X1 ENTERTAINMENT GROUP INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED NOVEMBER 30, 2023

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VANCOUVER, B.C.
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The following discussion and analysis, prepared as of January 29, 2024, has been prepared by management. The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited consolidated interim financial statements for the three-month period November 30, 2023 and audit consolidated financial statements for the year ended August 31, 2023 of X1 ENTERTAINMENT GROUP INC. (with its subsidiaries, collectively, the "Company" or "X1"). Those condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures included in the following Management's Discussion and Analysis ("MD&A") are quoted in Canadian dollars unless otherwise indicated.

The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "XONE" and OTCQB under the symbol "XOEEF".

Additional information related to the Company is available for view on the Company's website at www.x1ent.com and SEDAR+ at www.sedarplus.ca.

FORWARD LOOKING STATEMENTS

Certain information included in this discussion may constitute forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements. These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements contained into this report should not be unduly relied upon. These statements speak only as of the date of this report. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the availability of financing for the Company's objectives on reasonable terms;
- the ability to attract and retain skilled staff and consultants;
- foreign currency and exchange rates;
- market competition; and
- tax benefits and tax rates.

These forward-looking statements involve risks and uncertainties relating to, among other things, risks related to international operations, conclusions of economic evaluations, and changes in project parameters as plans continue to be refined. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors hereinabove. Additional risk factors are described in more detail hereinafter. Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Company cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

DESCRIPTION OF BUSINESS

X1 is a portfolio company that has targeted assets across gaming, esports, media, and entertainment industries. X1 was incorporated under the *Business Corporations Act* (British Columbia) on January 9, 2020. The Company name was changed from "1236705 B.C. LTD." to "X1 Esports and Entertainment Ltd." on April 23, 2021, and then subsequently changed to "X1 Entertainment Group Inc." on October 19, 2022. The Company maintains its registered office at Royal Centre, 1500 – 1055 West Georgia Street, PO Box 11117, Vancouver, British Columbia, Canada V6E 4N7. The Company's principal place of business is 615 – 800 Pender Street W, Vancouver, British Columbia, Canada V6C 2V6.

OVERALL PERFORMANCE AND HIGHLIGHTS

To date, the Company has not yet realized profitable operations and has relied on equity financing and loans to fund the losses. The Company recognized a comprehensive loss of $133,729 during the three months ended November 30, 2023 (2022 - $1,743,868).

Acquisition of Octane.GG

On September 28, 2022, the Company completed an asset purchase agreement ("Octane APA") to acquire the assets of Octane.GG ("Octane") an online fan statistics platform focused on the popular video game, Rocket League.

In connection with the acquisition of the assets comprising the business of Octane, the Company entered into consulting agreements with two individuals, who as key personnel would be responsible for the continued operation of Octane. As consideration for the acquisition of the assets compromising the business of Octane, the Company paid a cash purchase price of US$35,000 ($47,509), US$17,500 ($23,931) of which was paid in connection with the closing of the acquisition and US$17,500 ($23,578) of which was paid 45 days after closing.

The Company combined the assets of ShiftRLE ("Shift") and Octane to create a single website dedicated to Rocket League news, reporting, and statistical analysis operating under the name of Shift.

On March 17, 2023, the Company sold all assets related to Shift. The purchasers are the prior owners of Shift, and the primary service providers to the Company in respect of the operations of Shift. The purchasers have satisfied the purchase price by forgoing any rights to termination payments or otherwise in connection with their consulting agreements with the Company, for an aggregate value to the Company of US$35,250 ($48,412).

Cessation of Rix's Operations

On December 9, 2022, the Company announced that it will cease operations of Rix.GG Europe Ltd. ("Rix") which holds and operates its esports franchise. Rix will no longer compete in Wild Rift effective March 2023 as a result of Riot Games' announcement that it will discontinue support for Wild Rift esports operations outside of Asia. As this team represents the sole team competing in the esports industry within the Rix franchise, the operations supporting the team are being terminated as well.

Wind-down and Dissolution of X1 Talent Operations

On April 6, 2023, the Company wound down operations of X1 Talent Corp. ("X1 Talent", formerly Tyrus, LLC), a boutique talent management group for digital content creators.

