Consolidated Financial Statements of
POPREACH INCORPORATED

For the years ended December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of PopReach Incorporated:

Opinion

We have audited the consolidated financial statements of PopReach Incorporated and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019, December 31, 2018, and January 1, 2018, the consolidated statements of loss and comprehensive loss, changes in (deficit) equity and cash flows for the years ended December 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, December 31, 2018, and January 1, 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019 and 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

MNP LLP

Toronto, Ontario
May 8, 2020

Chartered Professional Accountants
Licensed Public Accountants

POPREACH INCORPORATED

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018 and January 1, 2018 (stated in US dollars, unless otherwise stated)

	December 31 2019	December 31 2018	January 1 2018 (note 2)
Assets			
Current Assets:			
Cash and cash equivalents	$ 1,126,160	$ 196,924	$ 1,486,895
Restricted cash (note 16)	–	256,561	–
Trade and other receivables (note 5)	1,444,428	690,740	94,428
Investment tax credits receivable	587,715	294,249	
Investment in lease receivable (note 14)	43,567	–	–
Prepaid assets	330,407	74,189	26,707
	3,532,277	1,512,663	1,608,030
Property and equipment (note 8)	131,820	195,181	8,550
Intangible assets (notes 6 and 7)	7,651,485	10,146,977	–
Goodwill (notes 6 and 7)	6,084	6,084	–
Investment tax credits receivable	360,812	559,540	319,979
Deferred financing costs (note 16)	371,467	496,953	–
Right-of-use asset (note 13)	415,745	640,392	–
Investment in lease receivable (note 14)	147,746	–	–
	12,617,436	13,557,790	1,936,559
Liabilities and Shareholders' (Deficit) Equity			
Current Liabilities:			
Trade and other payables	2,074,058	1,023,824	82,240
Game acquisition payable (note 17)	370,029	8,049,720	–
Taxes payable	72,439	–	–
Deferred revenue	1,231,512	669,623	–
Derivative financial instruments (note 18)	205,590	–	–
Lease liabilities (note 13)	327,408	64,089	–
Borrowings (note 16)	7,874,626	293,212	215,337
Provisions (note 17)	1,671,846	–	–
	13,827,508	10,100,468	297,577
Non-current liabilities:			
Borrowings (note 16)	663,366	36,652	–
Provisions (note 17)	–	1,014,772	–
Employee benefit obligations (note 19)	538,217	475,573	–
Lease liabilities (note 13)	321,926	632,625	–
	15,351,017	12,260,090	297,577
Shareholders' (deficit) equity:			
Share capital (note 9)	3,141,880	2,707,411	2,128,554
Warrant reserve (note 10)	382,155	626,754	266,329
Share-based payment reserve (note 11)	694,308	493,125	246,626
Accumulated other comprehensive income (loss)	(30,404)	(43,854)	21,191
Deficit	(6,921,521)	(2,485,736)	(1,023,718)
	(2,733,581)	1,297,700	1,638,982
	12,617,436	13,557,790	1,936,559

See accompanying notes to consolidated financial statements.

On behalf of the Board:

____________________ Director

____________________ Director

POPREACH INCORPORATED

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2019 and 2018 (stated in US dollars, unless otherwise stated)

	2019	2018
Revenue (note 24):		
In-App purchases	$ 16,970,160	$ 763,550
Advertising and other	983,714	683,417
	17,953,874	1,446,697
Cost of sales (note 25)	10,109,356	509,195
Gross profit	7,844,518	937,502
Operating expenses:		
Research and development (note 26)	3,245,964	674,113
General and administrative (note 26)	4,128,368	1,514,448
Amortization	3,720,177	210,959
Impairment of goodwill and other (notes 6 and 7)	994,525	–
	12,089,034	2,399,520
Loss before income taxes	(4,244,516)	(1,462,018)
Income taxes (note 27)	191,269	–
Net loss	(4,435,785)	(1,462,018)
Other comprehensive income (loss):		
Effect of foreign exchange rates	–	(65,045)
Employee benefit obligations actuarial earnings, net of income tax of nil (note 19)	13,450	–
Comprehensive loss	(4,422,335)	(1,527,063)
Basic and diluted loss per share	(0.91)	(0.31)
Weighted average number of shares outstanding	4,861,741	4,666,735

See accompanying notes to consolidated financial statements.

