

# **UPCO INTERNATIONAL INC.**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**(Expressed in United States dollars)**

**FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018**

## **Upco International Inc.**

Management Discussions and Analysis  
For the year ended December 31, 2019  
(Expressed in US dollars)

This management discussion and analysis of financial position and results of operations (“MD&A”), prepared as of July 15, 2020, provides an analysis of the operations and financial results of Upco International Inc. (“the Company”) for the year ended December 31, 2019, and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

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 Standards (“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; and
- 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:

- 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; and
- 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.

## **Upco International Inc.**

Management Discussions and Analysis

For the year ended December 31, 2019

(Expressed in US dollars)

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.

### **OVERVIEW**

The Company operates primarily in the telecommunication industry as a global telecom carrier within the international VoIP (voice over IP) wholesale business with a current focus on wholesale international long-distance traffic termination (the Wholesale Telecom business unit or B2B vertical of the business).

The Company is currently in late step negotiations to acquire two carriers to be integrated under the Company's "Federated Carrier Program (FCP)" model. The FCP model consists in building a group of carriers working under a global umbrella (Upco) to integrate their services and market position into a scalable project.

Complementary to the goals in its B2B segment, the Company targets to provide subscribers of partner global and local telecom companies reasonable pricing on high-quality on-network international calls, with preliminary calculations estimating savings across the value line of up to 40% on these types of calls, while still offering its users free texting, international airtime top-up capabilities (the ability to add talk-time/data to a user's pre-paid mobile phone plan), and other social media features present in most over-the-top applications around the world.

The Company is also presently in the process of consolidating its wholesale business through the reorganization of its operations into Upco System Inc., while trying to develop its own customer base via its attractive rates and flexible calling plans offered through Upco-out in its Upco Mobile Messenger application (the Digital Services business unit or B2C vertical of the business). Additionally, the Company announced the development of UpcoPay to achieve its desired network effects among its customers in the short to medium term.

The synergies between the B2B and B2C verticals will allow the Company to offer international long-distance calls through an internet connection using the Company's existing VoIP network with more than 250 active Tier 1, 2 and 3 global carriers that connect subscribers in 170 countries.

Through these initiatives, the Company aims to strengthen its core business by focusing its strategy towards its two main customers in terms of potential revenues, telecom operators and their subscribers (individuals and corporations), while focusing in attaining leadership economics through its FCP partnership model (organic growth) and potential acquisitions of small aggregators (inorganic growth) to expand its user base and achieve critical mass.

Consequently, on July 9, 2020, the Company was pleased to announce transformative changes to the corporate business model, undertaken to position the Company to more effectively respond to – and benefit from – the rapid growth and evolving opportunities in the Wholesale Telecom and Digital Services business units. These changes to the business model are driven by the new Board of Directors, formally appointed in May 2020 (reported earlier), and reflect their extensive experience and expertise in the target markets.

More specifically, the business model will be re-aligned into two discrete business units based on target sector: one for Wholesale Telecom and one for Digital Services. Wholesale Telecom will be coordinated by Upco international but managed operationally by dedicated companies that will be encompassed in the Upco group of companies over time. Digital Services will be coordinated through the wholly owned US subsidiary, Upco Systems Inc., based in New York. This natural division will enhance business focus and activities in the two key areas, while also substantially extending Upco's focus on the US market.

Upco's new business model will be based on building a Federated Business Platform for the Telco- digital industry. While such platforms are becoming the predominant business model in the digital era, their application to the Telco business is very limited worldwide, and substitute services are gaining momentum. Upco's model responds to an opportunity to leverage this approach and play a lead role in this new era in the Telco-digital industry.

## **Upco International Inc.**

Management Discussions and Analysis

For the year ended December 31, 2019

(Expressed in US dollars)

Therefore, Upco's strategy will invoke a four-phase approach as follows: 1) leverage core business capabilities and assets (Wholesale Telecom), 2) reinforce the core business by expanding into related areas (Voice and Data), 3) continue adding value to customers through extended offerings (OTT and UpcoPay), and 4) continued growth by leveraging a synergized product mix. Key elements of the plan are targeted for delivery over a three-year period by 2022.