During the year ended August 31, 2023, the Company considered the operations of X1 Talent to have met the definition of discontinued operations.

On December 1, 2023, the Company dissolved the entity.

Share Consolidation

On November 6, 2023, the Company completed a share consolidation on the basis of 1 new common share for 5 old common shares. No fractional shares were issued as a result of the consolidation. Fractional interests of 0.5 or greater were rounded up to the nearest whole number of common shares and fractional interests of less than 0.5 were rounded down to the nearest whole number of common shares. All share and per share information have been amended retrospectively to reflect the share consolidation.

Convertible Debenture Financing

On November 15, 2023, the Company completed a non-brokered private placement of unsecured convertible debentures ("Debentures") for gross proceeds of $500,000 (the "Offering"). A portion of the Offering, approximately, $146,106 was completed through the distribution of Debentures in settlement of existing debt.

The Debentures mature on the date (the "Maturity Date") that is 12 months from the date of issuance (the "Closing Date") and bear interest at a rate of 5.0% per annum from the Closing Date, payable on the earlier of the maturity date or the conversion date. The Company has the right to pay all accrued and unpaid interest either in cash or in units at a price of $0.055 per unit, in its sole discretion, and on the Maturity Date also has the right to convert the principal amount of the Debentures into Units rather than repay in cash.

Each Unit will consist of one common share (a "Share") and one Share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to acquire one additional Share (a "Warrant Share") at a price of $0.055 per Warrant Share for a period of 24 months from the date of issuance.

Letter of Intent with SKRR Exploration Inc.

On December 1, 2023, the Company announced it's entered into a non-binding letter of intent with SKRR Exploration Inc. ("SKRR") which sets out the terms of a proposed transaction (the "Proposed Transaction") whereby the Company will acquire a 100% legal and beneficial interest in certain mining claims located in Manitoba known as the Manson Bay Project (the "Property").

Pursuant to the terms and conditions of the LOI, as consideration for the acquisition of the Project, the Company will issue 1,000,000 common shares to SKRR at an issue price of $0.055, or such higher price as may be required by the policies of the Canadian Securities Exchange (the "CSE"). The final terms of the Proposed Transaction will be set forth in a definitive agreement to be entered into among the parties that will replace the LOI (the "Definitive Agreement").

It is contemplated that completion of the Proposed Transaction will be subject to a number of customary conditions, including, but not limited to, the receipt of all necessary governmental, regulatory, and stock exchange approvals; meeting all conditions required by the CSE to receive approval of the Proposed Transaction, including the Company having sufficient working capital for 12 months, which will require additional capital raising activities by the Company; the satisfactory completion of due diligence; the absence of any material adverse change in respect of the Property; and the negotiation and execution of the Definitive Agreement. The Proposed Transaction cannot be completed until these conditions have been satisfied or waived. There can be no guarantees that the Proposed Transaction will be completed as contemplated or at all.

Following the completion of the Proposed Transaction, the Company will be a mineral exploration company primarily engaged in exploration of the Property, and the identification and acquisition of additional mineral exploration properties. The Property, which is in the exploration stage, will be the Company's first material mineral property.

Private Placement Financing

On January 25, 2024, the Company completed a non-brokered private placement of 7,142,857 units (the "Units") at a price of $0.07 for gross proceeds of $500,000. Each Unit is comprised of one common share in the capital of the Company (a "Share") and one share purchase warrant (a "Warrant"). Each Warrant entitles the holder thereof to acquire one additional Share (a "Warrant Share") at a price of $0.10 per Warrant Share for a period of 24 months from the date of closing.

The Company is currently evaluating possible acquisitions.

OUTLOOK

To date, the Company's revenue has been derived primarily from tournament prize money from its esports teams under Rix and content revenue and talent fees from X1 Talent. Current economic and market conditions have contributed to a challenging environment for investing and development in the esports and entertainment space. The Company is working to enhance financial resources and identify new opportunities.

