

# STOMPY BOT CORPORATION

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## MANAGEMENT'S DISCUSSION & ANALYSIS

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Accompanying the September 30, 2016 Condensed and Consolidated Interim Financial Statements

*This Management's Discussion & Analysis ("MD&A"), prepared as of November 27, 2016, is intended to be read in conjunction with the Company's condensed and consolidated interim financial statements for the three and nine months ending September 30, 2016, and related notes thereto, which have been reported in Canadian dollars, and prepared in accordance with International Financial Reporting Standards ("IFRS").*

This discussion relates to the operations of Stompy Bot Corporation, formerly SCorp Energy Ltd. (the "**Company**"), during the period up to the date of this MD&A, being November 28, 2016.

Additional information, including press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("**SEDAR**") and is available under the Company's profile at [www.sedar.com](http://www.sedar.com).

### *FORWARD LOOKING INFORMATION*

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to the Company. When used in this document, the words "*anticipate*", "*believe*", "*estimate*", "*expect*" and similar expressions, as they relate to the Company or management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the continued exploration and development of exploration properties. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. Readers should be aware the Company is under no obligation to publicly release the results of any revision to these forward-looking statements, which may not reflect circumstances, or occurrences of unanticipated events after the date of this document.

## **OVERVIEW**

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The Company was incorporated under the *Business Corporations Act* (British Columbia) on October 30, 2014, as a wholly-owned subsidiary of a reporting issuer, Web Watcher Systems Ltd. (“Web Watcher”). On November 18, 2014, the Company and Web Watcher entered into a letter of intent (the “LOI”) providing for the amalgamation of the Company and Stompy Bot Productions Inc. (“Stompy Bot”) to form the resulting issuer.

The Company’s registered office is now located at 1 Germain St., Suite 300, Saint John, New Brunswick, E2L 4V1, Canada

## **CORPORATE UPDATE**

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The video games industry is a \$100 billion-dollar industry, annually. In the US alone, there are 170 million daily players. The industry has experienced explosive growth in multiple segments including VR & eSports in 2015. On average, consumers spend \$16.50/month on games and downloadable content (“DLC”). The industry has demanded a shift to digital distribution which has created an industry with higher profit margins, lower overhead costs, and the ability to scale extremely quickly when product launches experience massive growth (ie. 1 million unique players weekly).

Most digital distribution platforms have a low to no upfront cost structure for independent developers and publishers to ship their titles. These systems use a royalty based payment structure with distributors collecting between 5%-30% in revenue to cover distribution costs. Examples of these platforms include PC: Steam, Stompy Bot and other Gaming Websites; for consoles: Xbox Store, PlayStation Store; and for mobile: iOS App store, Google Play store, Amazon App stores.

The launch of Heavy Gear Assault will be marketed in partnership with European based iQU - a marketing and press agency for AAA video game titles, worldwide. iQU has successfully marketed over 2000 video games through 4,500 network partners supporting over 1.2 billion player transactions, with a staggering 20 million active play-base. Our target distribution channel in Q4 is the Steam gaming platform which has 125 million active users with 13.2 million as a concurrent peak.

The Company plans to ship all its games digitally first with consideration of collector editions for very successful releases.

### ***Business Goals***

- Successfully apply for government funding programs such as tax credits, production development funds, and wage subsidies for primary North American based team.
- Offshore development to Europe, China & India for bulk content creation where possible.
- Early revenue by Q4 of 2016 with the successful launch of Heavy Gear Assault on the digital distribution platform Steam.
- Development of multiple titles in 2016/17 for every major gaming platform.
- Acquire existing portfolios and game properties, secure exclusive deals with studios to develop our products and brands.

### ***Development Strategy and Outlook***

The Company is an independent video game and digital media publisher and developer. The Company develops, produces, and markets independent video games. The video games published by the Company can

be played by consumers on a variety of platforms, including: personal computers, mobile and console platforms and the Internet.