POPREACH INCORPORATED

Consolidated Statements of Changes in Shareholders' (Deficit) Equity

For the years ended December 31, 2019 and 2018 (stated in US dollars, unless otherwise stated)

	Number of shareholders shares	Share capital (note 9)	Share-based payment reserve (note 11)	Warrant reserve (note 10)	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total
January 1, 2018	4,447,048	$ 2,128,554	$ 246,626	$ 266,329	$ 21,191	$ (1,023,718)	$ 1,638,982
Proceeds from issue of capital	154,036	282,516	–	–	–	–	282,516
Conversion of convertible debentures	244,353	260,255	(28,160)	–	–	–	232,095
Share-based compensation	–	–	295,816	–	–	–	295,816
Warrants issued during the year	–	–	–	360,425	–	–	360,425
Shares issued as a result of exercise of stock options	15,625	36,086	(21,157)	–	–	–	14,929
Comprehensive loss	–	–	–	–	(65,045)	(1,462,018)	(1,527,063)
December 31, 2018	4,861,065	2,707,411	493,125	626,754	(43,854)	(2,485,736)	1,297,700
Conversion of warrants	247,950	445,785	–	(255,915)	–	–	189,870
Share-based compensation	–	–	201,184	–	–	–	201,184
Warrants issued during the year	–	(11,316)	–	11,316	–	–	–
Comprehensive income (loss)	–	–	–	–	13,450	(4,435,785)	(4,422,335)
December 31, 2019	5,109,012	3,141,880	694,309	382,155	(30,404)	(6,921,521)	(2,733,581)

See accompanying notes to consolidated financial statements.

POPREACH INCORPORATED

Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018 (stated in US dollars, unless otherwise stated)

	2019	2018
Cash flows from (used in) operating activities:		
Net loss	$ (4,435,785)	$ (1,462,018)
Items not affecting cash:		
Gains on disposal	(84,700)	–
Amortization	3,720,177	210,959
Amortization on deferred financing fees	142,986	2,180
Impairment on intangible assets	994,525	–
Fair value loss (gain)	60,468	–
Share-based compensation expense	201,184	295,816
Finance income on investment in lease receivable	(4,334)	–
Unrealized foreign exchange gains/losses	(13,233)	(75,475)
Accretion expense	321,691	100,028
Interest added towards debt	–	1,697
Employee benefit obligations expensed	135,164	–
Changes in working capital (note 20)	(965,796)	(478,394)
Employee benefit obligations paid	(59,070)	–
Interest expense paid in financing activities	614,743	–
Cash generated from (used in) operating activities	628,020	(1,405,207)
Cash flows used in investing activities:		
Additions to property and equipment	(66,495)	(87,101)
Payments for game acquisitions (note 6)	(2,097,752)	–
Changes in restricted cash (note 16)	256,561	(256,561)
Payments for intangible asset acquisition (note 7)	(1,004,815)	–
Cash used in investing activities	(2,912,501)	(343,662)
Cash flows from financing activities:		
Proceeds from borrowings	4,622,607	256,561
Payments of borrowings	(1,199,404)	–
Payments of interest on borrowings	(614,743)	–
Payments for lease liabilities	(256,946)	(46,052)
Cash proceeds from issuance of shares	–	282,516
Cash proceeds from convertible debentures	460,096	–
Cash proceeds from exercise of share options	–	14,929
Cash proceeds from exercise of warrants	189,870	–
Cash generated from financing activities	3,201,480	507,954
Net cash inflow (outflow)	916,999	(1,240,915)
Cash and cash equivalents, beginning of the year	196,924	1,486,895
Effects of foreign currency exchange rate on cash	12,237	(49,056)
Cash and cash equivalents, end of the year	1,126,160	196,624
Income taxes paid	118,830	–

See accompanying notes to consolidated financial statements.

1. Nature of operations

PopReach Incorporated (the "Company") is incorporated under the laws of the Province of Ontario. The Company is a privately owned company whose primary business activities are the development, production, sales and licensing of interactive digital media content. The head office of the Company is located at 1 University Avenue, 3rd Floor, Toronto, ON, M5J 2P1. The Company is planning on listing on the TSX Venture Exchange in 2020 by way of a reverse takeover transaction (Note 12).