OUTSTANDING SHARE DATA

At the date of this report, the Company has:

- 16,658,358 issued and outstanding common shares;
- 422,601 outstanding stock options with a weighted average exercise price of $2.44; and
- 8,539,154 warrants with a weighted average exercise price of $0.66.

SUMMARY OF QUARTERLY RESULTS

	November 30, 2023	August 31, 2023	May 31, 2023	February 28, 2023
Net income (loss) for the period	$ (141,251)	$ 175,865	$ (416,151)	$ (1,433,127)
Comprehensive income (loss) for the period	(133,729)	173,070	(412,402)	(1,438,104)
Basic and diluted loss per share – continuing operations	(0.01)	0.02	(0.03)	(0.12)
Basic and diluted loss per share – discontinued operations	-	(0.00)	(0.01)	(0.03)

	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022
Net income (loss) for the period	$ (1,737,622)	$ (1,223,779)	$ (460,776)	$ (673,492)
Comprehensive income (loss) for the period	(1,743,868)	(1,238,249)	(473,330)	(673,453)
Basic and diluted loss per share – continuing operations	(0.11)	(0.11)	(0.03)	(0.02)
Basic and diluted loss per share – discontinued operations	(0.07)	(0.03)	(0.03)	(0.06)

Over the periods presented, the Company's principal focus has been investment and development of its esports gaming portfolio. Revenue fluctuates relative to player transfers which are periodic, and prize money which is relative to tournament success. Expenses are driven by the prevailing portfolio of esports teams and players and supporting staff for the esports gaming division. During the three months ended November 30, 2023, August 31, 2023 and May 31, 2023, expenses decreased from the prior periods as the Company wound down Rix and X1 Talent.

RESULTS OF OPERATIONS

For the three months ended November 30, 2023 (First Quarter)

For the three months ended November 30, 2023, the Company recognized a comprehensive loss of $133,729 (2022 – $1,743,868). Significant expenses included in comprehensive loss are as follows:

- Accretion expense of $4,433 (2022 - $nil) is related to the convertible debenture financing.
- Business development expense of $15,000 (2022 - $65,000) is related to advisory services to pursue business development.
- Consulting fees of $39,000 (2022 - $136,203) is associated with payments for financial reporting support and general consulting services.
- Directors' fee of $15,000 (2022 - $nil) consists of one director.
- Insurance expense of $nil (2022 - $27,100) reflects directors' and officers' insurance.
- Investor relations expense of $nil (2022 - $101,130) is based on investor relations services to the German community. The Company is listed on the Frankfurt Stock Exchange under the symbol "ZI0".
- Listing fee of $5,849 (2022 - $7,821) is associated with the Company listing on the CSE under the symbol "XONE" and OTC Markets under the symbol "XOEEF".
- Office and miscellaneous expenses of $1,193 (2022 - $32,233) consists of administrative costs including subscriptions with respect to online service platforms, payroll management and general administrative costs.
- Salaries and wages of $nil (2022 - $66,536) includes amounts paid to the Shift employees.
- Share-based compensation expense of $nil (2022 – $451,326) is recorded relative to the vesting of stock options, net of forfeitures, valued using the Black-Scholes methodology.
- Technology marketing and web development of $nil (2022 - $102,375) decreased due to fewer marketing campaigns in the period.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has not yet realized profitable operations and has relied on equity financings to fund the losses. The Company's growth and success is dependent on additional external sources of financing until such time that profitable operations are achieved. The Company reported a net loss for the three months ended November 30, 2023 of $141,251 (2022 - $1,737,622) and as of that date had an accumulated deficit of $8,363,625 (August 31, 2023 - $8,260,632) and working capital deficiency of $610,721 (2022 – $530,183). The Company incurred negative cash flows from operations of $183,917 (2022 - $905,401) for the same period. The Company will need to raise additional funds in the short term to continue to be able to operate, meet its commitments and execute on its acquisitions as it moves towards profitable operations.

Although the Company has been able in the past to obtain financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms that are acceptable to the Company. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

For the three months ended November 30, 2023

As at November 30, 2023, the Company had cash of $178,336 and working capital deficiency of $610,721, compared with cash of $8,359 and working capital deficiency of $530,183 as of August 31, 2023.