The Company is in the process of raising additional capital to execute its growth strategies and continued development of its video games. See also Liquidity, Capital Resources and Going Concern.

### ***Property Acquisition***

The Company has several property acquisition strategies:

- Original internal generated game concepts - Armored Cock
- License existing media properties with proven track record – 10 to 15% royalty to property owners - Locke & Key
- Revive legacy games that have established player community - Heavy Gear
- Game developers with partially completed products: 15 to 30% royalties depending on support needed

### ***Product Development Strategy***

- In-house management and executive production team
- Contract out to best talent world wide
- Outsource bulk content creation for successful titles
- Each project has a unique income statement, development and marketing budgets

The Company currently has four video game projects in development: Heavy Gear Assault; Armored Cock; Sabotage; and Locke & Key.

Heavy Gear Assault is nearly at launch status with a global distribution planned on the Steam platform (a distribution platform for PC games with 16 million concurrent players). The company is currently planning a marketing campaign marking the launch of Heavy Gear on Steam.

**Heavy Gear Assault** – A major revision to Heavy Gear Assault was released for testing and patching before Steam. Gamers are updated via a public Trello Board which allows followers to track our progress with the product. Regular Friday night matches with alpha testers are broadcasted via the Twitch Streaming service. Developers and gamers spend time together on HGA’s voip discord channel. Developers and the marketing team answer consumer related questions regarding the game and its development.

Marketing materials are being prepared including a new trailer, high resolution illustrations, and other material. A press tour is planned before the release of HGA on Steam in California. Several members of the streaming community will also be invited to play the game in an exclusive reveal before launch.

**Sabotage** – Currently in early development. The foundation of the game is being developed as a 2.5D side scroller or “platformer” with third person duck and cover mechanics. The game will play aboard a cruise ship where players will explore the environment and interact with NPCs in an interactive story telling narrative. The game is being developed for the joypad and is intended to be played on both consoles and PC.

**Armored Cock** – Development successfully transitioned to Tipping Goat Studios for a one month evaluation period. Source code and development knowledge was transferred from Troll Games to Tipping Goat personnel. Once development funding is secured Armored Cock will continue development.

**Locke & Key** – Currently the company is in breach on its license with IDW. The Company continues ongoing discussions with IDW.

## **OVERALL PERFORMANCE**

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### **REVERSE TAKEOVER**

The Company, Stompy Bot and 682147 N.B. Ltd. (“Subco”) entered into an amalgamation agreement (the “Amalgamation Agreement”) dated as of May 5, 2015 (as amended on May 31, 2015), pursuant to which the parties completed an amalgamation by way of a three-cornered amalgamation (the “Transaction”). Under the terms of the Amalgamation Agreement, the Company completed a consolidation of its Common Shares, resulting in the Company having 4,801,233 Common Shares prior to closing (the “Closing”) of the Transaction. Stompy Bot amalgamated with Subco on June 18, 2015 and the Company commenced carrying on the business of Stompy Bot on that date. Upon completion of the Transaction, Stompy Bot became a wholly-owned operating subsidiary of the Company.

On June 1, 2015, the Company filed articles of amendment to change its name to “Stompy Bot Production Inc.” and on June 3, 2015, the Company filed articles of amendment to change its name to “Stompy Bot Corporation”.

Prior to completion at of the Transaction, the Company had not commenced any commercial operations other than entering into the LOI and the Amalgamation Agreement and until completion of the Transaction, the Company did not have a business, business operations, or any material assets other than cash and cash equivalent. The transaction does not constitute a business combination, as the Company did not meet the definition of a business. As a result, the transaction has been accounted for as an acquisition of a stock exchange entity.

