

## Management Discussion and Analysis

**Dated: August 28, 2017**

The following management's discussion and analysis of the financial condition and results of operations of Visionstate Corp. (the "Company"), for the Quarter ended June 30, 2017, should be read in conjunction with the audited consolidated financial statements and the notes thereto for the fiscal year ending September 30, 2016.

The Company's financial statements have been prepared using International Financial Reporting Standards ("IFRS") that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. The Company's external auditors, Collins Barrow Edmonton LLP, have not performed an audit of these quarterly statements.

All amounts have been expressed in Canadian dollars unless otherwise stated. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Forward-Looking Information

This MD&A may contain "forward-looking statements" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, included herein may be forward-looking statements. Generally, forward-looking statements may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved.

These forward-looking statements reflect the Company's current beliefs and are based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, demand for the Company's products, meeting budgets and forecasts and future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements. Such risks and other factors may include, but are not limited to: the early stage development of the Company's products; general business, economic, competitive, political and social uncertainties; an un-diversified customer base for the Company's products; competition; delay or failure to receive board or regulatory approvals; changes in legislation affecting the Company; timing and availability of external financing on acceptable terms; conclusions of economic evaluations; and lack of qualified, skilled labor or loss of key individuals.

Although the Company has attempted to identify important factors that could cause actual results to differ materially from those described in forward-looking statements, there may be other factors that cause

results not to be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

## **Business Overview**

### **Sales and operations**

Visionstate Corp., is a publicly traded technology company listed on the TSX Venture Exchange under the symbol VIS. Operations are conducted through Visionstate Inc. (the “Company”), which is 100% owned by Visionstate Corp.

Visionstate Inc. is a software development company that specializes in applications for the Internet of Things (IoT) and high level analytics. The Company’s primary market is the building services sector which has seen a dramatic growth in demand for IoT products in the past year, attributed mostly to a growing trend toward demand for information relating to tracking of activities and supplies using analytics.

The Company’s main product is called WANDA, a 10 or 15 inch digital device mounted in high traffic areas, that monitors and collects data on cleaning and maintenance services in the building services sector. The product has been installed in locations throughout North America, including hospitals, airports, shopping centers and office buildings. The value proposition is tracking all building services activities to ensure accountability and efficiency in operations.

The Company’s business model for WANDA is based on royalties and residual license fees. The Company has established sales and marketing channels through large, global companies that operate in the building services sector. For each WANDA unit sold, the Company receives a fixed royalty, and collects 70% of the residual annual license fees. This business model enables the Company to operate extremely efficiently, allowing the Company’s team to focus on product enhancement and new technology. Resellers and partners include some of the largest companies in the building services sector, which facilitates a wider share of the market.

The Company’s move forward strategy is to leverage its distribution partners’ sales reach to maximize market penetration. This strategy has already been proven successful as these partners have made sales in several different sectors, including healthcare, airports, shopping centers, casinos and office buildings. Company management anticipates growing demand for WANDA because of its analytics.

Increasingly, property managers and owners are looking for IoT solutions to provide better data on operations, maintenance and supplies. As a disruptive technology, Company management believes WANDA will set the standard for IoT solutions in the building services sector, and will eventually replace existing paper-based methods of tracking information.

### **Technology**

Given the competitive nature of technology, the Company’s management understands the likelihood of new competitors entering the marketplace as IoT becomes standardized in building services. To mitigate

this risk, the Company has already partnered with some of the largest suppliers and service providers in building services, and seeks similar protection for its technology.

To ensure continued product improvement, the Company has partnered with one of the world's largest telecommunications company that also specializes in IoT applications. This partnership will see new technology built to enhance the existing functionality of WANDA. Specifically, the development project involves building prototype sensors that can measure supply levels in real time for paper towel, toilet paper and soap dispensers.

The new technology will have an impact on the Company in several ways, including new revenue streams associated with selling sensors, value added data that tracks real time supplies, and provides the basis for which building services companies can integrate supply tracking with automatic order replenishment. This facilitates just in time inventory which greatly enhances the value of WANDA and in fact justifies the initial investment into the technology.

## **Overall Performance**

During the three months ended June 30, 2017, the Company continued to focus on the development of smart devices in order to continue its footprint in the facility management industry and expand its reach with its existing product, WANDA.

During the quarter ended June 30, 2017 the company continued to invest its resources into three main things – development of CINDI, research into Sensor technology and expanding the reach of reseller and partner relationships for WANDA.

During the period ended June 30, 2017, selling, general and administrative expenses increased to \$125,994 from \$61,309 in the three months ended June 30, 2016 and to \$407,631 from \$294,359 in the nine months ended June 30, 2017. This was the result of accounting, legal and regulatory related fees incurred in relation to increased activity toward creating diversity in the holdings of the public company.