### ***UPCOPAY***

The Company announced UpcoPay, an innovative, highly secure and convenient eWallet solution to make person-to-person (P2P) and person-to-merchant (P2M) payments. Beginning Summer 2020, Upco users in Europe will be able to use UpcoPay to send and receive money easily, securely and anonymously without the use of any credit or debit card. This service will be expanded into other jurisdictions over time.

UpcoPay is an advanced eWallet system comprising a front-end app and robust back-end software to manage transaction tracking and reporting, and a full range of other functions. This solution is based on live transaction processing through integration with Upco's banking partner eMoney plc and Token.io. Users will be able to view multiple account balances, load funds, settle payments and initiate peer-to-peer and FX transfers instantly within the app without the need to create an account or input bank details.

UpcoPay allows the anonymous transfer of money between Upco users and vendors that subscribe to the service, protecting individual privacy while being compliant with regulatory frameworks. UpcoPay will also be able to deliver substantially reduced transaction fees over conventional services provided by major existing payment networks, delivering significant savings to vendors and ultimately to consumers.

Over the past few months, the Company has been working closely with eMoney regarding design of the interface and associated functionality in UpcoPay. eMoney will handle user onboarding within existent regulatory frameworks, and support transaction processing internally, in and out of UpcoPay. The solution will also support inter-account transfers (IAT's) within eMoney and to IBAN accounts. The design of the system is now complete, with overlapping development targeted for completion by Q3 2020.

Upco published its new website, [www.upcopay.it](http://www.upcopay.it), showing all of the new features of the Upco App, The Company is excited about rolling out its new POS payments system given the expected global growth in FinTech, especially within mobile payments. According to Statista, in 2020, global transaction volume in the mobile Point of Sale payments space was expected to reach approximately US\$1,500 billion and projected to increase to over US\$4,150 billion by 2024, a 29.4% CAGR.

### ***STRATEGIC PARTNERSHIPS***

#### *Sorgente Tesorino*

The Company launched its strategic partnership with Italy-based Sorgente Tesorino, a major bottler and distributor of mineral water. The Company and MLC s.r.l. ("MLC"), owner of Sorgente Tesorino mineral water brand, are pleased to announce the full launch of its co-branding and joint promotions agreement.

Under the terms of the agreement, Sorgente Tesorino will promote UpcoPay by including consumer offers in each (multi)pack of mineral water distributed in Italy and China. Sorgente Tesorino will include a QR code on each bottle's label that consumers can scan to download the UpcoPay app. Within the app, a voucher can be used to buy additional bottles with discounts.

MLC, owner of Sorgente Tesorino mineral water brand, signed in April 2019 a production and distribution contract with the Chinese government group COFCO (China National Cereals, Oils and Foodstuffs Corporation). COFCO is a world-leading Agri-products importer. COFCO has annual revenues of US\$70 billion, assets for US\$83 billion and has more than 124,000 employees.

## **Upco International Inc.**

Management Discussions and Analysis

For the year ended December 31, 2019

(Expressed in US dollars)

The 15-year contract between MLC and COFCO outlines an initial supply phase of minimum 2.3 million bottles per month, with the request to expand rapidly towards 10 million bottles per month. With the co-branding agreement in place, the Company plans to target millions of potential new users per month by inviting them to download the UpcoPay app. Upco and MLC will award consumers with e-commerce promotions, cash back programs and complimentary international telecommunications services for downloading the app.

The Chinese market received the first co-branded bottles the first week of December 2019.

### *Dilbert International Ltd.*

The Company announced a partnership agreement with Dilbert International Ltd, an England and Wales private Company who introduced Paytogo <https://paytogo.app>, starting in Portugal and the United Kingdom.