### **Transaction Mechanics**

Pursuant to the Amalgamation Agreement, and as a condition of completion of the Transaction, the following transactions occurred in the order set out in the Amalgamation Agreement on or before the completion of the Transaction:

#### **Private Placement**

The Company completed a private placement (the “Private Placement”) of an aggregate of 14,287,138 Special Warrants of the Company for gross proceeds of \$500,050. The Private Placement was completed in tranches: as to 9,929,996 Special Warrants on March 19, 2015; 3,000,000 Special Warrants on May 31, 2015; and 1,357,142 on June 18, 2015. Each Special Warrant entitles the holder to acquire one Common Share, without additional payment or further action on the part of the holder, upon satisfaction of all of the following conditions: the satisfaction or waiver of all conditions precedent to the Transaction as set out in the Amalgamation Agreement; and the receipt of all required regulatory, shareholder and third party approvals necessary for the Company to complete the Transaction (the “Conditions On June 18, 2015, the outstanding Special Warrants were converted into 14,287,138 Common Shares.

#### **Share Exchange upon Completion of the Transaction**

Pursuant to the terms of the Amalgamation Agreement, each shareholder of Stompy Bot received one (1) Common Share for every 2.1323 common shares of Stompy Bot held by such shareholder. Stompy Bot had 75,310,891 common shares outstanding prior to the completion of the Transaction resulting in 35,319,086 common shares being issued to the former shareholders of Stompy Bot.

## Treatment of Stompy Bot Options

All of the holders (“Stompy Bot Optionholders”) of stock options (“Stompy Bot Options”) of Stompy Bot that were not duly exercised prior to the Closing, whether vested or unvested, were exchanged for stock options of the Company (“Exchange Options”) pursuant to an Option Exchange Agreement entered into between the Company, Stompy Bot and each of the Stompy Bot Optionholders on a basis of one (1) Exchange Option for each 2.1323 Stompy Bot Options. The Exchange Options are subject to the terms and conditions of the Company’s Stock Option Plan. Stompy Bot had 6,350,000 Stompy Bot Options outstanding prior to the completion of the Transaction, resulting in 2,978,004 Exchange Options being granted. The contractual life of these options was reduced to 5 years on this date and this modification had no effect on the share-based payment expense.

Following the Consolidation, the Company had 4,801,333 Common Shares issued and outstanding immediately prior to the completion of the Transaction. Upon the completion of the Transaction, and after conversion of the Special Warrants, the Issuer had 54,407,457 Common Shares issued and outstanding, with former shareholders of Stompy Bot holding 35,319,086 Common Shares.

### The following details the share capital of Stompy Bot prior to reverse takeover

|   | Share Capital # | Share Capital \$ |
|---|-----------------|------------------|
| Shares issued and issuable as at March 31, 2015 | 73,548,608      | 1,259,325        |
| Deposits converted to shares                    | 1,762,283       | 116,983          |
| Total shares issued                             | 75,310,891      | 1,376,308        |
| Conversion ratio                                | 2.1323          | -                |
| Total shares issued prior to reverse takeover   | 35,319,086      | 1,376,308        |

### The following details the share capital of SCorp energy Ltd. prior to reverse takeover

|   |            |         |
|---|------------|---------|
| Shares issued as at March 31, 2015                | 100        | 100     |
| Consolidation ratio                               | 3:1        | -       |
| Shares issued post consolidation                  | 33         | 100     |
| Issuance of shares to parent                      | 4,801,233  | 100     |
| Conversion of special warrants into common shares | 14,287,138 | 500,050 |
| Cancellation of shares under a treasury agreement | -33        | (100)   |
| Total shares issued prior to reverse takeover     | 19,088,371 | 500,150 |

### The following details the share capital of the Company following the reverse takeover

|   |            |           |
|---|------------|-----------|
| Total shares issued - Stompy                | 35,319,086 | 1,376,308 |
| Total shares issued - SCorp                 | 19,088,371 | 654,179   |
| Total shares following the reverse takeover | 54,407,457 | 2,030,487 |

