides an analysis of the operations and financial results of Upco International Inc. (“the Company”) for the nine month period ended September 30, 2019, and should be read in conjunction with the unaudited consolidated interim financial statements for the nine months ended September 30, 2019.

On October 24, 2017, pursuant to a Share Exchange Agreement (the “Share Exchange Agreement”), NSS Resources Inc. (“NSS Resources”), completed a share exchange (Note 3) with Upco Systems Inc. (“Upco Systems”), a private company incorporated on August 13, 2014 under the laws of the State of New York, USA. On October 26, 2017, the Company began trading on the Canadian Securities Exchange under the trading symbol UPCO. The transaction was accounted for as an acquisition of NSS by Upco, resulting in a reverse take-over (“RTO”). Immediately following the RTO, NSS changed its name to Upco International Inc. For purposes of these consolidated financial statements, the “Company” is defined as the consolidated entity.

The Company operates primarily in the telecommunications industries as a global telecom carrier within the international VoIP (voice over IP) wholesale business with a focus on wholesale international long distance traffic termination. The Company is also in the process of developing a VoIP smartphone application, which will allow a customer to send and receive local and international long-distance calls through an internet connection with the advantages of the Company’s existing VoIP network.

The financial information in this MD&A is derived from the Company’s audited consolidated financial statements which have been prepared in US dollars, in accordance with International Financial Reporting Standard (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

**CAUTION REGARDING FORWARD-LOOKING INFORMATION**

This MD&A contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning of applicable Canadian and US securities legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statements of historical fact are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. These forward looking statements include, but are not limited to, statements concerning:

- the Company’s strategies and objectives, both generally and in respect of its existing business and planned business operations;
- the Company’s plans to grow sales and offer new products and services;
- the Company’s future cash requirements;
- general business and economic conditions;
- the Company’s ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations;
- the timing, pricing, completion, regulatory approval of proposed financings if applicable;

Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties beyond the Company’s ability to predict or control, including, but not limited to, risks related to the Company’s ability to raise the necessary capital or to be fully able to implement its business strategies, and other risks identified herein under “Risk Factors”.

The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results are likely to differ, and may differ materially, from those expressed or implied by forward looking statements contained in this MD&A. Such statements are based on a number of assumptions, which may prove incorrect, including, but not limited to, assumptions about:

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- general business and economic conditions;
- conditions in the financial markets generally, and with respect to the prospects for small capitalization commercial/technology companies specifically;
- the Company's ability to continue to roll out its business plan which includes new product launches and associated planning in production, sales, distribution and marketing;
- the Company's ability to secure and retain employees and contractors to carry out its business plans;

These forward-looking statements are made as of the date hereof and the Company does not intend and does not assume any obligation, to update these forward-looking statements, except as required by applicable law. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations. In particular, the Company has moved from a private corporation operating with very limited capital and therefore with very restricted operations, to a publicly traded venture issuer. Accordingly, drawing trends from the Company's limited operating history is difficult.

**OVERALL PERFORMANCE**

The Company operates primarily in the telecommunications industries as a global telecom carrier within the international VoIP (voice over IP) wholesale business with a focus on wholesale international long distance traffic termination. The Company is also in the process of developing a VoIP smartphone application, which will allow a customer to send and receive local and international long-distance calls through an internet connection with the advantages of the Company's existing VoIP network.

Specific highlights of the Company's activities for the period ended September 30, 2019:

- Raised CAD 288,750 through the issuance of convertible debenture
- Entered into strategic marketing partnership with Sorgente Tesorino
- Appointed Bardi Co. to expand M&A initiatives
- Launched Upcopoint to allow business to conduct sales, manage inventory and customer data more efficiently

**SUMMARY OF QUARTERLY INFORMATION**

Period Ending	Revenue	Net Income (Loss)	Net Comprehensive Income (Loss)	Basic and Diluted Loss per Share
September 30, 2019	\$394	\$(132,464)	\$(20,916)	\$(0.0003)
June 30, 2019	\$36,446	\$(214,815)	\$(221,768)	\$(0.003)
March 31, 2019	\$267,296	\$(302,892)	\$(275,462)	\$(0.004)
December 31, 2018	\$319,602	\$(1,509,109)	\$(1,298,282)	\$(0.03)
September 30, 2018	\$756,936	\$(577,763)	\$(868,127)	\$(0.016)
September 30, 2018	\$728,717	\$(450,216)	\$(407,581)	\$(0.008)
March 31, 2018	\$709,372	\$10,514	\$10,514	\$0.0002
December 31, 2017	\$1,343,641	\$(586,708)	\$(586,708)	\$(0.03)
September 30, 2017	\$1,969,413	\$(368,406)	\$(368,406)	\$(0.02)
September 30, 2017	\$1,759,110	\$4,501	\$4,501	\$0.00
March 31, 2017	\$1,615,180	\$(261,550)	\$(261,550)	\$(0.02)

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During the quarter ended September 30, 2019, the company incurred a net comprehensive loss of \$20,916 (2018 - \$873,278). Overall revenue has decreased from prior year due to the company focusing on the development of its mobile application. The Company aims to grow the wholesale VoIP business and is continuously seeking capital to aid in the growth. Going forward the Company strongly believes that the messenger application will be a significant asset to the Company.

