

**BLOCPPLAY ENTERTAINMENT INC.**  
(formerly Stompy Bot Corporation)

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

*Tel: 888-449-4148*

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**MANAGEMENT'S DISCUSSION & ANALYSIS**

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Accompanying the March 31, 2018 Condensed and Consolidated Unaudited Interim Financial Statements

This Management's Discussion & Analysis ("MD&A"), prepared as of May 18, 2018, is intended to be read in conjunction with the Company's condensed and consolidated interim financial statements for the three months ended March 31, 2018, 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 BlocPlay Entertainment Inc., formerly Stompy Bot Corporation, (the "**Company**"), during the period up to the date of this MD&A, being May 18, 2018.

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 British Columbia Business Corporations Act (“BCBCA”) on October 30, 2014. The Company is a developer of platforms and video game publisher that publishes video games that the Company either develop internally or engage a video game developer to develop for them. The Company’s shares trade on the Canadian Securities Exchange under the symbol “PLAY”.

On February 1, 2018, the Company changed its name to “Blocplay Entertainment Inc.”, in order to better reflect its existing business and future prospects.

## **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.
- Testing revenue in 2018 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 a developer of platforms and video game publisher. The Company provides technical support, guidance and marketing support to assist independent video game developers to develop and publish video games and platforms. 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 the Company to develop its third video game title - "Sabotage". Sabotage is based on author, Matt Cook's Los Angeles Times bestselling novel, Sabotage. The Company 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.

### **Acquisition of TokenPlay**

On December 22, 2017, the Company closed the acquisition of all the issued and outstanding securities of TokenPlay, a private Ontario corporation, for the issuance of:

- (i) 58,999,982 common shares of the Company with a fair value of \$2,949,999; and
- (ii) 18,861,836 common share purchase warrants with a fair value of \$341,634.

Each warrant entitles the holder to acquire one common share in the capital of the Company at a price of \$0.10 per share for two years from the date of issue. TokenPlay is now a wholly-owned subsidiary of the Company.

TokenPlay is a technology company involved in the development of blockchain technology in the video game space which will seek to provide a platform for the exchange of in-game currencies and tokens. TokenPlay does not currently have any revenues.

In connection with the acquisition, the Company paid a finder's fee to First Canadian Capital Corp., in the form of the issuance of 1,400,000 common shares of the Company with a fair value of \$70,000.

In accordance with IFRS 3 Business Combinations, a business combination is a transaction in which an acquirer obtains control of a business which is defined as an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors. For an integrated set of activities and assets to be considered a business, the set needs to contain inputs and processes. This acquisition does not meet the definition of a business combination, as the primary asset is an intangible asset for Tokenplay.com, which was not fully developed and was not operational at the time of acquisition. Consequently, the transaction has been recorded as an acquisition of an asset. The results of operations from TokenPlay are included in the consolidated financial statements since the date of acquisition.

The acquisition of TokenPlay included certain intellectual property including the TokenPlay.com domain name, the TokenPlay trademark, and the TokenPlay White Paper, which is a technical architecture and summary of the TokenPlay business model. The domain name and trademark have been recognized as intangible assets totaling \$26,000. The White Paper did not meet the criteria for capitalization under IAS 38 – Intangible Assets, therefore the excess fair value of consideration over identifiable net assets acquired of \$3,078,589 was included in technology acquisition expense for the year ended December 31, 2017.

The following table summarizes the consideration paid and the allocation to the assets and liabilities acquired as the date of acquisition:

	\$
Fair value of common shares issued (58,999,982 shares)	2,949,999
Fair value of finder's shares issued (1,400,000 shares)	70,000
Fair value of warrants issued (18,861,836 warrants)	341,634
<b>Total purchase consideration</b>	<b>3,361,633</b>
Cash	523,937
GST receivable	2,201
Intellectual property	26,000
Accounts payable	(269,094)
<b>Net assets acquired</b>	<b>283,044</b>
<b>Excess of consideration over net assets acquired</b>	<b>3,078,589</b>