The excess of the fair value of the consideration received by the pre-Acquisition shareholders of SCorp Energy Ltd. over the fair value of the identifiable net assets of SCorp Energy Ltd. on the closing date of the Acquisition was calculated as follows

|   |                |
|---|----------------|
| Fair value of the consideration received by the pre-Acquisition shareholders of SCorp Energy Ltd. | 654,179        |
| Total fair value of consideration received  | 654,179        |
| Identifiable net assets of SCorp Energy Ltd. acquired by Stompy Bot                               |                |
| Net working capital   | (500,400)      |
| Total fair value of identifiable net assets acquired by Stompy bot                                | (500,400)      |
| <b>Reverse takeover listing expense</b>   | <b>153,779</b> |

## SELECTED RESULTS OF OPERATIONS

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A summary of financial results for the periods ended, as follows:

| <i>(all amounts in Cdn\$)</i>      | Three months ended |                    | Nine months ended  |                    |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                    | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net revenue                        | \$ -               | \$ -               | \$ -               | \$ -               |
| Operating expenses                 | \$ 380,500         | \$ 185,875         | \$ 522,703         | \$ 1,259,625       |
| Net loss and comprehensive loss    | \$(380,500)        | \$(185,875)        | \$(522,703)        | \$(1,259,625)      |
| Loss per share – basic and diluted | \$ (0.006)         | \$ (0.003)         | \$ (0.009)         | \$ (0.030)         |

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For the three and nine months ended September 30, 2016, the Company recorded a loss of \$380,500 and \$522,703, respectively, compared to a loss of \$185,875 and \$1,259,625, respectively for the same period in the prior year. Included in the net loss for the quarter ended September 30, 2016 is a share based payment expense of \$219,432 (2015 – nil) related to the issuance of 3,680,000 options issued to arms-length and non-arms length holders. Excluding the share based payment expense, the decrease in the current period loss for both the quarter and nine months ended September 30, 2016 was primarily attributable to the prior year periods having increased operating expenses related to the continued development of the games and expenses related to the Transaction that did not occur in the same periods ended September 30, 2016. The three and nine months ended September 30, 2015 was restated to offset revenue against capitalized development costs.

## RELATED PARTY TRANSACTIONS

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Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. As at the date hereof, the Company has not paid any compensation to its directors or key executives.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

On March 24, 2015, the Company issued a loan in the principal amount of \$347,500 to Stompy Bot. The loan is non-interest bearing with no set repayment terms. The loan is secured against the assets of Stompy Bot. On completion of the Transaction the loan remains outstanding, but now represents an inter-company debt which is eliminated on consolidation.

Included in Trade and other payables as at September 30, 2016 are amounts of \$118,135 and \$2,000 due to a director. The first amount is due to a law firm of which this director is a partner. The second amount relates to director fees.

The Company entered a services agreement with Mekttek, a company controlled by a member of key management of the Company. The Company has made advanced royalty payments under two agreements.

Under a development agreement, Studio Mektek Inc. (“Mektek”), will develop and create products for the Company. The Company agrees to advance certain funds to Mektek to assist with funding these development activities which will be considered an advance royalty to be drawn down from sales of the products developed. The royalty rate is 5% and is effective for a period of 15 years from the release of Version 1 of the first product developed. As at September 30, 2016, the advanced royalty net of any royalties applied is \$819,329 (June 30, 2016- \$819,329). Amounts due to Mektek are \$16,545 as at September 30, 2016.

Other amounts due to other Directors are 2,000 as at September 30, 2016.

## **LIQUIDITY AND CAPITAL RESOURCES**

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The Company is in the early stage of operations and is in the process of expanding its operations and requires additional capital to achieve its strategic objectives. As at September 30, 2016, the Company had working capital of \$96,187 (December 31, 2015 - \$272,746). As at the date of this report, the Company had working capital of approximately \$125,000. Stompy Bot is currently not generating positive operating cash flows, and has significant cash requirements to continue its development of its video games and administrative overhead. In order to meet future expenditures and development costs, Stompy Bot will need to raise additional financing and there can be no assurance that adequate funding will be available in the future, or available under terms favourable to Stompy Bot. Whether and when the Company can attain profitability and positive cash flows is uncertain. These uncertainties represent significant risks to the Company’s ability to continue as a going concern.

