# StompyBot Corporation.

## Management's Discussion & Analysis ("MD&A")

## For the year ended December 31, 2016

*The MD&A of Stompy Bot Corporation("Stompy Bot" or the "Company") has been prepared by management of the Company as of June 29, 2017 and should be read in conjunction with the Company's audited financial statements and accompanying notes for the year ended December 31, 2016. The audited financial statements and notes thereto and this MD&A are presented in Canadian currency (unless otherwise noted) and were prepared in accordance with international financial reporting standards ("IFRS").*

### Forward-Looking Information

This MD&A contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "may", "will", "anticipate", "plan", "intend", "estimate", "project", "continue", "believe", "estimate", "expect" and similar forward-looking terminology, as they relate to the Company or its 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 and the estimated cost and availability of funding for the continued operation of the Company. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

Although management believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors and should not be read as guarantees of future performance or results. Accordingly, there are or will be a number of significant factors which could cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual future results, performance or achievements to differ materially include, but are not limited to, our limited operating history, our reliance on key personnel, future capital needs, dependence on proprietary technology and limited protection thereof and general economic trends and international risk. The Company is subject to significant risks and any past performance is no guarantee of future performance. The Company cannot predict all of the risk factors, nor can it assess the impact, if any, of such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward- looking statements should not be relied upon as a prediction of actual results. This MD&A offers a brief overview of some of the risk factors to be considered in relation to the Company's business. This list may not be exhaustive and new risk factors may emerge from time to time. Please see the section "Risks and Uncertainties" for further information. We disclaim any intention or obligation to publicly update or revise any forward-looking statements after distribution of this MD&A, whether as a result of new information, future events or other circumstances, except as may be required pursuant to applicable securities laws.

## Overview of the Business

### *Business Profile*

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 located at 1 Germain Street, Suite 300, Brunswick Square Business Tower, Saint John, New Brunswick, E2L 4V1, Canada.

### *Business Outlook*

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 recent years. 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 20-30% in revenue to cover distribution costs. Examples of these platforms include PC: Steam, Gaming Websites; for consoles: Xbox Store, PlayStation Store; and for mobile: iOS App store, Google Play store, Amazon App stores.

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 2017 with the successful launch of Heavy Gear Assault on the digital distribution platform Steam.
- Development of multiple titles in 2017 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. The Company provides technical support, guidance and marketing support to assist independent video game developers to develop and publish 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; Sabotage; Armored Cock; and Locke & Key.

**Heavy Gear Assault –** Heavy Gear Assault was launched on Steam as an Early Access release during the holiday season of 2016. This launch included support for the Windows & Linux operating systems. Heavy Gear Assault is currently considered as a "strong technical demonstration" of our developer's abilities to develop, release, and publish a PC title using all new next generation technology including the powerful Unreal Engine 4 technology.

As an Early Access title, the game is currently recognized as still in development and won't be considered fully released until more content and features are considered complete by both our Production team and the consumers. Early Access typically have 2 major release periods and tend to do well during console ports as well. Early Access gives consumers visibility to features and issues that they can report to the production team and have corrected in subsequent patches unlike traditional AAA releases which typically do not do minor feature updates and fixes on a regular ongoing basis.

The Production team has been working on several features to complete the eSports module of the title which will add a level of sophistication to the title that professional and semi-professional eSports players have requested. In November 2016, members of the production team conducted a survey with serious professional eSports players and began working on issues and features identified through this focus group to prepare for an eSports series.

The Company's media/marketing team is also working closely with our online gaming communities on Discord, Twitch, Twitter, Facebook, and the Steam community to engage new prospects and bring them into the title.

Heavy Gear Assault is currently available as an Early Access Title on the Steam platform (a distribution platform for PC games with 16 million concurrent players). The Company is currently planning an eSports based marketing campaign."

**Sabotage –** During the year ended December 31, 2016, the Company announced that it had signed a partnership agreement with the Canada Media Fund ("CMF") and has secured development funding for $300,000. The CMF fosters and promotes the production of Canadian digital and broadcast media. The CMF has financially support Stompy Bot to develop its third video game title - "Sabotage". Sabotage is based on author, Matt Cook's Los Angeles Times bestselling novel, Sabotage. Stompy Bot also announces that it has licensed the exclusive rights to develop games for the PC, console and mobile platforms based on the Sabotage intellectual property. This funding is secured and subject to certain conditions and may be repayable if final approval is not obtained.

Currently, the Company has applied to the CMF for the second tranche of funding through the Experimental Stream's Production Fund for production funding to complete the title and have it ready for release. The Company has the potential of receiving approximately $960,000 from the CMF for a maximum contribution of $1.2 million.