Gross revenues for the nine months ended June 30, 2017 decreased by \$91,562 to \$124,247 from that of the previous year of \$215,809 (approximately 57%), and for the three months ended June 30, 2017 showed an increase to \$69,024 from \$35,709 as a result of increased demand for the WANDA product. The gross margin percentage decreased to 64% (2016 – 73%) as a result of the exchange rate increase as the Company sources its hardware from a U.S. supplier. Management is currently investigating local sources for its hardware.

Revenues are driven primarily by the sale of these IoT products and are also derived from monthly licensing and software support, thus as the number of units increase, so does the revenue.

## Selected Annual Information

The following table details the company's previous three years performance (in Canadian dollars) based on audited financial results prepared in accordance with International Financial Reporting Standards.

	2014	2015	2016
Total Revenue	\$ 368,164	\$ 215,785	\$ 296,035
Net Loss	\$ (568,980)	\$ (1,154,618)	\$ (329,056)
Basic and Diluted Net Loss per Common Share	\$ (0.05)	\$ (0.05)	\$ (0.01)
Total Assets	\$ 294,866	\$ 174,966	\$ 218,581
Total Long Term Financial Liabilities	\$ -	\$ -	\$ -

## Results of Operations

The accompanying audited consolidated financial statements include the accounts of the Company and its wholly owned subsidiary and operating division, Visionstate Inc. and have been prepared in accordance with International Financial Reporting Standards ("IFRS") for financial statements and include all of the disclosures normally contained in the Company's annual financial statements.

## Revenue

Total revenues for the three months ended June 31, 2017 were \$69,024 and for the nine months ended June 30, 2017 were \$124,247 (\$35,709 for the three months and \$219,460 for the nine months ended June 30, 2016) The decrease in revenue was mainly a result of the Company phasing out of its directory and peripheral contracted services offerings to focus on WANDA and CINDI. Additionally, the Company has been increasing its focus and resources on expanding its partnerships with resellers of WANDA. The Company completed its pilot roll out of Wanda to Compass USA facilities in 2013, and in fiscal 2014 executed an amendment to the pilot agreement as a preferred supplier to Compass USA. As a result, Compass facilities are purchasing and deploying Wanda units in both Canada and the US, in increasing numbers. Additionally in Q3 of 2017 the Company continued discussions toward finalizing a Distribution Agreement with a global reseller for its WANDA product.

The gross margin for the three months ended June 30, 2017 was \$39,287 and \$79,054 for the nine months ended June 30, 2017 (\$29,367 for the three months ended June 30, 2016 and \$159,390 for the nine months ended June 30, 2016). The Gross Margin percentage for this year saw a minor decrease to approximately 64% (2016 – 73%). This was a result of the Company's focus on long range growth and profitability with its WANDA and CINDI products, as noted in the Overall Performance section.

## Selling, General and Administrative

Selling, general and administrative expenses saw an increase for the three months and nine months ended June 30, 2017 were \$125,994 and \$407,6310 (\$61,309 and \$294,359 for the three and nine months ended June 30, 2017). These costs include research expenses for the sensor project as well as marketing and sales expenses, public company compliance fees, investor relations costs, accounting and legal fees, staffing and general office expenses.

Selling, general and administrative expenses increased from year to year as a result of greater public company activity in this fiscal year.

## Summary of Quarterly Results

Description	Apr 17 – Jun 17 \$	Jan 17 – Mar 17 \$	Oct 16 – Dec 16 \$	Jul 16 – Sep 16 \$	Apr 16 – Jun 16 \$	Jan 16 – Mar 16 \$	Oct 15 – Dec 15 \$	Jul 15 –Sep 15 \$
Total Revenue	69,024	31,863	23,360	76,572	35,709	32,323	151,431	50,417
Net Loss	(109,303)	(128,330)	(153,060)	(148,257)	(45,289)	(77,326)	(58,184)	(420,160)
Basic and Diluted Net Loss Per Common Share	(.00)	(.00)	(.00)	(.00)	(.00)	(.00)	(.01)	(.02)

The quarterly results of the Company mainly fluctuate as a result of variations in revenue, amortization, public company costs and staffing included in selling, general and administrative expenses. Revenue varies directly on the client's roll out schedule as well as the types of products sold, amortization varies due to the development stage of the intangible assets and staffing costs vary depending on projects the Company is working on.

## **Liquidity and Capital Resources**

The Company has limited financial resources and its ability to continue as a going concern is dependent on attaining profitability. Visionstate continues to deploy its client management software which has given the company a proprietary platform upon which to customize each client, and this has given the company the ability to deploy in much shorter periods of time to a larger and more varied customer base.

Furthermore, the company is beginning to receive requests for quotations from different market sectors and is beginning to see a definite increase in interest for its product in different areas of the marketplace as the market comes to adopt this disruptive technology. The Company is continues to roll its products out into the US marketplace, reaching a larger marketplace thereby getting a competitive advantage.