Management is exploring various financing alternatives, which includes equity and debt offerings. Specifically, the Company has a unit offering outstanding of 25 million units of the Corporation at a price of \$0.08 per unit, including a share purchase warrant to acquire one common share at \$0.12 within eighteen months. From this unit offering, \$349,990 was received prior to year-ended December 31, 2015 and an additional \$56,000 was received for units issued during the nine months ended September 30, 2016. In addition, the Company announced a private placement of up to \$200,000 of convertible unsecured debenture units (“the Offering”). During the second quarter, the Corporation completed the first tranche of the Offering issuing 85 Debentures and 680,000 Warrants raising gross proceeds of \$85,000 with \$60,000 received during the second quarter and another \$25,000 received during the third quarter. After quarter end, the Company completed the second tranche of the Offering issuing 115 Debentures and 920,000 Warrants raising gross proceeds of \$115,000. Proceeds raised from the Offering are being used to fund the development of the Corporation’s video games, and for general working capital purposes. The Debenture, the Warrants, the Conversion Shares issuable upon any principal Conversion, and the Warrant Shares issuable upon exercise of the Warrants are subject to a statutory four month and one day hold period.

The Company is also evaluating various government and media grants. During this quarter ended June 30, 2016, the Company was successful in securing \$300,000 from the Canadian Media Fund, \$240,000 of which was received in that quarter.

## **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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### (a) Capital Management:

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued Common Shares, in the definition of capital. The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash

resources to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

(b) Risk Disclosures and Fair Values:

The Company's financial instruments, consisting of share subscription receivable approximate fair value due to the relatively short term maturities of the instrument. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## SHARE CAPITAL

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As at the date of this report, the following Common Shares and convertible securities of the Company are issued and outstanding:

|  |            |
|--|------------|
| Common Shares – issued and outstanding | 64,864,202 |
| Stock options – vested                 | 6,306,272  |
| Warrants                               | 6,674,875  |

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

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### Critical Accounting Policies:

The Company's critical accounting policies are as follows:

#### *Calculation of share-based payments*

The Black-Scholes option pricing model is used to determine the fair value for the stock options and warrants and utilizes subjective assumptions such as expected price volatility and expected life of the option or warrant. Discrepancies in these input assumptions can significantly affect the fair value estimate.

#### *Capitalization of intangible assets*

Management evaluates the progress of video game development activities in order to determine if the criteria for capitalizing those costs under IAS 38- *Intangible Assets* have been met. Costs are only capitalized when the technical feasibility of the project is established, the company has identified a market for the video game which will generate revenue, the company has established an adequate plan to that identifies the technical resources to complete the project and expenses related to the development project can be reliably measured.

#### *Reverse takeover*

As described in Note 5, the Company determined that the accounting target, SCorp Energy Ltd. did not meet the definition of a business under IFRS 3- *Business Combinations*. This was because SCorp Energy Ltd. had minimal inputs such as cash and no processes to create any outputs. Therefore, in Note 5, the reverse takeover has been accounted for as an asset acquisition.

### Accounting Changes

The Company has not adopted any new or revised accounting standards during the period ended September 30, 2016.