Paytogo.app users living in Europe will be integrated into the E wallet “UpcoPay”. The terms of the recently signed Collaborative Agreement enables the users to pay and transfer funds thanks to a personal checking account and Prepaid card. Directly after Dilbert has introduced the Paytogo.app users to the UpcoPay E wallet, international money transfer, credit and debit card facilities among other UpcoPay’s capabilities will be available for the user.

### *StreamOn (Deutsche Telekom)*

Upco Messenger has been successfully tested by Deutsche Telekom, provider of StreamOn. Consequently, Upco will be added as a StreamOn “Social & Chat” Partner effective May 4, 2020. Deutsche Telekom, formed in 1995, is a German telecommunications company headquartered in Bonn, and the largest telecommunications company in Europe on the basis of revenue. Via StreamOn, users with a Deutsche Telekom Mobile SIM enjoy EU-wide use of the audio, video, gaming, and social media and messenger services of participating partners without using the data assigned to their contract subscription (i.e. essentially streaming without worrying about data usage).

Benefits to Upco and its users via this partnership include:

- A substantial increase of Upco’s visibility in countries where Deutsche Telekom provides StreamOn
- The streaming of a wide variety of content without worrying about data consumption
- The use of the Deutsche Telekom Mobile Network for UpcoPay, which will ensure secure, reliable and rapid validation of cashless payments

### *Token Open Banking Platform*

The Company reached an agreement with Token.io to leverage its open banking platform for mobile transaction processing. Under the terms of the agreement, UpcoPay, an extension of Upco Mobile Messenger, will use Token Pay™ to enable the delivery of account-to-account (A2A) transfer services and account-to-merchant (A2M) payment services. Token.io is a leading open banking platform provider, connected to more than 6,000 banks throughout Europe. Their platform enables PSD2 compliance, data aggregation and bank direct payments driven by Smart Token technology for banks and TPPs.

Integration with Token’s open banking platform significantly enhances the options that are available via Upco Mobile Messenger, while simplifying A2A and A2M transaction processing. Token’s API provides pan-European bank connectivity, so that Upco can quickly and cost effectively establish a connection to any bank to initiate payments and data requests on behalf of its customers. Using Token’s interface, payments are confirmed instantly, and transaction fees are reduced by up to 50%.

### *Investment Banking Advisor*

The Company plans to appoint Bardi Co. as its investment banking advisor once it generates some organic growth. Bardi Co. is a transnational boutique investment bank headquartered in Los Angeles, CA, USA and focuses on providing Merger and Acquisition (M&A), and corporate finance advisory services to growing middle market companies. The primary task of Bardi Co. will be to identify appropriate capital partners and to help execute the Company’s M&A strategy within the telecom industry.

The Company has developed a detailed expansion plan that will enable the Company to manage relationships with more global Tier 1 & Tier 2 telecom operators. Along with providing high quality telecom services, Upco’s growth initiatives within the FinTech and mobile payments arena are expected to add incremental value for its partners and customers.

## **Upco International Inc.**

Management Discussions and Analysis  
For the year ended December 31, 2019  
(Expressed in US dollars)

### *Telecom Targets*

On November 1, 2019, the Company signed a non-binding Letter of Intent (“LOI”) to acquire its first target in the telecom industry. The acquisition Target (the “Target”), name undisclosed at this time, is a United States telecom company with extensive connections and business in Latin America. The Target plans to expand its operations into the Caribbean and Africa, which syncs with Upco’s strategic expansion plan.

On November 5, 2019, the Company signed a LOI to acquire its second target in the telecom industry. The acquisition Target (the “German Target”), name undisclosed at this time, is a Germany telecom company with extensive connections and business in Europe. The Company will pay a total consideration of €4,150,000 (Can\$6,017,500 as of the time of this writing) that includes a cash consideration and an earnout as follows: €3,250,000 (Can\$4,712,500) in cash at closing, and an earnout of €300,000 (Can\$435,000) in Upco stock at the end of the second quarter of 2020 at a price of Can\$0.29 per share and Upco stock in the amount of €600,000 (Can\$870,000) at the end of fiscal year 2020 at a price of Can\$0.29 per share. With regards to Upco shares, the shareholders of the Target will not sell or transfer shares until January 1, 2021.