**LIQUIDITY**

As at September 30, 2019, the Company had working capital of \$321,105 (2018 – \$1,218,935) and a cash position of \$3,163 (2018 – \$182,624).

Cash used in operating activities during the period ended September 30, 2019 was \$455,226 (2018 \$1,894,083).

**CAPITAL RESOURCES**

As at September 30, 2019, the Company's share capital was \$4,289,069 (2018: \$\$3,798,346) representing 67,373,156 issued and outstanding common shares without par value (2018: 63,773,341). Reserves, representing the fair value of stock options issued and vested and warrants issued, are recorded at \$816,481 (2018: 752,336).

At September 30, 2019 the Company has 6,770,000 stock options outstanding with an average exercise price of \$0.26 and an average remaining term of 4.15 years.

During the period ended September 30, 2019 there were no transactions which effected the Company's share capital:

The Company borrowed CAD 288,750 through the issuance of a convertible debenture. The debenture bears an interest rate of 5% and carries a conversion price of CAD 0.35 per share.

Management believes current cash resources are likely insufficient to fund its business plan over the next twelve months and therefore may seek further equity injection either through the exercise of warrants or a new share issuance.

**RISK FACTORS**

Each of the following factors could have a material adverse effect on the Company's financial condition and results of operations.

**Going Concern**

As at September 30, 2019, the Company has had only a single profitable quarter. The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to continue to raise adequate financing. There can be no assurances that the Company will be successful in this regard. These material uncertainties may cast significant doubt regarding the Company's ability to continue as a going concern, and accordingly, the use of accounting principles applicable to a going concern. As an entity with operations that have yet to show profitability, funding to meet its operating expenses as well as working capital is dependent on the Company's ability to issue common shares or borrow funds. There is no certainty that the Company will be able to raise sufficient funds beyond this period.

**Credit risk**

Credit risk is the risk of a loss if a counterparty to a financial instrument fails to meet its contractual obligations. Trade receivables are the most significant financial instrument that is exposed to credit risk.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

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A credit policy is established under which each new customer is analyzed individually or in groups for creditworthiness and given appropriate credit limits. The Company's review includes agent review, external ratings when available, and in some cases, bank references. Credit limits are established for each customer and these limits are reviewed on an ongoing basis. Customers that fail to meet the Company's creditworthiness benchmark may transact with the Company only on a prepayment basis.

Trade and other receivables relate mainly to the Company's customers.

Per the implementation of IFRS 9, bad debts are assessed using the expected credit loss model. This model uses historical balances to calculate a loss rate for current, 31-60, 61-90 and 91+ day periods. This loss rate is then adjusted depending on the respective aged period to produce a loss rate which is representative to the receivables risk in their respected periods. Applying the ECL model to prior year has minimal effect to the presentation of prior year statements and management has determined the amount to be immaterial.

The carrying amount of financial assets represents the maximum credit exposure.

Credit risk associated with cash and cash equivalents are minimized significantly by ensuring that these financial instruments are placed with major financial institutions. Credit risk associated with trade and other receivables is mitigated by the Company's large and unrelated customer base and the application of its credit evaluation, control and monitoring processes.

**Liquidity risk**

Trade liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital levels. The Company does not currently believe it will encounter difficulty in meeting its obligations associated with its financial liabilities.

**Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and working capital levels. The following are the contractual maturities of financial liabilities, including estimated interest payments.

**Currency risk**

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 functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in US dollars. The parent company, Upco International, functional currency is CAD, Upco System's functional currency is USD and Upco Sri's functional currency is the Euro.

An analysis of the US dollar against the EUR/CAD was performed as at December 31 of each year based on the Company's currency risk exposure. The results of the analysis resulting in an increase or decrease on the Company's profit or loss and equity is adjusted through Other Comprehensive Income. The Company does not use derivative financial instruments to cover the variability of cash flows in foreign currencies.

The Company's primary interest rate risk consists of interest rate fluctuations, which may affect the Company's note and lease obligations. The Company does not currently use derivative instruments to limit interest rate risks.

