



## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

**September 30, 2019**

*This Management's Discussion & Analysis ("MD&A"), prepared and is current as of November 13, 2019 is intended to be read in conjunction with the Company's condensed interim consolidated financial statements for the three and nine months ended September 30, 2019, and related notes thereto, which have been reported in Canadian dollars, and prepared in accordance with International Financial Reporting Standards ("IFRS").*

*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 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", "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.

## **BUSINESS OVERVIEW AND CORPORATE UPDATE**

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.

In December 2017, the Company acquired Token Play Inc. (“Token Play”), a technology company involved in the development of blockchain technology in the video game space to develop a platform for the exchange of in-game currencies and tokens.

On September 27, 2018, at the annual and special meeting of the shareholders of the Company, a dissident group of shareholders voted in new slate of directors of the Company. The new directors undertook to review the business of the Company with a view to assessing the Company’s prospects.

### ***Business Goals***

The management is currently reviewing business technology to ascertain if the technology is a viable business.

### ***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. Since September 2018, the newly appointed management of the Company has been focused primarily in reviewing the technology of the Company.

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

The Company invested in four video game projects: Heavy Gear Assault; Sabotage; Armored Cock; and Locke & Key. Since September 2018, no development has occurred with respect to the Company’s video game projects.

**Heavy Gear Assault** – Heavy Gear Assault was first published by Dream Pod 9 (“DP9”), a Montreal-based games publisher, in 1994. On August 1, 2012, Stompy Bot Productions Limited licensed the Heavy Gear video game from Dream Pod 9. Heavy Gear Assault is a fast paced first person simulator where the player controls war machines called Gears via their in-game pilot characters. Heavy Gear Assault was launched on Steam, a digital distribution platform, on February 10, 2017. Revenue for the fiscal year-ended 2018 and three months ended March 31, 2019 were \$1,403 and \$nil, respectively. The Company recently received notice that the license with DP9 has been terminated. Management believes that there is a potential to monetize the current asset in the future through a re-license sale and/or royalty transaction.

**Sabotage** – The Sabotage video game is based on author, Matt Cook’s Los Angeles Times bestselling novel, Sabotage. In June 2016, the Company also announced that it has licensed the exclusive rights to develop games for the PC, console and mobile platforms based on the Sabotage intellectual property. Under an agreement dated May 13, 2016, the Canada Media Fund (“CMF”) agreed to advance \$300,000 to the Company to fund the development of the Sabotage video game. The initial advance has been expended; however, development has been suspended as the licence has been terminated and the Company has no plans of advancing this project.

**Armored Cock** – Armored Cock is a mobile/cross platform fighting game featuring cybernetic cocks (roosters), is an intellectual property originally developed by the Company that was under development by Troll Inc. on behalf of the Company. Troll Inc. completed the second development Sprint of Armored Cock, however, Troll Inc. has been disbanded and no further development of the game is anticipated.

**Locke & Key** – The Company and IDW Publishing (“IDW”) entered into an agreement in 2015 under which the Company would design and develop games for console and mobile platforms based on IDW’s popular Locke & Key gothic horror series. The Company has not developed the game resulting in the termination of the license agreement and the Company has no intention of re-negotiating the license to further develop and commercialize this project.

**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
HST 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

There has been no management changes since the last report.

## SUMMARY OF QUARTERLY REPORTS

Results for the past eight quarters for selected financial statement amounts are presented below. 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.

	Q3-2019 \$	Q2-2019 \$	Q1-2019 \$	Q4-2018 \$
Total revenue	-	-	-	-
Net loss	(88,405)	(85,568)	(78,695)	(252,519)
Basic & diluted loss per share	(0.001)	(0.000)	(0.000)	(0.001)

	Q3-2018 \$	Q2-2018 \$	Q1-2018 \$	Q3-2017 \$
Total revenue	-	(882)	882	-
Net loss	(1,394,356)	(746,363)	(725,460)	(228,603)
Basic & diluted loss per share	(0.008)	(0.004)	(0.004)	(0.003)

## OVERALL PERFORMANCE

### *Nine Months ended September 30, 2019 and 2018*

The Company incurred net loss of \$253,668 or \$0.001 per share for the nine month period ended September 30, 2019 compared with a net loss of \$2,866,179 or \$0.016 a share for the comparable period in 2018.

Operating expenses were lower by \$2,781,432 for the nine months ended September 30, 2019 compared to prior period mainly due to less expenses were incurred relating to share based payments, consulting and management fees and general and administrative expenses in the current period.

Consulting and management fees were \$180,000 during the nine month period ended September 30, 2019 compared to \$2,101,919 in 2018. The significant decrease is due fewer management and consultants in the current period. The Company does not have any consultants working on any projects as they have been put hold.

General and administrative expenses decrease to \$22,039 during the nine month period ended September 30, 2019 compared to \$346,465 in 2018. The decrease is attributable to the change of management that happened in the late September 2018 – all previous officers and consultants were terminated during the change of management.