### Future Accounting Changes

- IFRS 9, Financial Instruments, will replace the guidance provided in IAS 39, Financial Instruments Recognition and Measurements, in regards to the classification and measurement of financial assets. This change will be completed and implemented in three separate phases: (i) classification and measurement of financial assets and liabilities; (ii) impairment of financial assets; and (iii) hedge accounting. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of IFRS 9 has not yet been determined.
- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), will replace the existing standards for revenue recognition. The new standard establishes a framework for the recognition and measurement of revenues generated from contracts with customers, with the exception of revenue earned from contracts in the scope of other standards, such as financial instruments, insurance contracts and leases. The new standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenues and cash flows arising from transactions with customers. IFRS 15 is effective for the fiscal year beginning January 1, 2018. The extent of the impact of adoption of IFRS 15 has not yet been determined.
- IFRS 16, Leases ("IFRS 16") was issued by the IASB on January 13, 2016. The Company will be required to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 16 will have on the Company's financial statements.

All financial assets are classified either fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables or available-for-sale. Also, all financial liabilities are classified as either held for trading or other financial liabilities. All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at the fair values, except for held-to-maturity investments, loans and receivables and other liabilities, which are measured at amortized cost.

The Company's financial assets and liabilities are classified and measured as follows:

| Asset/Liability                          | Classification              | Measurement    |
|--|-----------------------------|----------------|
| Cash and cash equivalents                | FVTPL                       | FVTPL          |
| Receivables, taxes receivable            | Loans and receivables       | Amortized cost |
| Prepaid expenses                         | Loans and receivables       | Amortized cost |
| Royalty advances                         | Loans and receivables       | Amortized cost |
| Intangibles                              | Loans and receivables       | Amortized cost |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |

## **OFF BALANCE SHEET ARRANGEMENTS**

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The Company has no off balance sheet arrangements.

## **SUBSEQUENT EVENTS**

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Subsequent to quarter end, the Corporation announced in its news release dated October 21, 2016, that the Corporation had reached an agreement with arms-length and non-arm's length debt holders to settle an aggregate of \$35,409.44 of debt through the issuance of 708,188 common shares of the Company at a price of \$0.05 per common share (the "Debt Settlement").

Also subsequent to quarter end, the Company completed the second tranche of the Offering issuing 115 Debentures and 920,000 Warrants raising gross proceeds of \$115,000.

The common shares issued in connection with the Debt Settlement, the Debentures, the Warrants, the Conversion Shares issuable upon any principal Conversion and the Warrant Shares issuable upon exercise of the Warrants are subject to a statutory four month and one day hold period.

## **RISKS AND UNCERTAINTIES**

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Given the speculative nature of the business of the Company, an investment in the Common Shares should only be considered by those persons who can afford a total loss of their investment. The risks presented below should not be considered to be exhaustive and may not represent all of the risks that the Company may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations. If any of the risks described below occur, the Company's business, financial condition, liquidity and results of operations could be materially harmed:

### *Limited Operating History and Sales*

The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development. As the Company is in an early stage and is introducing new products, the Company's revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. In addition, it is also difficult to evaluate the viability of the Company's video games because the Company has had limited experience to address the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets such as the Company's target markets. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

### *No Assurance of Profitability*

The Company cannot give assurances that it will not incur net losses in the future. The limited operating history makes it difficult to predict future operating results. The Company is subject to the risks inherent in the operation of a new business enterprise in an emerging business sector, and there can be no assurance that

the Company will be able to successfully address these risks.

#### *Future Capital Needs; Uncertainty of Additional Funding*

The Company may not be able to fully implement and execute its business strategy without additional financing. There can be no assurance that such additional financing will be available, and if available, there can be no assurance that the cost of obtaining such financing will be on favourable or reasonable commercial terms or that financing will not result in substantial dilution to the Company's shareholders.

#### *Dependence on Key Personnel*

The Company's future success depends on its ability to retain key employees and attract, train, retain and successfully integrate new talent into its management team. The Company's success is highly dependent on its continuing ability to identify, hire, train, motivate and retain appropriate personnel. Competition for these personnel can be intense, and the Company cannot provide assurance that it will be able to attract or retain them. To do so, it may be necessary for the Company to materially increase the compensation it pays.