The Company also opened its first AAA design and development studio, located in the Saint John, New Brunswick. The studio is located at 1 Germain Street, Brunswick Tower ("Bell Media Building"). This studio is currently focused on the development of our second video game title — Sabotage which is a 2.5D shooter/platformer with an advanced depth shifting mechanic built on-top of the Unreal Engine technology stack which the company has advanced knowledge of through its technical achievements with Heavy Gear Assault. Sabotage is being developed for console platform and will tell the story of Jake Rove in an espionage based thriller onboard the cruise ship, the Pearl Enchantress.

The Company contracted 12 full and part-time positions and 2 full-time employees to develop the vertical slice of Sabotage in 2016. Most of the professionals were Canadian based as a requirement put forward by the CMF. As a result, we've also improved our hiring policies and practices and built new relationships with New Brunswick Community College ("NBCC") to help us identify qualified graduates for current and future work on our titles. We've also identified new hiring methods for hiring AAA/AA talent within Canada in the video games industry.

The Company has also secured employment funding through the Province of New Brunswick's Workforce Expansion Program and the One Pledge Fund facilitated through Opportunities New Brunswick. This program provides employment subsidization of $10/hour for 52 weeks per eligible employee.

**Armored Cock –** Troll Inc. completed the second development Sprint of Armored Cock. This Sprint focuses on additional armor designs, the taunt system, the item system, and new special powers.

**Locke & Key** – – The Company along with the licensor announced the successful licensing of the Locke & Key property in 2015. The Company currently owes the balance of the license fee and has put the project on hold. With appropriate funding, the Company would plan to move forward and develop this product with Behaviour Interactive, Montreal, to develop Locke & Key as an episodic console release.

**Reverse Takeover Transaction**

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) |
| | |
| **Reverse takeover listing expense** | **153,779** |

## Selected Financial Information

### Selected annual information

| | 2016 | 2015 |
|---|---|---|
| Total revenue | $ nil | $ nil |
| Net loss | $ 651,723 | $ 1,658,589 |
| Net loss per share | $ 0.011 | $ 0.035 |
| Total assets | $ 1,601,927 | $ 1,260,581 |
| Long-term liabilities | $ nil | $ nil |
| Dividends per share | $ nil | $ nil |

**Selected Quarterly Financial Information**

The following table highlights selected unaudited financial information in respect of the previous eight quarters of the Company. Note that the Company only began commercial operations in 2014. The Company's quarterly operating results have varied in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

| | Q4-2016 $ | Q3-2016 $ | Q2-2016 $ | Q1-2016 $ |
|---|---|---|---|---|
| Total revenue | - | - | - | - |
| Net loss | (129,020) | (380,500) | (57,937) | (84,266) |
| Basic & diluted loss per share | 0.002 | 0.006 | 0.001 | 0.001 |

| | Q4-2015 $ | Q3-2015 $ | Q2-2015 $ | Q1-2015 $ |
|---|---|---|---|---|
| Revenue before adjustment | 1,811 | 6,062 | 21,991 | 19,363 |
| Q4 adjustment | (1,811) | (6,062) | (21,991) | (19,363) |
| Total revenue restated | - | - | - | - |
| Net loss restated | (398,964) | (185,875) | (347,996) | (725,754) |
| Basic & diluted loss per share | 0.007 | 0.003 | 0.009 | 0.022 |

The quarters in the year ended December 31, 2015 were restated to reflect the revenue as an offset to capitalized development costs.

**Operating Results**

**Year ended December 31, 2016 compared with the year ended December 31, 2015**

For the year ended December 31, 2016, the Company reported a net loss of $651,723 versus a net loss of $1,658,589 in the comparable period for 2015.

A large portion of the loss in 2015 is attributable to the reverse takeover transaction, which took place in June 2015. This accounted for approximately $941,639 of the net loss in 2015 and was non-recurring in nature.

Sales and marketing expenses were $149,326 during 2016 compared to $71,205 during 2015. This increase is predominantly due to additional marketing activities at key trade shows during the year.

The Company also undertook development activities in 2015 as it acquired a key license for one of its upcoming games for $181,972 compared to $1,420 in 2016.

Salaries, general and administration and professional fees (not related to the RTO) were $276,774 in 2016 compared to $482,920 in 2015 as the Company focused on cost reduction of its activities. The Company became a reporting issuer in June 2015.

Royalty expense was a $44,294 recovery in 2015 compared to nil in 2016. There was $50,000 accrued in 2014 that was reversed in Q4 2015 as payment was no longer required.

**Three months ended December 31, 2016 compared to three months ended December 31, 2015**

For the three months ended December 31, 2016, the Company reported a net loss of $129,020 versus a net loss of $398,964 in the comparable period for 2015.