Professional fees decreased to \$50,915 during the nine month period ended September 30, 2019 compared to \$182,534 in 2018. The decrease can be attributed to lower legal fees.

Sales and marketing expenses significantly decreased in 2019 to \$nil compared to \$84,020 during the nine months ended September 30, 2018. There were no such expense incurred during the current period as the Company's projects were on hold.

There were no share based payment expense during the nine month period ended September 30, 2019 compared to \$307,507 in the same period of 2018.

Foreign exchange loss for the nine month period ended September 30, 2019 was \$714 compared to \$7,353 in the same period in 2018.

### ***Three Months ended September 30, 2019 and 2018***

The Company incurred net loss of \$88,405 or \$0.001 per share for the three month period ended September 30, 2019 compared with a net loss of \$1,394,356 or \$0.008 a share for the comparable period in 2018.

Operating expenses were lower by \$1,309,186 for the three months ended September 30, 2019 compared to prior period mainly due to less expenses were incurred relating to share based payments, consulting and management fees and general and administrative expenses in the current period.

Consulting and management fees were \$60,000 during the three month period ended September 30, 2019 compared to \$1,202,451 in 2018. The significant decrease is due fewer management and consultants in the current period. The Company does not have any consultants working on any projects as they have been put hold.

General and administrative expenses decrease to \$15,886 during the three month period ended September 30, 2019 compared to \$96,755 in 2018. The decrease is attributable to the change of management that happened in the late September 2018 – all previous officers and consultants were terminated during the change of management.

Professional fees decreased from \$117,490 in 2018 to \$12,074 in 2019. The decrease is attributable to lower legal fees paid for general corporate matters.

Sales and marketing expenses in 2019 were \$nil compared to a recovery of \$66,161 during the three months ended September 30, 2018. There were no such expense incurred during the current period as the Company's projects were on hold.

There were no share based payment expense during the three month period ended September 30, 2019 compared to \$41,614 in the same period of 2018.

Foreign exchange loss for the three month period ended September 30, 2019 was \$488 compared to \$2,792 in the same period in 2018.

### ***Company Directors and Officers***

As at the date of this report, the directors and officers of the Company were:

Chris Irwin	Chief Executive Officer and Director
Jon Gill	Director
Jordan Manzer	Director
Arvin Ramos	Chief Financial Officer

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company is in the early stage of operations and requires additional capital to achieve its strategic objectives. As at September 30, 2019, the Company had working capital deficiency of \$866,771 (December 31, 2018 - \$613,103). As at the date of this report, the Company had negative working capital of approximately \$600,000 (excluding the funding owed to Canada Media Fund). 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.

## FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

### (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

As at the date of this report, the Company has the following issued and outstanding:

Common shares– issued and outstanding	182,979,152
Stock options – vested	3,000,000
Warrants	60,817,620

## TRANSACTIONS WITH RELATED PARTIES

The transactions are in the normal course of business and have been valued in these unaudited condensed and 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:

<i>Nine Months Ended September 30,</i>	2019	2018
	\$	\$
Short-term employee benefits	180,000	-
<b>Total compensation to key management</b>	<b>180,000</b>	-

Included in trade and other payables as at September 30, 2019 are amounts of \$240,000 (December 31, 2018 - \$172,740) due to directors and former directors of the Company and companies with common directors. The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

### 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**

Effective January 1, 2019, the Company adopted IFRS 16 – Leases. The standard was issued by the IASB on January 13, 2016, and will replace IAS 17, “Leases”. IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The Company assessed that the new standard does not have any impact on the Company’s financial statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

### **ITEMS UNDER DISPUTE**

During the year ended December 31, 2018, the Company has received \$479,457 of vendor invoices with respect to consulting and management fees, which are currently under dispute. It is management’s position that either such services were never received or the amounts charged for such services in relation to the level of services received is not reasonable. As such, these vendor invoices have not been recognized as expenses for the year ended December 31, 2018 as management does not intend to pay such amounts. There is a potential that such vendors may seek legal action against the Company for failure to pay these disputed invoices. It is management’s belief that they would be able to legally defend any such claims against the Company. However, the outcomes as to whether there would be any legal requirement for the Company to pay such amounts is currently not determinable.

### **LEGAL ISSUES**

The Company has received a statement of claim from a former officer with respect to wrongful dismissal, claiming they are owed for payment of outstanding fees in the amount of \$77,392, as well as damages of \$650,000 plus interest and costs. Management believes it is possible they will be held liable for the payment of outstanding fees and have accrued a reserve for \$75,000 for the potential payout of such amount. Management, however, believes that they will be able to successfully defend the claim with respect to damages and costs and as such have not setup any reserves with respect to such amounts. The outcome of this claim is currently not determinable.

As at December 31, 2018, the Company wrote down its intangibles to \$nil. The Company has decided to perform this write down given the current financial position of the Company as well as the legal issues surrounding its intellectual property. Such legal issues pertain to a claim served by the Company against two individuals who have misappropriated the Company’s intellectual property that was created during their tenure with the Company. The outcome of this claim is currently not determinable.

### **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.