As at the year end, the Company had negative working capital and is dependent on recurring licensing fees, sales of product and related party advances to ensure adequate cash flow to cover expenses and continue as a going concern. There are no assurances the Company will be able to raise additional funds or attain profitability. The company however continues to deploy its products and establish strategic reseller and other relationships, expanding its US product penetration and is currently in discussions with potential partners for the possibility of a joint venture with a new product the Company is currently developing.

## **Related Party Transactions**

Key management of the Company includes the Chief Executive Officer and Chief Financial Officer. Remuneration paid to them during the period is as follows:

The Company paid management fees for the three and nine months ended June 30, 2017 in the amount of \$15,000 and \$8,000 respectively (June 30, 2017 - \$16,500 and \$21,686 respectively) to two officers of the Company, one of which is also a Director of the Company

The Company paid interest in the amount of \$9,734 and \$26,613 for the three and nine months ended June 30, 2017 (June 30, 2016 - \$9,997 and \$25,947 respectively) to related parties including Officers and Directors of the Company.

<b>Advances from Related Parties</b>	<b>June 30, 2017</b>	<b>Mar 31, 2017</b>	<b>Dec 31, 2016</b>	<b>Sep 30, 2016</b>	<b>Jun 30, 2016</b>
Due to an individual related to a director, unsecured, interest payable at 10% per annum and without specified terms of repayment.	42,982	\$37,926	\$37,001	\$33,865	\$38,215
Due to a company owned by an individual related to a director, unsecured, interest payable at 12% and without specified terms of repayment	11,872	11,872	11,872	11,872	11,872
Due to a director, unsecured, interest payable at 10% per annum and without specified terms of repayment	15,533	15,533	11,250	16,105	11,250
Due to a director, unsecured, interest payable monthly at 10% per annum, due on demand	45,388	54,069	67,700	67,700	95,700
Due to a director, unsecured, interest payable monthly at 10% percent per annum, and without specified terms of repayment	-	7,995	7,819	5,000	17,758
Due to a director, unsecured, interest payable monthly at 10% percent per annum, and without specified terms of repayment	11,699	11,427	11,148	9,140	24,061
Due to a director, unsecured, non-interest bearing and without specified terms of repayment	-	-	16,533	-	20,612
Due to a director, unsecured, interest payable at 10% per annum, and without specified terms of repayment	4,000	4,000	4,000	4,000	4,000
Due to a company owned by a director, unsecured, interest payable monthly at 10% per annum, and without specified terms of repayment	85,752	81,153	114,874	63,822	78,312
Due to a company controlled by a director, unsecured, interest payable at 10% per annum and without specified terms of repayment	83,700	72,700	62,750	57,000	79,500
Due to a director, unsecured, interest payable at 10% per annum, and without specified terms of repayment	-	-	-	-	13,553
Due to a director, unsecured, interest payable at 10% per annum, and without specified terms of repayment	6,250	6,250	-	-	6,000
	\$307,176	\$302,925	\$344,947	\$268,504	\$400,823

The advances from related parties have been provided to the Company for working capital purposes.

## Share Data

**Shares Outstanding:** 86,785,625 common shares as at August 27, 2017.

**Stock Options Outstanding:** Nil options to purchase common shares are outstanding as at June 30, 2017.

**Common Share Purchase Warrants Outstanding:** Nil as at May 30, 2017

## Future Accounting Pronouncements

Effective October 1, 2018, the Company will be required to adopt IFRS 9 - Financial Instruments”, as the first phase of the IASB’s project to replace IAS 39 - Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. A detailed review will be completed in the future in order to determine if this standard will have significant impacts.

IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) was issued by the IASB in May 2014 and will replace IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 provides new standards for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. The new standard is effective October 1, 2018 with early adoption permitted.

IFRS 16 Leases was issued by the IASB in January 2016. The new standard replaces IAS 17 Leases and requires lessees to recognize all leases on the balance sheet. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements. Earlier application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 is effective for the Company’s fiscal year beginning October 1, 2019. The Company is currently assessing the impact of this standard on its consolidated financial statements.

Management is currently assessing the potential impact of the adoption of these new standards on the Company’s consolidated financial statements.

## Financial Instruments

The Company’s financial instruments consist of cash and bank indebtedness, accounts receivable, accounts payable and accrued liabilities, convertible debentures, advances from related parties and promissory note payable.

The Company has designated its financial assets and liabilities as follows:

Financial statement item	Classification	Measurement
Cash, Investment and Bank Indebtedness	Fair Value through profit and loss	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost	Amortized cost
Convertible debentures	Financial liabilities measured at amortized cost	Amortized cost
Advances from related parties	Financial liabilities measured at amortized cost	Amortized cost
Promissory note payable	Financial liabilities measured at amortized cost	Amortized cost

## Fair Value

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments. Financial instruments also include advances from related parties, convertible debentures and promissory notes payable. Management considers that no events have occurred subsequent to the inception of these financing arrangements that would indicate that fair value differs substantially from carrying value.