The fair value of the warrants was determined using the Black-Scholes Option Pricing model using the following assumptions:

Average risk-free interest rate	1.64%
Expected share price volatility	100%
Expected life	2 years
Expected dividend yield	0%

### Management Changes

On January 11, 2018, Robert Howe and Konstantin Lichtenwald were appointed as members of the board. Chris Irwin resigned from the board but remains in an advisory role to the Company. Vince McMullin resigned from the board and his position as chief executive officer and was appointed the chief technology officer of the Company. Mr. Lichtenwald was appointed chief financial officer of the Company and Mr. Garland, the former chief financial officer, remains on the board and was appointed the chairperson of the audit committee

of the board. Jon Gill, current chairperson of the board, was appointed the interim chief executive officer. Mr. Howe was appointed the chairperson of the compensation committee of the board.

On February 23, 2018, Usama Chaudhry was appointed to the board of directors, in lieu of Robert Howe who resigned from the board.

## SELECTED FINANCIAL INFORMATION

### Selected Annual Information

	2017	2016	2015
Total revenue	\$Nil	\$Nil	\$Nil
Net loss	\$4,472,797	\$651,723	\$1,685,589
Net loss per share	\$0.061	\$0.011	\$0.035
Total assets	\$3,412,893	\$1,601,927	\$1,260,581
Long-term liabilities	\$Nil	\$Nil	\$Nil
Dividends per share	\$Nil	\$Nil	\$Nil

### Selected Quarterly Information

The following table highlights selected financial information in respect of the previous eight quarters of the Company. 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.

	Q1-2018 \$	Q4-2017 \$	Q3-2017 \$	Q2-2017 \$
Total revenue	882	-	2,843	2,725
Net loss	(725,460)	(3,876,909)	(228,603)	(106,726)
Basic & diluted loss per share	(0.004)	(0.038)	(0.003)	(0.002)

  

	Q1-2017 \$	Q4-2016 \$	Q3-2016 \$	Q2-2016 \$
Total revenue	9,294	-	-	-
Net loss	(260,559)	(129,020)	(380,500)	(57,937)
Basic & diluted loss per share	(0.005)	(0.002)	(0.006)	(0.001)

### Operating Results

#### Three months ended March 31, 2018 compared to the three months ended March 31, 2017

For the three months ended March 31, 2018, the Company recorded a net loss of \$725,460 compared to a net loss of \$260,559 in 2017. The increase in loss was primarily attributable to the significant increase of operating expenses.

Operating expenses were higher by \$453,311 for the three months ended March 31, 2018 compared to prior period mainly due to share-based payment expense of \$204,460 incurred during the period.

General and administrative, consulting, professional and management fees were \$488,571 for the three months ended March 31, 2018 compared to \$207,632 during the prior period. This is due to the increase of corporate activity during the period.

Royalty expense was \$nil in 2018 compared to \$7,628 in 2017.

### Operating Expenses

	Three months ended March 31,	
	2018	2017
Consulting fees	\$ 23,265	\$ -
Depreciation	1,952	-
Development expense	-	23,601
General and administrative	74,499	20,810
Management fees	392,365	121,346
Professional fees	(1,558)	65,476
Royalty expense	-	7,628
Sales and marketing	26,778	29,589
Share based payment expense	204,460	-
	<b>721,761</b>	<b>\$ 269,853</b>

### RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2018, the Company incurred management fees of \$39,000 (2017 - \$15,000) from a company controlled by a certain director.

During the three months ended March 31, 2018, the Company incurred management fees of \$119,370 (2017 - \$1,714) from directors of the Company.