2. First Time Adoption of IFRS

These are the Company's first Consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS 1 – "First Time Adoption of IFRS". The accounting policies set out in Note 3 have been applied in preparing the financial statements for the years ended December 31, 2019 and December 31, 2018.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with its old basis of accounting, CPA Canada Handbook Part II – Accounting Standards for Private Enterprises ("ASPE"). An explanation of how the transition from ASPE to IFRS has affected the Company's financial position, financial performance and cash flows is set out below:

Business combinations
The Company has applied the provisions of IFRS 3 – "Business Combinations" as amended in October 2018, prospectively to all business combinations from the date of transition to IFRS. There is no impact to the financial statements as a result of this election.

Property and equipment and intangible assets
The Company did not elect to use fair value as deemed cost on transition for any assets included in property and equipment or intangible assets. Therefore, they are carried at cost less impairment loss, if any, with retrospective application of IAS 16 – "Property, Plant and Equipment" and IAS 38 – "Intangible Assets".

Leases
The Company applied IFRS 16 – "Leases" retrospectively, which indicates that all leases be capitalized on the statement of financial position. The Company elected not to apply the requirements in IFRS 16 retrospectively for which the lease term ends within 12 months of the date of transition to IFRS and to leases for which the underlying asset is of low value. Instead, the Company accounted for these leases as if they were short-term leases. As the Company had no long-term lease commitments at January 1, 2018, no leases have been recorded on the transition to IFRS at January 1, 2018.

Derivative financial instruments
The Company has applied IFRS 9 – "Financial Instruments" retrospectively from the IFRS transition date of January 1, 2018. Under ASPE, the Company was able to record the value of the equity portion of all compound financial instruments as nil, with the remainder recorded as borrowings. However, under IFRS, the Company is required to bifurcate the conversion feature and record it as equity or a derivative liability based on the characteristics of the conversion feature.

Estimates
There were no changes applicable to the Company on transition from ASPE to IFRS in regards to estimates.

Below is a summary of the reconciliation of financial position and shareholders' equity as at January 1, 2018:

	ASPE balance	Adjustments		IFRS balance
Assets				
Current assets:				
Cash and cash equivalents	$ 1,486,895	$ –		$ 1,486,895
Trade and other receivables	94,428	–		94,428
Prepaid assets	26,707	–		26,707
	1,608,030	–		1,608,030
Property and equipment	8,550	–		8,550
Investment tax credits receivable	319,979	–		319,979
	1,936,559	–		1,936,559
Liabilities and Shareholders' (Deficit) Equity				
Current liabilities:				
Trade and other payables	67,745	14,495	(f)	82,240
Deferred revenue	53,877	(53,877)	(f)	–
Borrowings	239,139	(23,802)	(c)	215,337
	360,761	(63,184)		297,577
Shareholders' (deficit) equity:				
Share capital	1,887,835	240,719	(d)	2,128,554
Warrant reserve	–	266,329	(a)	266,329
Share-based payment reserve	–	246,626	(b)	246,626
Accumulated other comprehensive income	–	21,191	(e)	21,191
Deficit	(312,037)	(711,681)		(1,023,718)
	1,575,798	63,184		1,638,982
	1,936,559	–		1,936,559

Previously, the Company reported their financial statements in Canadian dollars and the ASPE figures above have been converted to US dollars. Monetary balances were translated from Canadian dollars to US dollars at the December 31, 2017 exchange rate of 1.2545, and non-monetary balances were translated at the historical rate. No audited financial statements were issued under ASPE for the year ended December 31, 2018, therefore the IFRS 1 transition disclosures have not been provided for this period.

The following are the explanations for the adjustments from ASPE to IFRS:

a) The Company has recorded a warrant reserve which was previously not recorded as at January 1, 2018. As a result, the warrant reserve was revised based on warrants issued in prior years. These warrants were issued in exchange for past services. The Company used the Black-Scholes option pricing model in order to value the warrants, with the following measurement inputs:

   Risk-free interest rate: 0.43%-1.02%
   Expected volatility: 40.85%-47.86%
   Expected life: 2.67-3.00 years
   Expected dividends: $nil
   Exercise price (expressed in Canadian $): $0.33-$2.47
   Fair value, per warrant (expressed in Canadian $): $0.11-$2.46

b) The Company has recorded a share-based payment reserve which was previously not recorded as at January 1, 2018. As a result, the reserve was revised based on options issued in prior years. These options were issued to investors and employees. The Company used the Black-Scholes option pricing model in order to value the options, with the following measurement inputs:

   Risk-free interest rate: 0.74%-1.19%
   Expected volatility: 46.10%-49.56%
   Expected life: 5.00 years
   Expected dividends: $nil
   Exercise price (expressed in Canadian $): $1.24-$2.50
   Fair value, per option (expressed in Canadian $): $1.06-$1.52

c) The Company has adjusted the opening balance of borrowings to record the conversion feature on the convertible debt. The Company has assessed the conversion feature to meet the definition of equity. Accordingly, the debt host was recorded at the estimated fair value assuming no conversion rights which was determined to be a 15% discount rate. This resulted in a $28,160 increase to the share-based payment reserve for the equity conversion feature described in Note 18, and $4,358 decrease to the deficit for accretion expense, prior to January 1, 2018.

d) The Company has adjusted the opening balance of share capital to record the exercise of warrants in the prior years which was previously not recorded. The warrants were related to services previously provided to the Company. The total value of the warrants exercised was $240,719. The assumptions related to the value of the warrants is included in a) above.

e) The Company has adjusted the opening balance of accumulated other comprehensive income to account for foreign exchange translation from the functional currency of Canadian dollars to the US dollar reporting currency.

f) The Company has adjusted for certain immaterial errors in trade payables and deferred revenue, which had affected the opening balance sheet values as at January 1, 2018. The differences were recorded to the opening deficit.

3. Significant accounting policies

Statements of compliance
The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements were authorized for issue by the Board of Directors on May 8, 2020.

Basis of measurement and presentation
The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These consolidated financial statements are presented In US dollars, which is the Company's functional currency.

On December 23, 2018, the functional currency changed from Canadian dollars to US dollars. The reason for the change was the shift in focus from game development to game production and operations as a result of the acquisition of the RockYou portfolio of games as disclosed in Note 6. The financial statements are reported in US dollars.

Basis of consolidation
These consolidated financial statements include the accounts of the Company and entities controlled by the Company:

- PopReach Technologies Pvt Ltd ("PR Tech")

The acquisition method of accounting is used to account for business combinations by the group.

Intercompany transactions balanced and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Revenue recognition
The Company's revenue is derived primarily from the sale of In-App purchases and from In-App advertising in games on smartphones and Facebook. In addition, the Company historically earned revenue from producing source codes for games for its customers and commission income as a percentage of gaming revenues earned by its customers.

Revenue is measured based on the value of the expected consideration in a contract with a customer. The company recognizes revenue using a 5 step process including:

1) Identification of the contract or contracts with the customer
2) Identification of the performance obligations in the contract
3) Determination of the transaction price
4) Allocation of the transaction price to the performance obligations in the contract; and
5) Recognition of revenue when or as the Company satisfies the performance obligation

A contract asset is recognized in the consolidated statements of financial position when the Company's right to consideration from the transfer of products or services to a customer is conditional on its contractual obligation to transfer other products or services. Contract assets are transferred to trade receivables when the company's right to consideration becomes conditional only as to the passage of time.

A contract liability is recognized in the consolidated statements of financial position when the Company receives consideration in advance of the transfer of products or services to the customer. Contract assets and liabilities relating to the same contract are presented on a net basis.

Incremental costs of obtaining a contract with a customer are included in contract costs in the statements of financial position, except where the amortization period is one year or less, in which case costs of obtaining a contract are immediately expensed. Capitalized costs are amortized on a systematic basis that is consistent with the period and pattern of transfer to the customer of the related products or services.

In-app purchases

The Company operates games as live services that allow players to play for free. However, within these games, players can purchase virtual currency to obtain virtual goods to enhance their game-playing experience. The identified performance obligation is to display the virtual items within the game over the estimated life of the paying player or until it is consumed in game play based upon the nature of the virtual item. Payment is required at time of purchase and the purchase price is a fixed amount.