The Company will conduct further financial and operational due diligence as the next step of the process. Upon a successful due diligence process and definitive agreement, Upco will focus on integrating its UpcoPay eWallet into the growing Business to Consumer (B2C) mobile payments market into the respective targets.

## **FINANCINGS**

### *Convertible Debentures*

On September 4, 2019, the Company issued convertible debentures in the principal amount of CDN \$31,500 with a maturity date of September 2, 2024. The debentures carry an interest rate of 5% and are convertible at a price of CDN \$0.35 per common share.

On May 22, 2019, the Company issued convertible debentures in the principal amount of CDN \$288,750 with a maturity date of May 20, 2024. The debentures carry an interest rate of 5% and are convertible at a price of CDN \$0.35 per common share.

### *Private Placement*

On October 17, 2019, the Company closed a private placement issuing 4,500,000 units (“Unit”) at C\$0.10 per share for gross proceeds of \$340,625. Each unit is comprised of one common share and one-half share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at an exercise price of \$0.15 per share until October 14, 2023. Finders’ fees of \$17,031 and other share issue costs of \$2,274 were paid.

On January 20, 2020, the Company closed a private placement issuing 2,955,032 units (“Unit”) at C\$0.10 per share for gross proceeds of \$226,385, of which \$117,801 had been received at December 31, 2019. Each Unit is comprised one common share and one-half share purchase warrant. Each warrant entitles the holder to purchase a further common share at a price of \$0.15 per share until January 20, 2025. Finder’s fees of \$4,175 were paid.

### *Capital Commitment*

The Company entered into a Capital Commitment agreement with LDA Capital LLC. The Capital Commitment is in the form of a ‘Put Option’ that may be exercisable on a monthly basis; each amount will vary depending on the Company’s volume during the previous fifteen-day period and price per share during the forward looking 15-day pricing period. The strike price of the put option is determined by the VWAP - volume weighted average price during such period. On each Put Option Exercise Date, LDA Capital will buy a minimum of 75% of the average volume of shares at the VWAP. For example, if the VWAP is Can\$0.10 and the average fifteen-day volume is 200,000 shares, for such Put Option LDA Capital will invest in the Company Can\$105,000.

LDA Capital’s commitment is an injection of Can\$20 million in cash within a maximum of 3 years in exchange for equity in the Company.

**Upco International Inc.**

Management Discussions and Analysis  
For the year ended December 31, 2019  
(Expressed in US dollars)

The Company is constantly looking for new ways to secure funding for its recently developed strategic plan and is committed to existing shareholders to terminate ongoing capital injection deals for most favorable ones in the future.

*Subsequent Financing Activity*

On May 25, 2020, the Company entered into a loan with Mr. Andrea Pagani, CEO, for USD \$150,000. On February 28, 2020, the Company issued 5,531,704 common shares of which 5,245,999 were to related parties, in settlement of Cad\$387,219 in debt. On June 1, 2020, the Company issued an additional 8,729,112 common shares to a former related party as well as to a new director for services rendered and in settlement of certain debts.

Subsequent to the year ended December 31, 2019, the Company signed three management agreements with its directors and officers. Each management agreement is effective for a period of three years at a rate of US\$7,500 per month and US\$30,000 payable quarterly in common shares of the Company. On June 1, 2020, the Company issued 2,358,288 common shares pursuant to this commitment.

**SELECTED ANNUAL FINANCIAL INFORMATION**

The following table sets forth selected consolidated financial information for the periods indicated. The selected consolidated financial information set out below for the years ended December 31, 2019, 2018, and 2017 has been derived from our audited consolidated financial statements and accompanying notes, in each case prepared in accordance with IFRS.

