

**NOVATEQNI CORPORATION**  
Management's Discussion and Analysis  
Prepared as at October 1, 2018

This Management's Discussion & Analysis ("MD&A") was prepared as of October 1, 2018 to assist readers in understanding the financial performance of Novateqni Corporation (the "Company" or "Novateqni") for the nine months ended July 31, 2018. This MD&A should be read in conjunction with Novateqni's audited consolidated financial statements as at and for the year ended October 31, 2017 and the condensed consolidated interim financial statements and notes for the nine months ended July 31, 2018.

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") using Novateqni's reporting currency, the United States dollar.

This MD&A contains forward-looking statements. Please see the section "Note Regarding Forward-Looking Statements" for a discussion of the risks, uncertainties and assumptions used to develop forward-looking information.

## The Company

Novateqni's 100% owned subsidiary, Novateqni Hong Kong Limited, was incorporated under the laws of Hong Kong on October 2, 2011. Novateqni Hong Kong's head office and its registered office are located at 11<sup>th</sup> Floor, Kwai Cheong Centre, Kwai Cheong Road, Hong Kong. The Company has two other subsidiaries, Novateqni USA LLC, which was established for the United States market and Novateqni South Africa which was established as the research and development center for the Company.

The principal activity of Novateqni is the provision of technology-based solutions and supply of related electronic hardware mainly in the voter registration and voter validation industries.

Novateqni is a publicly traded company incorporated and domiciled in Canada. The Company's registered office is as follows: Suite 1250, 639 - 5th Avenue S.W., Calgary, AB T2P 0M9. The Company's common shares are listed on the TSX Venture Exchange ("TSXV") under the trading symbol NTQ.

## Selected Financial Information

	October 31, 2017	October 31, 2016
Total revenue	\$ 1,696,782	\$ 2,056,654
Net loss for the year	\$ (993,997)	\$ (692,680)
Basic and diluted earnings (loss) per share	\$ (0.03)	\$ (0.02)
Total assets	\$ 118,356	\$ 642,160
Shareholders' equity	\$ (538,950)	\$ 301,477
Weighted average Class A common shares outstanding	32,236,815	32,236,815

## Results of Operations

During the nine months ended July 31, 2018 the Company had sales of \$550,235 as compared to \$224,545 for the period ended July 31, 2017. The increase in sales was due to the Company completing the delivery of part of a larger tender during the quarter. The cost of sales for the nine months ended July 31, 2018 was \$301,920 versus \$127,851 for the nine months ended July 31, 2017. The increase was due the increase in sales during the nine months of 2018. Gross margin for the nine months ended July 31, 2018 was \$248,315 (45%) versus \$96,694 (43%) for the nine months ended July 31, 2017.

Operating expenses decreased to \$747,752 for the nine months ended July 31, 2018 from \$1,132,743 for the nine months ended July 31, 2017. The decrease was mainly a result of reduced management and consulting fees from \$454,504 during the period ended July 31, 2017 to \$212,746 during the quarter ended July 31, 2018. In addition, share based payments for the period ended July 31, 2018 were \$Nil versus \$199,852 for the same period in the previous year.

Professional fees were \$44,066 for the nine months ended July 31, 2018 versus \$62,028 for the same period in the previous year. The decrease was mainly due to a reduction in audit costs. Management and consulting fees were \$212,746 for the nine months ended July 31, 2018 compared to \$454,504 for the nine months ended July 31, 2017. The decrease was due to a decrease in consulting fees during the quarter ended July 31, 2018 as a result of reduced activity. Listing and filing fees were \$21,137 for the nine months ended July 31, 2018 versus \$29,200 for the nine months ended July 31, 2017. Travel for the nine months ended July 31, 2018 was \$19,686 compared to \$17,669 experienced for the same period in 2017. Travel was only slightly higher during the period ended July 31, 2018. Office and general was \$153,315 for the nine months ended July 31, 2018 versus \$78,998 for the nine months ended July 31, 2017. The increase was attributable to foreign exchange loss of \$83,729 for the nine months ended July 31, 2018 versus \$718 for the nine months ended July 31, 2017. Salary and wages were \$248,779 for the nine months ended July 31, 2018 versus \$248,810 for the nine months ended July 31, 2017.

#### Summary of Quarterly Results

	July 2018	April 2018	January 2018	October 2017	July 2017	April 2017	January 2017	October 2016
Total revenue	\$ 550,235	\$ Nil	\$ Nil	\$1,472,237	\$ 19,018	\$ 19,665	\$ 185,862	\$ 319,915
Net (loss)/income	\$(41,129)	\$ (185,836)	\$ (272,472)	\$ 15,860	\$(204,891)	\$(636,971)	\$(167,995)	\$(247,877)
Net loss per share	(0.00)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

Variations in the quarters was a result of the Company being a tender based business with unpredictable revenues and costs.