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**Business Risk**

The Company's future operating results may vary significantly from quarter to quarter due to a variety of factors, many of which are beyond its control and could cause its results to be below investors' expectations, causing the value of the Company's securities to fall. Because the Company's business is evolving, its historical operating results may not be useful in predicting its future operating results. Factors that may increase the volatility of the Company's operating results include the following:

- the addition of new carrier customers and retail distribution partners or the loss of existing customers and retail distribution partners;
- changes in demand and pricing for the Company's VoIP services;
- the timing of the Company's introduction of new VoIP products and services and the costs the Company incurs to develop these technologies;
- the timing and amount of sales and marketing expenses incurred to attract new carrier customers and retail distribution partners;
- changes in the economic prospects of carrier customers or the economy generally, which could alter current or prospective need for voice services, or could increase the time it takes the Company to close sales with customers;
- changes in the Company's pricing policies, the pricing policies of its competitors or the pricing of VoIP services or traditional voice services generally costs related to acquisitions of businesses or technologies; and
- the use of VoIP as a replacement for traditional voice services is a relatively new occurrence and carrier customers have not settled into consistent spending patterns.

The Company currently depends on critical services and equipment from a small number of suppliers. There is no guarantee that these suppliers will continue to offer it the services and equipment it requires. If the Company cannot obtain adequate replacement equipment or services from its suppliers or acceptable alternate vendors, it could experience a material impact on its financial condition and operating results. In addition, the Company relies on other providers for network capacity beyond what it provides over its own network and there is a risk that current capacity providers may cease to provide capacity at economically justifiable rates.

**OUTSTANDING SHARE DATA**

The Company's authorized capital is unlimited common shares without par value. As at November 28, 2019, the following common shares, options and share purchase warrants were outstanding:

	<b>As at November 28, 2019</b>	<b>As at September 30, 2018</b>
Common Shares	67,373,156	63,773,341
Stock Options	6,770,000	6,330,000
Finder Warrants	343,425	343,425
Fully Diluted	74,486,581	70,446,766

**TRANSACTIONS WITH RELATED PARTIES**

During the nine months ended September 30, 2019 and 2018, the Company entered into the following transactions with related parties:

- (i) Recorded \$54,725 (2018 - \$77,543) in IT and communication fees to a company controlled by an officer

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- and director of the Company.
- (ii) Recorded \$Nil (2018 - \$55,722) in management fees to an officer and director of the Company.
  - (iii) Recorded \$94,500 (2018 - \$14,065) in consulting fees to an officer and director of the Company.
  - (iv) Recorded \$47,836 (2018 - \$59,366) in professional fees to a former officer and director of the Company.
  - (v) Recorded \$Nil (2018 - \$69,919) in stock-based compensation for options granted to directors and officers of the Company.
  - (vi) Advanced \$170,490 (2018 - \$Nil) to a company related to the officer and director of the Company.
  - (vii) Advanced \$2,842 (2018 - \$Nil) to a company related to the Company

The Company recorded revenue of \$1,509 (2018 - \$577,545) and cost of revenue of \$Nil (2018 - \$8,753), for transactions with a company controlled by an officer and director of the Company.

The Company recorded revenue of \$Nil (2018 - \$351,079) and cost of revenue of \$Nil (2018 - \$177,912), for transactions with a company controlled by a major shareholder of the Company.

**Officers and Directors**

- Andrea Pagani, CEO, President and Director
- Franco Zanichelli, Director
- Ruy Ivaldi, CFO

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements as at September 30, 2019 and to the date of this MD&A.

**CHANGES IN ACCOUNTING POLICIES**

The preparation of the annual financial statements and related MD&A have been prepared in conformity with IFRS requires estimates and assumptions that affect the amounts reported in these financial statements. During the year the company adopted new accounting standards IFRS 9 and IFRS 15.

The Company has initially adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15") and IFRS 9, Financial Instruments ("IFRS 9") from January 1, 2018. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue which is a change from the risk and reward approach under the previous standard, IAS 18, Revenue. The Company adopted IFRS 15 using the modified retrospective (cumulative effect) method, with the effect of initially applying this standard recognized at January 1, 2018. The adoption of IFRS 15 did not have a significant impact on the Company's consolidated financial statements and there were no adjustments required to be recognized at January 1, 2018.

IFRS 9 establishes three primary measurement categories for financial assets: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and amortized cost. The basis for classification depends on the entity's business model and the contractual cash flow characteristics of the instrument. For financial liabilities, the new standard retains most of the requirements of IAS 39, except that fair value changes due to changes in an entity's own credit risk are recorded in other comprehensive income rather than in net earnings.

**APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this MD&A on November 28, 2019.

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**ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com).

**HEAD OFFICE and OPERATIONS**

**Upco International Inc.**

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Surrey, British Columbia, Canada  
V3S 1L3

**LISTINGS**

CSE: UPCO  
OTC: UCCPF  
Frankfurt: U06

**CAPITALIZATION**

(as at November 28, 2019)  
Shares Issued: 67,373,156

**TRANSFER AGENT**

Computershare  
3<sup>rd</sup> Floor, 510 Burrard Street  
Vancouver, British Columbia  
V6C 3B9

**AUDITOR**

Davidson & Company LLP  
1200 – 609 Granville Street  
Vancouver, British Columbia  
V7Y 1G6