	2019	2018	2017
Revenue	\$ 304,302	\$ 2,514,627	\$ 6,688,138
Net loss	(1,967,189)	(2,526,574)	(1,212,152)
Comprehensive loss	(1,988,202)	(2,563,476)	(1,212,152)
Net loss per share – basic and diluted	(0.03)	(0.04)	(0.05)
Total assets	570,344	977,583	609,322
Total long-term liabilities	143,301	Nil	Nil
Cash dividends declared per share	Nil	Nil	Nil

The Company's main service these last years was to provide long-distance services through access to its network, which has the capability to track pertinent data for each individual call to a particular country destination. This allowed the Company to rate each call by applying predetermined long-distance rates by country to the volume of minutes provided.

Revenue for the year ended December 31, 2019 was \$304,302 compared to \$2,514,627 for the year ended December 31, 2018. This decrease was due to limited working capital funds available to generate top line expansion and that were used instead to cancel significant short-term obligation with two of its major debtholders. During the year ended December 31, 2019, the Company incurred a net comprehensive loss of \$1,988,202 (2018 - \$2,563,476) mainly caused by a net comprehensive loss of \$1,317,018 (2018 - \$1,549,859) during the quarter ended December 31, 2019 due to reduced revenue and despite a year-over-year sharp decrease in share-based compensation.

Revenue for the year ended December 31, 2017 was \$6,688,138 and was explained by its unique business segment at that time – international VoIP wholesale business. While in 2017, more than 90% of this revenue came from Europe and approximately 50% of it came from 3 customers, in 2018 and onwards roughly all revenue came approximately equally from both the US and Europe.

**Upco International Inc.**

Management Discussions and Analysis

For the year ended December 31, 2019

(Expressed in US dollars)

**SUMMARY OF QUARTERLY INFORMATION**

<b>For the quarters ended</b>	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Revenue	\$ 166	\$ 394	\$ 36,446	\$ 267,296
Net income (loss)	(1,317,018)	(132,464)	(214,815)	(302,892)
Comprehensive income (loss)	(1,470,056)	(20,916)	(221,768)	(275,462)
Net income (loss) per share – basic and diluted	(0.02)	(0.00)	(0.00)	(0.00)
Total assets	570,344	1,053,292	1,010,011	806,863
Total long-term liabilities	143,301	359,167	334,645	Nil
Cash dividends declared per share	\$ Nil	\$ Nil	\$ Nil	\$ Nil

<b>For the quarters ended</b>	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenue	\$ 319,602	\$ 756,936	\$ 728,717	\$ 709,372
Net income (loss)	(1,509,109)	(577,763)	(450,216)	10,514
Comprehensive income (loss)	(1,298,282)	(868,127)	(407,581)	10,514
Net income (loss) per share – basic and diluted	(0.02)	(0.02)	(0.00)	0.00
Total assets	977,583	1,651,341	1,670,398	146,515
Total long-term liabilities	Nil	Nil	Nil	Nil
Cash dividends declared per share	\$ Nil	\$ Nil	\$ Nil	\$ Nil

***Results of Operations - Fourth Quarter – Three months ended December 31, 2019 compared to 2018***

During the quarter ended December 31, 2019, the Company incurred a net comprehensive loss of \$1,317,018 (2018 - \$1,298,282). 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, together with its new functionalities mentioned before (see “Overview” and “UpcoPay” sections above) and explained by the expected scale to be achieved through the Wholesale Telecom business unit, will be a significant asset to the Company. Revenue for the three months ended December 31, 2019 was \$166 compared to \$319,602 for the three months ended December 31, 2018 as the Company focused in re-defining its Board.

Significant fluctuations in operating expenses for the fourth quarter ended December 31, 2019 compared to 2018 included:

- Bad debt expense of \$439,222 (2018 - \$311,055) as the Company has substantially allowed for accounts outstanding for significant periods of time. The Company will be working to collect on historic receivables to the extent possible.
- Consulting fees of \$423,347 (2018 - \$259,315) increased in the current period as the Company worked to redefine its business core definition through external advisory.
- Management fees of \$180,885 (2018 - \$114,362) increased in the current period due to unpaid fees to key management personnel in the fourth quarter.
- Promotion, travel and show of \$61,247 (2018 - \$161,866) decreased as Management was more focused on new product development and strategic re-orientation.