Cash Used in Operating Activities

Cash used in operating activities during the three months ended November 30, 2023 was $183,917 (2022 - $905,401) resulting from a net loss of $141,251 (2022 - $1,071,659) from continuing operations and net of non-cash, working capital adjustments and discontinued operations.

Cash Used in Investing Activities

Cash used in investing activities during the three months ended November 30, 2023 was $nil (2022 - $221,081) resulting from the X1 Talent, Shift and Octane acquisitions.

Cash Generated (Used In) by Financing Activities

For the three months ended November 30, 2023, cash generated from financing activities was $353,894 (2022 – used in $37,220). The Company received $353,894 (2022 - $nil) from a convertible debenture financing.

Requirement of Additional Equity Financing

The Company has relied primarily on equity financings to date for its operations. The Company needs additional funds to finance its ongoing operating costs. The Company intends to continue relying upon the issuance of securities to finance its operations and acquisitions until such time that the Company becomes self-sustaining.

On November 15, 2023, the Company completed a non-brokered private placement of unsecured convertible debentures for gross proceeds of $500,000.

On January 25, 2024, the Company completed a non-brokered private placement for gross proceeds of $500,000.

USE OF PROCEEDS

On June 28, 2022, the Company completed an initial public offering and raised gross proceeds of $3,111,669.

The following tables sets out a comparison of how the Company used the proceeds following the closing date to November 30, 2023, an explanation of the variances and the impact of the variance on the ability of the Company to achieve its business objectives and milestones.

Intended Use of Proceeds	Actual Use of Proceeds
To engage in sales and marketing activities to attract global and regional partners and sponsors. Enhancing existing retail, merchandising, apparel business and to develop a product licensing business.	The Company engaged with multiple firms to conduct marketing initiatives through business development. Efforts were not fruitful and have been ended.
Develop a content creation business.	The Company has not used any use of proceeds towards this objective.
Become a tier 1 esports team.	The Company has invested into the Wild Rift team. On December 9, 2022, the Company announced that it will cease operations of Rix which holds and operates its esports franchise. Rix will no longer compete in Wild Rift effective March 9, 2023 as a result of Riot Games' recent announcement that it will discontinue support for Wild Rift esports operations outside of Asia. As this team represents the sole team competing in the esports industry within the Rix franchise, the operations supporting the team are being terminated as well.
Business acquisitions.	The Company acquired X1 Talent, Shift and Octane to expand its gaming and media portfolio. On March 17, 2023, the Company sold all assets related to Shift. The purchasers are the prior owners of Shift, and the primary service providers to the Company in respect of the operations of Shift. The purchasers have satisfied the purchase price by forgoing any rights to termination payments or otherwise in connection with their consulting agreements with the Company, for an aggregate value to the Company of US$35,250 ($48,412). On April 6, 2023, the Company wound down operations of X1 Talent, a boutique talent management group for digital content creators.
Explanation of variances and the impact of variances on the ability of the Company to achieve its business objectives and milestones.	The Company has reduced intended investment into direct esports activities. Current economic and market conditions have contributed to a challenging environment for investing and development in the esports and entertainment space. The Company is pursuing to enhance financial resources and identify new opportunities.

RELATED PARTY TRANSACTIONS

Management Compensation

Key management personnel comprises the officers and directors of the Company.

Payments to key management personnel	Three months ended November 30, 2023	Three months ended November 30, 2022
Consulting fees – Red Fern Consulting Ltd., a company in which the CFO, Bobby Dhaliwal, is an employee	$ 18,000	$ 33,083
Consulting fees – Red Fern Consulting Ltd., a company in which the former CFO, Samantha Shorter, has a significant investment	-	15,250
Consulting fees – Adam Giddens, former CEO and current Director	21,000	-
Consulting fees – Mark Elfenbein, former CEO	-	67,620
Directors' fees – Latika Prasad, CEO and Director	15,000	-

As at November 30, 2023, $225,324 (August 31, 2023 – $191,756) was included in accounts payable and accrued liabilities owing to key management personnel. Amounts recorded in accounts payable are non-interest bearing and subject to normal trade terms. The Company has loans payable to a director of $nil (August 31, 2023 - $59,763) as at November 30, 2023. The loans are interest bearing and due on demand.