Included in advances from related parties are advances from a director in the amount of \$15,533 which are non-interest bearing. As a result the Company believes the fair value of this financial instrument to be less than the carrying value at June 30, 2017. However due to the uncertainty as to the eventual repayment date of this financial instrument, the Company is unable to estimate the fair value.

## Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consists of accounts receivable. The maximum exposure to credit risk as represented by the carrying amount of the financial assets is \$ 37,740 as at June 30, 2017. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historical trends and other information. At June 30, 2017, no accounts receivable are past due or impaired.

The aging of accounts receivable is as follows:

	June 30, 2017	September 30, 2016
Current	\$ 2,785	\$ 30,579
31 – 90 days	33,592	-
91+ days	1,363	1,219
	\$ 37,740	\$ 31,798

## Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The \$100,000 convertible debenture is due on demand. The Company is currently negotiating with debenture holders to extend the terms or convert their debentures to shares. The Company is actively working towards increasing marketing activities to improve sales of its software to meet future working capital requirements, but it may have to seek equity or debt financing

At June 30, 2017, the Company had cash in the amount of \$51,192 and accounts receivable of \$37,740 with which to meet its obligations. At June 30, 2017 the Company had a working capital deficiency of \$922,444.

The contractual maturity of the Company's liabilities of \$967,841 at June 30, 2017 is due on demand.

## **Interest Rate Risk**

Interest rate risk is the risk that the fair value of the future cash flows of financial instruments will fluctuate due to changes in interest rates. The Company is susceptible to interest rate fair value risk on its fixed rate debt.

## **Capital Management**

The Company considers the contributed surplus of \$1,908,678 (June 30, 2016 - \$1,041,792) share capital of \$6,814,034 (June 30, 2016 - \$6,379,306), warrant reserve of \$nil (June 30, 2016 - \$866,886), advances from related parties of \$307,176 (June 30, 2016 – \$268,504) and convertible debentures of \$177,730 (June 30, 2016 – \$100,000) as capital. The Company's objectives when managing its capital structure are to provide sufficient capital to maintain its current operations and to continue with the development of new and existing products. The Company has no externally imposed capital restrictions.

The Company's officers and senior management take full responsibility for managing the Company's capital and do so through regular meetings and review of financial information. The Company's Board of Directors is responsible for overseeing this process.

The Company is currently receiving interest from both the Canadian and US marketplaces, including hospitals, airports and shopping centers, in its applications. As well, the Company has successfully entered into several reseller agreements that management feels will assist the Company to expand its market reach more expeditiously. Management believes that successful execution of its business plan will result in sufficient cash flow to meet its objectives and current obligations.

Methods used by the Company to manage its capital include the issuance of new share capital and issuance of convertible debentures. The Company's capital management objectives have remained unchanged over the years presented.

## **Critical Accounting Policies and Estimates**

The preparation of the Company's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes.

There is a full discussion and description of the Company's critical accounting policies in the audited consolidated financial statements for the fiscal year ended September 30, 2016.

## **Future Plans and Outlook**

Visionstate is quickly demonstrating a market for WANDA in the facility management space. The product's footprint continues to expand in airports, shopping centres and hospitals throughout North America and the Company is now receiving international attention.

This demand stems from the products' uniqueness in the industry, also by the fact WANDA is a smart device that provides analytics never before available with paper-based tracking. The product's appeal is

particularly found in facilities in which cleanliness is especially important, which explains the increasing demand shown from hospitals. Company management believes it can now place the WANDA sales and distribution channel in the hands of the resellers.

Moving forward, Visionstate Corp. management will continue diversifying its portfolio by assessing M&A opportunities with technology companies that have synergies with the operating company, Visionstate Inc. For example, in July 2017 the Company announced a Letter of Intent (LOI) to issue up to 13 million common shares for the purchase of Chatbot Incubators Inc. which specializes in applications for artificial intelligence. Chatbot operates in a high growth market as AI technology continues to flourish across many different sectors, including customer service. The AI technology will also be used to enhance the Company's existing products including its interactive directory technology and CINDI, and in room digital concierge designed for the hospitality industry.

To accomplish this objective, Visionstate Corp. will consider raising additional capital through private placement to access equity required for these investments.

Company management believes the market for IoT applications will continue to grow as demand for analytics on building services becomes the standard. It is anticipated this will have a positive impact on the Company in terms of sales and marketing. To execute, the Company has aligned itself with large, global companies in the building services sector. It is also investing in new sensor technology that will also enhance the offering.