#### Financial Condition and Liquidity

On July 31, 2018 the Company had cash on hand totalling \$33,071 and \$73,812 on October 31, 2017. Liabilities for the nine months ended July 31, 2018 were \$1,698,957 and \$657,306 on October 31, 2017. Liabilities increased from October 31, 2017 due to the short term loans received for the funding of the Burkina Faso contract and related project payables. For the nine months ended July 31, 2018 working capital was a deficit of \$276,645 versus a deficit of \$543,572 for year ended October 31, 2017. The increase in working capital was mainly a result of the settlement of a debt due to a director in the amount of \$286,732 during the first quarter of 2018 offset by the increase in accounts payable and work in progress for the period ended July 31, 2018.

The establishment of new markets for technology companies and the winning of tenders involve significant financial risks. The success of the Company is dependent upon the winning of tenders and its ability to establish new markets for its products and to bring such products into profitable production. The Company is subject to a number of risks, including contractual risks, obsolescence risks, competition risks, legal risks and political risks, and other factors beyond the Company's control. The Company has not yet generated enough revenue to date to sustain all operations. The Company incurred a net loss of \$499,437 during the nine months ended July 31, 2018 and has an accumulated deficit of \$3,537,942 as of July 31, 2018. The Company has cash resources of \$33,071 which is considered insufficient to meet its obligations for at least twelve months from the end of the reporting period.

Management considers that the current economic environment is difficult and the outlook for companies bringing new unproven products to market presents significant challenges in terms of raising funds through the issuance of shares or debt. To the extent necessary, the Company has relied on its ability to raise funds via equity issuances in order to finance its operations. The Company has been successful in raising funds in previous years. However, there can be no assurance the Company will continue to be able to raise funds under suitable terms. In addition, management has instituted measures to preserve cash through significantly decreasing its corporate costs.

Management has concluded that the combination of these circumstances casts substantial doubt on the ability of the Company to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

## Shareholders' Deficit

Shareholders' deficit at October 31, 2017 was \$538,950 versus a deficit of \$275,968 on July 31, 2018. The decrease in deficit was a result of shares for a debt settlement and the closing of a private placement of units in the first quarter of 2018.

## Second Quarter

During the three-month period ended July 31, 2018 the Company had sales of \$550,235 as compared to \$19,018 for the three-month period ended July 31, 2017. This was due to the completion and deliver of a portion of the Burkina Faso mobile census project for the United Nations Populations Fund. The cost of sales for the three-month period ended July 31, 2018 was \$301,920 versus \$4,857 for the three-month period ended July 31, 2017. Gross profit for the three-month period ended July 31, 2018 was \$248,315 or (45%) versus \$14,161 or (74%) for the period ended July 31, 2017. The decrease in gross profit percentage was due to reduced margins on a competitive tender.

Operating expenses increases to \$288,777 for the three-month period ended July 31, 2018 from \$238,667 for the three month period ended July 31, 2017.

Professional fees were \$18,049 for the three months ended July 31, 2018 versus \$23,117 for the same period in the previous year. This decrease was due to the cost of listing on the OTCQB exchange which happened in 2017. Management and consulting fees were \$93,724 for the three months ended July 31, 2018 compared to \$89,217 for the three month period ended July 31, 2017. The increase was nominal. Listing and filing fees were \$6,526 for the three month period ended July 31, 2018 versus \$4,131 for the same period in the previous year. Sustaining fees on the stock exchanges were higher during the period ended July 31, 2018. Office and general was \$87,268 for the three month period ended July 31, 2018 versus \$24,002 for the three month period ended July 31, 2017. The increase was related to foreign exchange loss during the quarter ended July 31, 2018. Depreciation for the three months ended July 31, 2018 was \$766 versus \$2,441 for the three months ended July 31, 2017. The decrease was a result of no additional assets being purchased. Research and development costs decreased to \$2,538 for the three months ended July 31, 2018 from \$3,051 for the three months ended July 31, 2017. The difference was nominal.

## Contractual Obligations and Off-Balance Sheet Arrangements

Novateqni and its subsidiaries are not subject to any contractual obligations or off-balance sheet arrangements, except that in the normal course of business, the Company enters into agreements that include indemnities in favour of third parties. These include engagement letters with advisors and consultants, and service agreements. The Company has also agreed to indemnify our directors and officers in accordance with Novateqni's constating documents and bylaws. Certain agreements do not contain any limits on Novateqni's liability and therefore it is not possible to estimate Novateqni's potential liability under these indemnities. In certain cases, Novateqni has recourse against third parties with respect to these indemnities.

## RELATED PARTY TRANSACTIONS

The remuneration expense of directors and other members of key management personnel, or companies under their control, during the period was as follows:

	2018	2017
Consulting fees	\$ 150,189	\$ 214,778

As of July 31, 2018, related party amounts included in accounts payable and accrued liabilities was \$131,994.