The Company recognized share-based compensation of $nil (2022 - $312,084) to officers and directors during the three months ended November 30, 2023.

Off Balance Sheet Arrangements and Proposed Transactions

The Company has no off-balance sheet arrangements. There are no proposed transactions other than as disclosed elsewhere in this document.

Accounting Policies and Estimates

The Company's significant accounting policies are disclosed in note 3 of the Company's consolidated financial statements for the year ended August 31, 2023.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may vary from these estimates. The Company's significant use of judgments and estimates are disclosed in note 2 of the Company's consolidated financial statements for the year ended August 31, 2023.

In preparing this MD&A, management has made significant assumptions regarding the circumstances and timing of the transactions contemplated therein, which could result in a material adjustment to the carrying amount of certain assets and liabilities if changes to the assumptions are made.

Financial Risk Management

The Company's financial instruments are exposed to the following risks:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets, including cash and accounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. As the Company's policy is to limit cash holdings to instruments issued by major international banks financial institutions, the credit risk is considered by management to be negligible. Accounts receivable include amounts due from the Government of Canada for input tax credits, which are not considered financial instruments, and talent management receivables. Accounts receivables are written off where there is no reasonable expectation of recovery due to supporting indicators. The Company considers these collectible in the short term and credit risk with respect to these amounts to be low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. As at November 30, 2023, the Company had working capital deficiency of $610,721 (August 31, 2023 – $530,183). The Company's financial obligations are limited to accounts payable and accrued liabilities, loans payable and consideration payable. Accounts payable and accrued liabilities are substantively due within 30 days.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As at November 30, 2023, the Company's financial assets and financial liabilities are not exposed to interest rate risk due to their short-term nature and maturity.

Foreign currency risk

Following the wind-down of foreign operations, the Company's exposure to foreign currency risk has been substantially reduced. Financial instruments denominated in foreign currencies are not substantial. As at November 30, 2023, the Company has not hedged its exposure to currency fluctuations. The Company assessed its foreign currency risk as low as at November 30, 2023.

RISK FACTORS

Due to the nature of the Company's business and the present stage of development of its business, the Company is subject to significant risks. The risks described herein are not the only risks that affect the Company. Other risks and uncertainties that the Company does not presently consider to be material, or of which the Company is not presently aware, may become important factors that affect the Company's future business, financial condition and result of operations. Select risks significant to the Company are included here:

Competition

The Company's business faces intense and wide-ranging competition, which may have a material negative effect on our business and results of operations. Many of the Company's competitors have longer operating histories and more financial resources and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company. Some of these competitors and new entrants may have brands that are or become more widely recognized by consumers than the Company's brand, and they may also have substantially greater financial, marketing, technical or other resources. The Company's competitors may also merge or form strategic partnerships. These factors could adversely impact the Company's competitive position. To remain competitive, the Company will require a continued high level of investment in marketing, sales and customer support. The Company may not have sufficient resources to maintain marketing, sales and customer support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Difficulty integrating acquisitions

As part of the Company's strategy to diversify its business offerings, the Company anticipates that acquisitions will continue to be part of the Company's growth strategy in the long term. The benefits of an acquisition may take considerable time to develop and we cannot be certain that any particular acquisition will produce the intended benefits. These risks and difficulties associated with acquisitions, if they materialize, could disrupt our ongoing business, create demands on management's time, result in the loss of key personnel, increase expenses, and otherwise have a material adverse effect on our business, results of operations, and financial performance.

Reputation Risk

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

Brand Value

The Company's success largely depends on its ability to maintain and grow the value of the Company's brands. Maintaining, promoting and positioning the Company's brands and reputation will depend on, among other factors, the success of the Company's services and the Company's ability to provide a consistent, high-quality customer experience. Brand value is based on perceptions of subjective qualities, and any incident that erodes the loyalty of talent providers and other customers, including adverse publicity or a governmental investigation or litigation, could significantly reduce the value of our brand and adversely affect our business, results of operations and financial condition.