The purchase of the Development license combined with additional professional and listing expenses accounted for the increased loss in the last quarter of 2015 compared to 2016.

**Operating Expenses**

| | | Years ended December 31, | | |
|---|---|---|---|---|
| | | **2016** | | **2015** |
| Sales and marketing | $ | **149,326** | $ | 71,205 |
| Development | | **1,420** | | 181,972 |
| Salaries | | **107,538** | | 150,879 |
| General and administrative | | **36,332** | | 39,524 |
| Professional fees | | **132,904** | | 542,517 |
| Listing expenses | | **-** | | 153,779 |
| Share based payment expense | | **219,432** | | 537,860 |
| Royalty expense | | **-** | | (44,294) |
| Loss on foreign exchange | | **4,771** | | 25,147 |
| | **$** | **651,723** | $ | 1,658,589 |

## Liquidity, Capital Resources and Going Concern

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 December 31, 2016, the Company had negative working capital of $55,922. As at the date of this report, the Company had working capital of approximately $10,000. Stompy Bot is currently not generating 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 had and recently closed a unit offering 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. In addition, the Company recently announced a unit offering of up to 5 million units of the Corporation at a price of $0.06 per unit, including a half share purchase warrant to acquire one common share of $0.10 within eighteen months. In addition, the Company completed a private placement of up to $200,000 of convertible unsecured debenture units. The Company is also evaluating various government and media grants. As at the date of this report, the Company was successful in receiving $240,000 from the Canadian Media Fund and is expecting to receive another $60,000 in 2017.

**Commitments**

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 December 31, 2016.

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

| Due in 2017 | Due 2018-2021 |
|---|---|
| $ | $ |
| US$ 116,000 | - |

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

| | Heavy Gear[1] | Sabotage[1&2] | Locke & Key[3] | Armoured Cock |
|---|---|---|---|---|
| Minimum Royalties | 25% | 20% | 10% | 0% |

[1]In addition to minimum royalties, there is a sales distribution royalty for Heavy Gear and Sabotage on our own website of 0% or on the Steam Distribution platform of 30%.
[2]The minimum royalties included 5% on gross revenue regardless of source and 15% of net revenues
[3]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.

**Contingencies and Off-Balance Sheet Arrangements**

In the ordinary course of operating the Company's business, it may from time to time be subject to various claims or possible claims. Management is of the position that there are no claims or possible claims that if resolved would either individually or collectively result in a material adverse impact on the Company's financial position, results of operations, or cash flows. These matters are inherently uncertain and management's view of these matters may change in the future.

The Company has no contingencies and no off-balance sheet arrangements.

**Outstanding Share Data**

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 | 68,117,541 |
| Stock options | 6,306,272 |
| Warrants | 3,895,333 |

## Critical Accounting Policies:

The Company's critical accounting policies are as follows:

***Going concern***

Determining whether there exists material uncertainty that casts significant doubt about the Company's ability to continue as a going concern requires Management to exercise its judgment, in particular about its ability to obtain funds to continue operations.

***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 above and in Note 5 of the Financial Statements, 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 year ended December 31, 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.

**Transactions with Related Parties**

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. Compensation awarded to key management includes the following:

| | **Year ended December 31, 2016** | **Year ended December 31, 2015** |
|---|---|---|
| **Balances:** | | |
| Short-term employee benefits | $185,357 | $44,011 |
| Share-based payments - shares | 179,314 | 16,000 |
| Share-based payments - options | 193,792 | 37,860 |
| **Total compensation to key management** | **$558,463** | **$97,871** |

Included in Trade and other payables as at December 31, 2016 are amounts of $112,005 (2015 - $165,108) and $22,950 (2015- nil) due to two directors, one related to the law firm of which he is a partner, the other who is Chairman of the Company.

The Company entered into a services agreement with Mektek, 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. The advanced royalty net of any royalties applied is $819,329 (December 31, 2015- $819,329). Amounts due to Mektek as at December 31, 2016 are $22,250 (2015 - $1,087)

Amounts due Directors as at December 31, 2016 are $34,925 (2015 - $10,000).

**Financial Instruments**

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 |

**Subsequent Events**

Subsequent to year end, the Company issued $50,000 of convertible debentures at terms identical to those described in note 11 of the financial statements.

Subsequent to year end, $25,000 of the $200,000 of convertible debentures outstanding as of December 31, 2016 were converted into shares of the Company at $0.05 per share.

On June 5, 2017, the Company renewed its licensing agreement with Dream Pod 9 Inc. for a further five years.

**Risks and Uncertainties**

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 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.