

# STOMPY BOT CORPORATION

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Canada

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## MANAGEMENT'S DISCUSSION & ANALYSIS

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Accompanying the June 30, 2017 Condensed and Consolidated Unaudited Interim Financial Statements

*This Management's Discussion & Analysis ("MD&A"), prepared as of August 29, 2017, is intended to be read in conjunction with the Company's condensed and consolidated interim financial statements for the three months and six months ending June 30, 2017, 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 August 29, 2017.

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 located at 1 Germain Street, Suite 300, Brunswick Square Business Tower, 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 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.
- Revenue in 2017 with the successful launch of Heavy Gear Assault on the digital distribution platform Steam.
- Development of multiple titles in the near future 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:

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

### ***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 up to \$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.

Currently, the Company has applied to the CMF for the second tranche of funding through the Experimental Stream's Production Fund for production funding which would also need additional matching private 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. 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.

## SELECTED RESULTS OF OPERATIONS

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A summary of financial results for the three and six months ended June 30, as follows:

<i>(all amounts in Cdn\$)</i>	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net revenue	\$ 2,725	\$ -	\$ 12,019	\$ -
Operating expenses	\$ 109,451	\$ 57,937	\$ 379,304	\$ 142,203
Net loss and comprehensive loss	\$ (106,726)	\$ (57,937)	\$ (367,285)	\$ (142,203)
Loss per share – basic and diluted	\$ (0.002)	\$ (0.001)	\$ (0.005)	\$ (0.002)

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For the three and six months ended June 30, 2017, the Company recorded a loss of \$106,726 and \$367,285, respectively compared to a loss of \$57,937 and \$142,203 for the same period in the prior year. The increase in the current period loss was primarily attributable to the three and six months ended June 30, 2017 having additional operating expenses related to the continued development of the games. The three and six months ended June 30, 2016 had testing revenue offset 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.

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.

Included in Trade and other payables as at June 30, 2017 are amounts of \$137,656 (2016 - \$181,996) and \$45,200 (2016- 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. As at June 30, 2017, the advanced royalty net of any royalties applied is \$819,329 (December 31, 2016- \$819,329). Amounts due to Mektek are \$nil as at June 30, 2017 (2016 - \$1,087).

Amounts due Directors are \$34,495 as at June 30, 2017 (2016 - \$16,000).

## **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 June 30, 2017, the Company had negative working capital of \$489,534 (December 31, 2016 - \$55,922). As at the date of this report, the Company had negative working capital of approximately \$250,000 (excluding the funding owed to Canada Media Fund). 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 \$250,000 of convertible unsecured debenture units (Series I - \$200,000, Series II - \$50,000 with an additional \$150,000 available). 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 subsequently in 2017.

## **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	68,117,541
Stock options – vested	6,306,272
Warrants	3,220,333

## 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 of the annual 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 six months ended June 30, 2017.

### Future Accounting Changes

- IFRS 9, Financial Instruments, will replace the guidance provided in IAS 39, Financial Instruments Recognition and Measurements, in regard 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.

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

<b>Asset/Liability</b>	<b>Classification</b>	<b>Measurement</b>
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.

## **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 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 June 30, 2017.

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 <sup>1</sup>	Sabotage <sup>1&amp;2</sup>	Locke & Key <sup>3</sup>	Armoured Cock
Minimum Royalties	25%	20%	10%	0%

<sup>1</sup>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%.

<sup>2</sup>The minimum royalties included 5% on gross revenue regardless of source and 15% of net revenues

<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.