Liability for Actions of Employees, Contractors and Consultants

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company. The Company is exposed to the risk that its employees, contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and the Company is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, the curtailment of the Company's operations or asset seizures, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Reliance on Key Personnel

The success of the Company is highly dependent upon the ability, expertise, judgment, discretion and good faith of its limited number of senior management personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including, but not limited to, changes in the regulatory environment. Such occurrences could result in delays in operations, monetary losses and possible legal liability. Although the Company maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Ongoing Costs and Obligations Related to Investment in Infrastructure, Growth, Regulatory Compliance and Operations

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition, and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the common shares may significantly decrease.

Governmental Regulations and Risks

The Company is subject to a wide variety of laws, regulations and orders across all jurisdictions in which it conducts business, including those laws involving labour and employment, intellectual property, privacy, and other matters. Changes to any of the laws, rules, regulations or policies applicable to the Company's business, including tax laws, could adversely affect the operations or financial condition or performance of the Company. Failure by the Company to comply with applicable laws, regulations and orders could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect reputation, operations or financial condition or performance of the Company. In the course of complying with changes to laws, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The Company as a Going Concern

The continued operation of the Company as a going concern is dependent upon the Company's ability to generate positive cash flows and/or obtain additional financing sufficient to fund continuing activities and acquisitions. While the Company continues to review its operations in order to identify strategies and tactics to increase revenue streams and financing opportunities, there is no assurance that the Company will be successful in such efforts; if the Company is not successful, it may be required to significantly reduce or limit operations, or no longer operate as a going concern. It is also possible that operating expenses could increase in order to grow the business. If the Company does not significantly increase its revenue to meet these increased operating expenses and/or obtain financing until its revenue meets these operating expenses, its business, financial condition and operating results could be materially adversely affected. The Company cannot be sure when or if it will ever achieve profitability and, if it does, it may not be able to sustain or increase that profitability.

Need for Additional Financing and Possible Dilution

The development of the business of the Company will depend, in part, upon the amount of additional financing available. Failure to obtain sufficient financing may result in delaying, scaling back, eliminating or indefinitely postponing the Company's current or future operations. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be acceptable to the Company. In addition, there can be no assurance that future financing can be obtained without substantial dilution to existing shareholders.

Negative Operating Cash Flow

The Company's business has incurred losses since its inception. Although the Company expects to become profitable, there is no guarantee that will happen, and the Company may never become profitable. The Company currently has a negative operating cash flow and may continue to have a negative operating cash flow for the foreseeable future. To date, a large portion of the Company's expenses are fixed, including expenses related to facilities, contractual commitments and personnel. As a result, the Company expects for its net losses from operations to improve. The Company's ability to generate additional revenues and potential to become profitable will depend largely on its ability to market its products and services. There can be no assurance that any such events will occur or that the Company will ever become profitable. Even if the Company does achieve profitability, the Company cannot predict the level of such profitability. If the Company sustains losses over an extended period of time, the Company may be unable to continue its business.

Internal Controls

One or more material weaknesses in the Company's internal controls over financial reporting could occur or be identified in the future. In addition, because of inherent limitations, the Company's internal controls over financial reporting may not prevent or detect misstatements, and any projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the Company's policies or procedures may deteriorate. If the Company fails to maintain the adequacy of its internal controls, including any failure or difficulty in implementing required new or improved controls, its business and results of operations could be harmed, the Company may not be able to provide reasonable assurance as to its financial results or meet its reporting obligations and there could be a material adverse effect on the price of its securities.

Limited Operating History

The Company has a very limited history of operations and is considered a start-up company. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources and lack of revenues. The Company will also be competing with established competitors who may have more resources and a more recognizable brand presence in the market. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of the Company's success must be considered in light of its early stage of operations. The directors believe that they have the experience and connections to ensure that the business is able to compete with established rivals and take advantage of market opportunities they have identified.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for common shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors. In addition, the Company may become involved in other transactions which conflict with the interests of its directors and officers who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, if such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.