***Results of Operations – Year ended December 31, 2019 compared to 2018***

During the year ended December 31, 2019, the Company incurred a net comprehensive loss of \$1,988,202 (2018 - \$2,563,476). Revenue for the year ended December 31, 2019 was \$304,302 compared to \$2,514,627 for the year ended December 31, 2018. This decrease was due to limited working capital funds available to generate top line expansion and that were used instead to cancel significant short-term obligation with two of its major debtholders.

## **Upco International Inc.**

Management Discussions and Analysis

For the year ended December 31, 2019

(Expressed in US dollars)

Significant fluctuations in operating expenses for the year ended December 31, 2019 compared to 2018 included:

- Bad debt expense of \$439,730 (2018 - \$311,055) as the Company has substantially allowed for accounts outstanding for significant periods of time. The Company will be working to collect on historic receivables to the extent possible.
- Consulting fees of \$745,944 (2018 - \$422,075) increased in the current period as the Company worked to redefine its business core definition through external advisory.
- Information technology and communication expense of \$62,924 (2018 - \$196,649) decreased due to the reduction of expenses in outsourcing and information technology related to the Wholesale activities.
- Management fees of \$180,885 (2018 - \$170,084) increased in the current period accrued for unpaid fees to key management personnel in the fourth quarter.
- Personnel costs of \$76,626 (2018 - \$Nil) related to the hiring of people at Upco Systems SRL to follow UpcoPay's commercial activities in Italy.
- Professional fees of \$139,732 (2018 - \$221,732) decreased as the Company had fewer contracts under review in 2019.
- Promotion, travel and show of \$96,159 (2018 - \$341,341) decreased as Management was mainly focused on new product development.
- Share-based payments expense of \$17,940 (2018 - \$634,248) is calculated pursuant to the Black Scholes model relative to options granted and vesting in the period. There were fewer stock options granted in 2019 than 2018.

## **LIQUIDITY**

As at December 31, 2019, the Company had working capital deficit of \$696,643 (2018 – working capital of \$476,043) and a cash position of \$671 (2018 – \$165,180).

Cash used in operating activities during the year ended December 31, 2019 was \$875,254 (2018 - \$2,401,535). The overall decrease in spending is related to scaled-back commercial operations.

In the year ended December 31, 2019, the Company expended \$8,000 (2018 - \$201,984) on intangible assets to develop. Additionally, the Company advanced a loan to Sorgente Tesorino, one of its strategic partners, of \$169,100 (2018 - \$Nil) as an upfront payment to help develop the technological requirements to start the marketing cooperation. The Company received an interest of \$4,468 (2018 - \$Nil) throughout the year for this loan.

In the year ended December 31, 2019, the Company received \$321,320 (2018 - \$2,616,717) as net proceeds on shares issued and received \$nil (2018 - \$130,931) from the exercise of stock options. The Company received \$239,075 (2018 - \$Nil) from the issuance of convertible debentures and paid \$1,110 (2018 - \$Nil) in interest. Additionally, the Company received loan proceeds of \$105,915 (2018 - \$Nil) and loan funds of \$227,751 (2018 – \$Nil) from related parties or which \$114,502 (2018 - \$Nil) was repaid in the course of the year.

## **CAPITAL RESOURCES**

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions, so that it can provide above average returns for its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity (deficiency), which consists of issued capital. As at December 31, 2019, the Company's share capital was \$4,610,389 (2018 - \$4,289,069) representing 71,873,156 issued and outstanding common shares without par value (2018 – 67,373,156). Reserves, representing the fair value of stock options issued and vested and warrants issued, are recorded at \$816,593 (2018 – \$798,653).