#### *Management of Growth*

The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

#### *Competition*

Competition in the gaming industry as it relates to video games is increasing. While the Company is targeting smaller niche sites with higher expected revenues per subscriber, there can be no assurances that competitors will not adopt a similar strategy and attempt to enter the markets that the Company has targeted.

#### *Dependence on Proprietary Technology and Limited Protection Thereof*

The Company will be relying on a combination of trademark, copyright, patent and trade secret law, as well as confidentiality restrictions contained in certain confidentiality agreements, to establish and protect the Company's proprietary rights in its intellectual property. As a result, the Company may not be able to adequately prevent a competitor, business partner or customer from creating or obtaining an illegal copy of its software or otherwise using it for inappropriate purposes such as reverse-engineering.

#### *General Economic Trends*

The worldwide economic slowdown and tightening of credit in the financial markets may impact the business of the Company's customers, which could have an adverse effect on the Company's business, financial condition, or results of operations. Adverse changes in general economic or political conditions in any of the major countries in which the Company does business could also adversely affect the Company's operating results.

#### *Asset Location and Legal Proceedings*

Substantially all of the Company's assets are located in Canada where intellectual property is generally enforced. Video gaming is global in nature, and the Company expects to have subscribers and assets located outside of Canada. Accordingly, the Company may be subject to legal proceedings and judgments in foreign

jurisdictions.

#### *Risk Associated with Foreign Operations in Developing Countries*

The Company's primary revenues are expected to be achieved initially in North America. However, the Company may expand to markets outside of North America, and become subject to risks normally associated with conducting business in a developing country. The Company cannot predict government positions on such things as foreign investment, intellectual property rights or taxation. A change in government positions on these issues could adversely affect the Company's business.

#### *Market Acceptance*

The Company's ability to gain and increase market acceptance of its games depends upon its ability to establish and maintain its brand name and reputation. In order to do so, substantial expenditures on market research, product development, product testing, strategic relationships and marketing initiatives may be required.

#### *Rapid Technological Change*

The video gaming industry is characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and emergence of new industry standards and practices that could render the Company's existing products and systems obsolete and can exert price pressures on existing products. It is critical to the Company's success that it be able to anticipate and react quickly to changes in technology or in industry standards and successfully develop and introduce new, enhanced and competitive products on a timely basis. The Company cannot give assurance that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhanced existing products by others will not render the Company's products obsolete. The process of developing new technology is complex and uncertain, and, if the Company fails to accurately predict customers' changing needs and emerging technological trends, its business could be harmed. The Company must commit significant resources to developing new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, and result in increased operating expenses.

#### *Product Defects and Reputation*

The Company will continue developing source code for its platform. Such source code and related products may contain errors or hidden defects that may significantly impact the user experience. The Company may not be able to correct the defects in a timely manner, and may lead to a loss of or a delay in market acceptance. In addition, such errors or hidden defects could cause adverse damage to its reputation and impair its ability to acquire new users. In addition, the Company may need to make significant expenditures to eliminate defects from its products. As well, errors and defects could lead to claims for liability or other claims involving costly litigation.

#### *Risks Associated with Acquisitions*

As part of the Company's overall business strategy, the Company may pursue select strategic acquisitions that would provide additional product or service offerings, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; or

(f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. In addition, any proposed acquisitions may be subject to regulatory approval.

#### *Electronic Communication Security Risks*

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

#### *Insurance Coverage*

The Company will require insurance coverage for a number of risks, including business interruption, environmental matters and contamination, personal injury and property damage. Although the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

#### *Tax Risk*

The Company will be considered to have been carrying on business in Canada for purposes of the *Income Tax Act* (the "**Tax Act**"). However, the Company will be operating in the video gaming space, a new and developing industry that has had historically low regulations and tax compliance. There is risk that foreign governments may look to increase their tax revenues or levy additional taxes to level the playing field for perceived disadvantages to the traditional brick and mortar business. While the Company does not foresee any adverse tax affects, there is no guarantee that governments will not impose such additional adverse taxes in the future.