The transactions are in the normal course of business and have been valued in these unaudited condensed consolidated interim financial statements at the exchange amount which is the amount of consideration established and agreed to by the 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:

	March 31, 2018	March 31, 2017
	\$	\$
Short-term employee benefits	158,370	16,714
<b>Total compensation to key management</b>	<b>158,370</b>	<b>16,714</b>

Included in trade and other payables as at March 31, 2018 are amounts of \$228,007 (December 31, 2017 - \$252,375) due to directors and former directors of the Company and company with common directors. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

## **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 March 31, 2018, the Company had negative working capital of \$281,273 (December 31, 2017 - \$609,739). As at the date of this report, the Company had negative working capital of approximately \$581,273 (excluding the funding owed to Canada Media Fund and convertible debentures). BlocPlay 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, the Company 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 the Company. 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, during the three months ended March 31, 2018, the Company issued 1,184,213 common shares for warrants exercised at exercise prices ranging between \$0.05 and \$0.12 for gross proceeds of \$108,421. \$31,658 of which is still receivable. The Company also issued 250,000 common shares for options exercised at \$0.11 for proceeds of \$26,654.

During the year ended December 31, 2017, the Company issued a total of 480,832 common shares from exercise of warrants for gross proceeds of \$40,083, and 250,000 common shares from exercise of options for gross proceeds of \$10,500.

On November 29, 2017, the Company closed its non-brokered private placement for gross proceeds of \$2,000,000 through the issuance of 40,000,000 units of the Company at a price of \$0.05 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$0.10 for a period of twenty-four months following the date of issuance. The fair value attributed to the warrants was \$931,454 using the relative fair value method. In connection with the closing of the private placement, the Company paid a cash commission equal to 7% of the gross proceeds in the amount of \$140,000 and also issued an aggregate of 2,800,000 finder warrants with a fair value of \$538,236, each finder warrant entitling the holder to acquire one common share at a price of \$0.05 for a period of twenty-four months from the date of issuance. The Company incurred additional cash share issuance costs of \$16,746 related to this private placement.

During the year ended December 31, 2017, the Company issued a total of 333,333 units at a price of \$0.06 per unit for gross proceeds of \$20,000, including a half share purchase warrant to acquire one common share of \$0.10 within eighteen months. The fair value attributed to the warrants was \$7,241 using the relative fair value method.

In addition, the Company completed a private placement of up to \$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 \$300,000 from the Canadian Media Fund.

## **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 Company has the following issued and outstanding:

Common shares – issued and outstanding	175,787,171
Stock options – vested	8,206,272
Warrants	63,523,459

## 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.

### Accounting Changes

The Company has not adopted any new or revised accounting standards during the three months ended March 31, 2018.

### 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. Management has determined that IFRS 9 is not expected to have any impact on the Company.

- 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. Management has determined that IFRS 15 is not expected to have any impact on the Company.
- 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 has determined that IFRS 16 is not expected to have any impact on the Company.

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 AND CONTINGENCIES**

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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
Royalties	20%	15%	10%	10%

<sup>1</sup> In addition to minimum royalties, there is a sales distribution royalty for Heavy Gear and Sabotage on the Company’s own website of 0% or on the Steam Distribution platform of 30%.

<sup>2</sup> The minimum royalties included 15% on gross revenue.

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

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 commitments for capital expenditures.

## **SUBSEQUENT EVENTS**

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On April 10, 2018, the Company has granted 400,000 options to purchase common shares of the Company, exercisable at a price of \$0.10 per share and expiring on April 10, 2023, to a director and officer of the Company. The common shares issuable upon exercise of the options are subject to a four-month hold period from the original date of the grant.

On April 12, 2018, the Company provided the results of its participation at the Game Developers Conference (GDC) 2018 in San Francisco. The Company, along with its wholly owned subsidiary TokenPlay, successfully presented its first major development milestone to more than 248 developers/publishers and industry leaders at the GDC 2018. The company currently has more than 170 developers interested in joining the platform worldwide, with video games from every major genre. Several key industry partnerships have been developed with support being pledged by industry partners for its TokenPlay launch later this year.

In terms of major milestones, the Company has completed phase 1 of the front-end design/development platform which was publicly tracked on the TokenPlay website. Currently the Company is developing the back-end system which is scheduled to be ready for presentation at E3 in Los Angeles later this year.