The Company manages its capital structure and makes adjustments to it in light of general economic conditions and the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust the capital structure, the Company, upon approval from its Board of Directors, may issue long-term debt, issue shares, repurchase shares through a normal course issuer bid and pay dividends. The Board of Directors reviews and approves any material transactions not in the ordinary course of business that may include various acquisition proposals, as well as capital and operating budgets.

There were no changes in the Company's approach to capital management during the year ended December 31, 2019.

**Upco International Inc.**

Management Discussions and Analysis  
For the year ended December 31, 2019  
(Expressed in US dollars)

The Company is not subject to any externally imposed capital requirements.

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. The Company continues to achieve financings through various means as described in the Company's Overall Performance.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements as at December 31, 2019 and to the date of this MD&A.

**TRANSACTIONS BETWEEN RELATED PARTIES**

During the years ended December 31, 2019 and 2018, the Company entered into the following transactions with related parties:

Recorded \$nil (2018 - \$131,510) in IT and communication fees to a company controlled by an officer and director of the Company.

Recorded \$184,786 (2018 - \$146,920) in management fees to an officer and director of the Company.

Recorded \$377,243 (2018 - \$71,060) in consulting fees to an officer, directors and former directors of the Company.

Recorded \$nil (2018 - \$87,157) in professional fees to a former officer and director of the Company.

Recorded \$nil (2018 - \$320,880) in stock-based compensation for options granted to directors and officers of the Company.

Advanced \$2,578 (2018 - \$Nil) to key management personnel of the Company.

The Company recorded revenue of \$1,509 (2018 - \$59,924) and cost of revenue of \$Nil (2018 - \$8,856), for transactions with a company controlled by an officer and director of the Company.

The Company recorded revenue of \$Nil (2018 - \$544,795) and cost of revenue of \$Nil (2018 - \$208,133), for transactions with a company controlled by a major shareholder of the Company.

**PROPOSED TRANSACTIONS**

The Company is party to non-binding LOI agreements with potential targets as described in this document. Please see the "Telecom Targets" section within the "Strategic Partnerships" section above.

**CRITICAL ACCOUNTING ESTIMATES***Going concern*

The evaluation of the Company's ability to continue as a going concern, to raise additional financing in order to cover its operating expenses and its obligations for the upcoming year requires significant judgment based on past experience and other assumptions including the probability that future events are considered reasonable according to the circumstances.

*Valuation of deferred income tax assets and liabilities*

A deferred tax asset is recognized for unused losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be utilized. Detailed estimates are required in evaluating the probability that deferred tax assets will be utilized. The Company's assessment is based on existing tax laws, estimates of future profitability, and tax planning strategies.

*Intangible asset*

The Company incurs research and development costs. Judgment is required to determine whether or not there exists sufficient information to demonstrate it is probable that the internally developed asset will give rise to future economic benefits. Management's judgment involves consideration of trends and other factors in determining the expected useful lives of

## **Upco International Inc.**

Management Discussions and Analysis  
For the year ended December 31, 2019  
(Expressed in US dollars)

depreciable assets, to determine depreciation methods and the assets residual value. Intangible assets shall be reviewed by management annually to determine if impairment of the asset is required.

### *Functional currency*

Each entity within the Company has its results measured using the primary economic environment in which the entity operates. Judgment is necessary in assessing each entity's functional currency. The Company considers the primary and secondary indicators as part of its decision-making process.

### *Expected Credit Loss ("ECL")*

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 respective periods.

### *Impairment of Intangible Asset*

Management's judgment involves consideration of trends and other factors in determining the expected useful lives of depreciable assets, to determine depreciation methods and the assets residual value. Intangible assets shall be reviewed by management annually to determine if impairment of the asset is required.

### *Convertible debentures*

Management has made estimates with respect to the effective interest rate applied to the convertible debentures issued in the year ended December 31, 2019 as detailed in the accompanying financial statements.

### *Share-based payments*

The fair value of stock options issued with Canadian dollar exercise prices are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

## **CHANGES IN ACCOUNTING POLICIES**

### **IFRS 16 Leases**

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The adoption of IFRS 16 did not have an impact on the Company's financial statements.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

### **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.

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.