During the period ended October 31, 2017, the Chief Executive Officer/Director loaned the Company funds for operations. The loan was non-interest bearing and had no set repayment terms. During the quarter, the amount due to the Chief Executive Officer/Director \$295,826 (CDN\$380,302) was settled for 2,535,347 shares of the Company.

All related party transactions are recorded at fair value.

## **Business Risks**

Novateqni's faces a number of risks. (See "Note Regarding Forward-Looking Statements").

The business of Novateqni will involve a high degree of risk and there can be no assurance that it will continue securing contracts. The Company currently predominantly relies on contract bids with the voter registration business and this business is based on tenders through marketing partners.

## **Financial Instruments**

Non-derivative financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

### Financial assets

*Fair value through profit or loss* - This category comprises assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried on the Consolidated Statement of Financial Position at fair value with changes in fair value recognized in the Consolidated Statement of Loss and Comprehensive Loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that the future cash flows associated with a financial asset or a group of financial assets have been negatively impacted. Different criteria to determine impairment are applied for each category of financial assets described above.

### Financial liabilities

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the Consolidated Statement of Loss and Comprehensive Loss.

*Other financial liabilities* - This category includes accounts payables and accrued liabilities which are recognized at amortized cost.

The Company's financial instruments include cash, trade receivables, short term loans, due to a director and accounts payable and accrued liabilities and customer deposits. Cash is classified as fair value through profit or loss. Trade receivables, due to a director and short-term loans are classified as loans and receivables. Accounts payable and accrued liabilities and customer deposits, are classified as other financial liabilities. The carrying value of these instruments approximates their fair values due to their short-term nature. Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The Company classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted

forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 – Valuations in this level are those with inputs for the assets or liabilities that are not based on observable market data.

The Company's cash is measured based on Level 1.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

### **Credit Risk**

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment/contractual obligations. The Company has deposited the cash with reputable Canadian and Hong Kong financial institutions, from which management believes the risk of loss is minimized. As at July 31, 2018 the Company was subject to concentration of credit risk as 99.64% of its accounts receivable was from one customer however the Company carries credit insurance to mitigate the risk of non-payment. (October 31, 2017 – 100%). The Company continuously evaluates that financial condition and credit worthiness of all customers and potential customers in order to mitigate such risk. In the event that losses do occur, all impairments are recognized in income or loss.

### **Liquidity Risk**

Liquidity risk management involves maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. The Company's approach to managing liquidity risk is to ensure that it has sufficient liquidity to meet liabilities when due. As at July 31, 2018, the Company has current assets of \$1,422,312 (October 31, 2017 - \$113,734) to settle current financial liabilities of \$1,698,957 (October 31, 2017 - \$657,306). Accounts payable and accrued liabilities generally have contractual maturities of 30 days and they are all current except for management and consulting fees.

### *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.

### *Interest rate risk*

The Company's current policy is to invest excess cash in short term guaranteed investment certificates issued by its banking institutions. The Company monitors the investments it makes and is satisfied with the credit ratings of its banks. The risk the Company will realize a loss as a result of a decline in the fair value of short-term deposits is limited due to the short-term nature of these investments.

### *Foreign currency risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at July 31, 2018, the Company had \$1,779,668 in current assets (October 31, 2017 – \$31,515) and \$1,828,589 in current liabilities (October 31, 2017 - \$562,748) denominated in Canadian dollars. A 10% change in exchange rates would cause an increase/decrease of approximately \$50,000 to comprehensive income (loss). As at July 31, 2018, the Company had R527,777 (October 31, 2017 – R524,624) in current assets and R1,453,608 (October 31, 2017 – R844,073) in current liabilities denominated in South African Rand. A 10% change in exchange rates would cause an increase/decrease of approximately \$20,000 to comprehensive loss.

### **Critical Accounting Estimates**

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting

adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key sources of these uncertainties that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are discussed below:

The Company makes allowance for doubtful accounts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debts, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgment to evaluate the adequacy of the allowance for doubtful receivables. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

The Company measures the cost of non-cash stock-based compensation transactions with employees by reference to the fair value of the equity instruments. Estimating fair value for non-cash stock-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option. The Company measures the cost of non-cash stock-based compensation transactions with consultants by reference to the fair value of the services to be performed.

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

## **Outlook**

The Company completed the United Nations Populations Fund tender for the supply of a cellular based mobile management system to be used for digital census data collection in Burkina Faso. The project was worth approximately US\$2,300,000. The Company has also submitted 3 more tenders and awaits the results.

As previously reported, NovaTeqni is executing its strategy to develop and include standard products in its range of revenue earning solutions to reduce the reliance on tenders. The Company's goal is being production ready with the first two standard products by the end of Q4 2018. Standard products for a high growth North American sector are included in the focused range of products currently being completed subject to the availability of resources necessary. Marketing will commence once the products are within a month of being production ready, with beta prototypes used for marketing purposes.