#### *Risks in Foreign Jurisdictions*

Video gaming is a global phenomenon, and the Company anticipates that a significant user base will be located outside Canada. International business activities entail additional risks such as uncertainty as to the protection and use of intellectual property, partnership risks, political risks, legal and regulatory risks, the risk of increase in taxes (including value added taxes) and trade barriers. Furthermore, as profits of foreign subsidiaries are taxable under foreign income tax legislation, revenues from foreign operations could be adversely impacted.

#### *Currency Fluctuations*

Due to the Company's present operations, and its intention to in the future operate in jurisdictions outside Canada, the Company is expected to be exposed to significant currency fluctuations in the future. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. A substantial portion of the Company's revenue could be earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the US dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations globally so it may be subject to additional gains and losses against additional currencies. The Company does not currently have a foreign exchange hedging program in place. However, in the future, it may establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, it may not hedge its entire exposure to any one foreign currency and it may not hedge its exposure

at all with respect to certain foreign currencies.

### *Fluctuations in Quarterly Results*

The Company's quarterly operating results may fluctuate significantly in the future depending on factors such as the popularity of video games, the ability to attract users, progress on implementation of projects and upgrades, the number, timing and significance of new product announcements by the Company and its competitors, the ability to license and develop new software, introduce and market new and enhanced versions of products on a timely basis, changes in operating expenses, and general economic factors, among others. A significant portion of the Company's expenses are based on expectations of future revenue and, therefore, is relatively fixed in the short-term. Accordingly, if revenue levels are below expectations, operating results are likely to be adversely affected. As quarterly revenue is dependent upon building a significant user base, and the ability to monetize that user base, the inability to build and monetize the user base could cause the Company to plan or budget inaccurately, and those variations could adversely affect its financial results.

### *Officer and Director Conflicts*

The Company's officers and directors may have certain interests and arrangements that are different from, or in addition to the Company's shareholders. Executive officers and directors may have rights to indemnification including directors' and officers' liability insurance that will survive consummation of their agreements.

## **COMMITMENTS**

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The Company's license and development agreements require either future contractual payments or commitments to remit a percentage of royalties. The following analysis reflects the Company's contractual obligations as at September 30, 2016.

An analysis of the Company's cash commitments are as follows

| Due in 2016  | Due 2017-2020 |
|--------------|---------------|
| \$           | \$            |
| US\$ 116,000 | -             |

The Company has committed to share royalties of future game sales as follows:

|                   | Heavy Gear <sup>1&amp;2</sup> | Sabotage | Locke & Key <sup>3</sup> | Armoured Cock |
|-------------------|-------------------------------|----------|--------------------------|---------------|
| Minimum Royalties | 25%                           | 15%      | 10%                      | 5%            |

<sup>1</sup>In addition to minimum royalties, there is a sales distribution cost for Heavy Gear on our own website or on the Steam Distribution platform, ranging between 5% and 30%.

<sup>2</sup>The Company has also received advance payments from Nvidia, to develop Heavy Gear for the Tegra Platform. The Company has received US\$15,000 and will receive US\$35,000 subject to completing certain milestones.

<sup>3</sup>The Company is currently in breach of its agreement due to non-payment of CD\$150,458 (US\$116,000).

The Company has no commitments for capital expenditures.

## **LEGAL CLAIMS AND CONTINGENCIES**

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Subsequent to the period ended September 30, 2016, Company announced it had been served with a notice of civil claim by Stockhouse Publishing Ltd. (“Stockhouse”) that has been commenced in the Supreme Court of British Columbia in connection with an agreement between the Corporation and Stockhouse relating to the provisions of an investor relations program by Stockhouse for a period of 12 months from December 19, 2015 to December 8, 2016. Stockhouse is requesting damages in the amount of \$84,750, based on alleged breach of contract. The Company intends to defend its interests and protect its rights.