**Upco International Inc.**

Management Discussions and Analysis

For the year ended December 31, 2019

(Expressed in US dollars)

Credit risk associated with cash and is 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.

Credit risk with respect to loans receivable is considered on an ongoing basis and the collectability of loans receivable is evaluated on an ongoing basis. The Company works closely with the debtors and considers the amounts collectible. 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 Company's statements are presented in US dollars, but it regularly transacts in EUR and CAD for a portion of its business activities. The value of financial instruments or cash flows associated with the instruments denominated in US dollars will be affected by changes in the exchange rate fluctuations in the market between the EUR/CAD and US dollar.

An analysis of the US dollar against the EUR 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.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured from the prior year.

**Upco International Inc.**

Management Discussions and Analysis

For the year ended December 31, 2019

(Expressed in US dollars)

**RISK FACTORS****Business Risk**

A description of the risks and uncertainties associated with our business and ownership of our common stock is set forth below. You should carefully consider the risks described below, as well as the other information in this report, including our consolidated financial statements and the related notes. The occurrence of any of the events or developments described below could materially and adversely affect our business, financial condition, results of operations, and growth prospects. In such an event, the market price of our common stock could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

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 in general, 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.

Also, the Company has limited history of operating at our current scale and under our current strategy, which makes it difficult to predict its future operating results, and it may not achieve its expected operating results in the future. As it has a limited history of operations at its current scale and under its current strategy, its ability to forecast its future operating results and plan for and model future growth is more limited than that of companies with longer operating histories and subject to a number of uncertainties. In addition, the Company has encountered and will encounter risks, uncertainties and challenges frequently experienced by growing companies in rapidly changing markets, such as determining appropriate investments of its limited resources, market acceptance of its existing and future products and capabilities, competition from other companies, successfully acquiring large new customers on a cost-effective basis and increasing revenue from existing customers, determining an appropriate headcount strategy and recruiting, training and retaining skilled personnel in support of such strategy, developing new products and capabilities, determining appropriate pricing and pricing structures for its products and capabilities, successfully protecting its intellectual property and defending against intellectual property infringement claims, unforeseen expenses and challenges in forecasting accuracy.

**Upco International Inc.**

Management Discussions and Analysis  
For the year ended December 31, 2019  
(Expressed in US dollars)

If the Company's assumptions regarding these risks, uncertainties and challenges are incorrect or change, or if it does not execute on its strategy and manage these risks, uncertainties and challenges successfully, its operating results could differ materially from its expectations and those of securities analysts and investors, and its business could suffer and the trading price of its common stock could decline.

**OUTSTANDING SHARE DATA**

The Company's authorized capital is unlimited common shares without par value. As at July 15, 2020, the following common shares, options and share purchase warrants were outstanding:

	July 15, 2020	December 31, 2019
Common shares	91,447,292	71,873,156
Stock options	6,770,000	6,770,000
Warrants	<u>3,727,516</u>	<u>2,593,425</u>
Fully diluted	<u>101,944,808</u>	<u>81,236,581</u>

**APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this MD&A on July 15, 2020.

**ADDITIONAL INFORMATION**

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

***Officers and Directors***

- Andrea Pagani, CEO and Interim CFO, President and Director
- Juan Ramos Taboada, Director
- Sebastiano Massimo Galantucci, Director
- Gerben Borsje, Director

**HEAD OFFICE and OPERATIONS****Upco International Inc.**

200 – 17618 58<sup>th</sup> Avenue  
Surrey, British Columbia, Canada  
V3S 1L3

**LISTINGS**

CSE: UPCO  
OTC: UCCPF  
Frankfurt: U06

**CAPITALIZATION**

(as at July 15, 2020)  
Shares Issued: 91,447,292

**Upco International Inc.**

Management Discussions and Analysis  
For the year ended December 31, 2019  
(Expressed in US dollars)

**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