The Company has developed a demonstration ready off grid solar power solution for remote locations which will provide electricity to villages in Africa. The Company plans to roll-out the system in the 4<sup>th</sup> quarter of 2018.

During the quarter the company was awarded 2 long term supply agreements with the UNDP for solar power solutions.

## **Future Accounting Pronouncements**

IFRS 9, Financial Instruments ("IFRS 9"). The IASB has deferred the mandatory effective date for IFRS 9 to annual periods beginning on or after January 1, 2018. Earlier application is permitted. If an entity applies this IFRS in its financial statements for a period beginning before January 1, 2018, it shall disclose that fact and at the same time apply the consequential amendments to other IFRSs. An entity that did not already apply IFRS 9 as issued in 2009 must apply IFRS 9 as issued in 2010 in its entirety if electing early application. If an entity has already early applied IFRS 9 as issued in 2009, prior to the amendments issued in 2010, the entity may elect to continue to apply IFRS 9 as issued in 2009.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). In May 2014, the IASB issued a new standard on the recognition of revenue from contracts with customers. IFRS 15 specifies how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue.

IFRS 16 replaces IAS 17, Leases; and introduces new rules for accounting for leases which will result in substantially all lessee leases being recorded on the consolidated statement of financial position. The standard is effective for annual periods beginning on or after January 1, 2019 with retroactive application and with early adoption permitted.

IFRIC 22 Foreign Currency Transactions and Advance Consideration issued by the IASB in December 2016, provides guidance on the issue of the "date of the transaction" for the purpose of determining the exchange rate at the time of the transaction, to apply to transactions that are within the scope of IAS 21, Effects of Changes in Foreign Exchange Rates, which involve the receipt or payment of an advance consideration in a foreign currency. The interpretation applies for annual reporting periods beginning on or after January 1, 2018.

IFRIC 23 Uncertainty over income tax treatments issued by the IASB in June 2017, provides guidance as to when it is appropriate to recognize a current tax asset when the taxation authority requires an entity to make an immediate payment related to an amount in dispute. This interpretation applies for annual reporting periods beginning on or after January 1, 2019.

The Company has not yet determined the impact on its consolidated financial statements from the adoption of these future accounting pronouncements.

## **Capital Management**

The Company's capital is composed of cash and shareholders' equity. The Company manages its capital structure and adjusts it based on the funds available in order to support the development of its technology-based solutions. In order to carry out the expansion of the Company's product lines and pay for administrative costs, the Company may spend its existing working capital and may raise additional amounts as needed. The Company is not subject to any externally imposed capital requirements. As at July 31, 2018 the Company's shareholders' deficit was \$275,968 compared to a deficit of \$538,950 on October 31, 2017. As at July 31, 2018 the Company had current liabilities of \$1,698,957 compared to \$657,306 as at October 31, 2017. The Company will need to generate more sales or raise capital through equity placements and/or long-term debt financing in order to address the current liquidity issue.

## Outstanding Share Data

As at July 31, 2018 the Company had the following securities issued and outstanding

	<u>Number</u>
Class A Common Shares	37,947,456
Stock Options	2,700,000
Warrants	3,175,294

During the nine months ended July 31, 2018 the Company closed a Private Placement and issued an aggregate of 3,175,294 Units at a price of CDN\$0.17 per Unit for gross proceeds of CDN\$539,799.98. Each Unit consists of one common share in the capital of NovaTeqni (a "Common Share") and one transferrable common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one Common Share at a price of CDN\$0.23 per share for a period of 24 months from the date of issuance of the Warrant. In connection with the completion of the first tranche of the private placement, the Corporation paid cash finder's fees of CDN\$28,441 to eligible persons.

## Directors and Officers

*Gerhard Mynhardt, Director, President, CEO*

*Dan Horner, Director, Secretary*

*Leroy Wolbaum, Director*

*Larry Youell, Director, Chairman, CFO*

## Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company. Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward looking statements and information because the Company can give no assurance that they will prove to be correct.

Forward-looking information is based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking information. Some of the risks and other factors that could cause the results to differ materially from those expressed in the forward-looking information include, but are not limited to: general economic conditions in Canada and globally; industry conditions, including governmental regulation; failure to obtain industry partner and other third party consents and approvals, if and when required; the availability of capital on acceptable terms; the need to obtain required approvals from regulatory authorities; stock market volatility; competition for, among other things, skilled personnel and supplies; changes in tax laws; and the other factors. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date hereof, and to not use such forward-looking information for anything other than its intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

On Behalf of the Board,  
**NOVATEQNI CORPORATION**

*"Gerhard Mynhardt*

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Gerhard Myhardt  
President and Director