The Company distributes its games on digital platforms such as Apple's App Store, the Google Play Store, the Amazon App Store, and the Facebook App Center. Within these platforms, players can download the Company's games and can then purchase or earn virtual currency within the game. The Company sells both consumable and durable virtual goods. Consumable goods are items that can be purchased directly by the user and are consumed at a predetermined time or otherwise have limitations on repeated use, while durable goods are items that remain in the game for as long as the user continues to play. Revenue from consumable and durable virtual goods is generated through direct purchases or via the purchase of virtual currency by users. Users convert the virtual currency within the game to consumable goods or durable virtual goods to enhance their game-playing experience. Such payments are initially recorded to deferred revenue. As a result, in connection with new game launches, acquisitions of new games from third parties or during periods of increased bookings, the deferred revenue balance specific to such games will increase, sometimes significantly.

For revenue earned through mobile platforms, the transaction price is equal to the gross amount charged to the player because the Company is the principal in the transaction. The related platform and payment processing fees are recorded as cost of sales in the period incurred.

The Company currently does not have the ability to differentiate between revenue attributable to consumable virtual items versus durable virtual items for a specific game, and therefore instead recognize revenue ratably over the estimated average playing period of payers for the applicable game.

Advertising and other

The Company has relationships with certain advertising agencies for digital advertisements within its games and revenue from these advertisers is generated through impressions and clickthrough's. Revenue is recognized as advertisements are delivered on a periodic basis, when transfer of control of service has occurred and when collectability has been reasonably assured.

Historically, other revenues included production revenues relating to the income earned by the Company on developing source codes for games and applications for customers. The Company does not own the source code to these apps, and therefore, does not recognize these as intangible assets. Revenue is recognized over a period of time as the contracts are being completed, with amounts received prior to the above recognition criteria having been met are recorded as deferred revenue. The Company is also entitled to ongoing commission revenues based on the amount of gross revenue generated by the customers. The ongoing commissions are recognized when they are earned, provided that the collection is probable.

The Company evaluates the sales of its products and income earned thereon to determine whether it is the agent or the principal in the transaction. Accordingly, the Company records its income on a net or gross basis, respectively.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency. The opening statement of financial position as at January 1, 2018 is translated to a US dollar reporting currency, as the functional currency before the acquisition of the RockYou portfolio of games (note 6) was in Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognized in profit or loss. The Company's primary source for obtaining foreign exchange rates is the Bank of Canada.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and accumulated impairment losses, if any. The initial cost includes the purchase price and any expenditures directly attributable to ready the asset for use. Gains and losses on the disposal of property and equipment represents the difference between the proceeds received, if any, on disposal of the asset and its carrying amount. Any resulting gain or loss is recognized in the consolidated statements of loss and comprehensive loss.

Amortization is charged using the following methods and rates:

Computer Equipment	Straight-line	3 years
Furniture and Fixtures	Straight-line	3 years
Computer Software	Straight-line	1-3 years
Leasehold Improvements	Straight-line	3-10 years

Investment tax credits

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. The Company records investment tax credits when qualifying expenditures have been made provided there is reasonable assurance that the credits will be realized. The amount of investment tax credits recorded can vary, based on estimates of future taxable income. These credits can be applied against income tax liabilities and are subject to a 20-year carry-forward period or, in some cases, are refundable. Accrued investment tax credits are accounted for as a reduction of the related expenditures for items expensed in the consolidated statement of loss and comprehensive loss or a reduction of the related asset's cost for items capitalized in the consolidated statements of financial position.

Cash and cash equivalents

Cash includes cash on hand and short-term deposits which are highly liquid with original maturities of less than 90 days. Restricted cash is funds held in trust and is presented separately on the financial statements. As at December 31, 2019, December 31, 2018 and January 1, 2018, cash and cash equivalents were composed entirely of cash.

Intangible assets

Intangible assets with finite useful lives are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are tested for impairment when there is any indication that the asset is impaired. The Company's intangible assets are amortized over their expected useful lives and charged to net loss in the consolidated statements of loss and comprehensive loss. The estimated useful life and amortization method are reviewed at least annually, with any change in estimated recognized prospectively.

Estimated useful lives for intangible assets having finite lives are as follows:

Technology	2 - 7 years
Brand	2 - 7 years

Internally generated intangible assets are capitalized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset is expected to make it available for use or sale;
- The Company intends to complete and use or sell the intangible asset;
- The Company has the ability to use or sell the intangible asset;
- How the Company expects the intangible asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset exists; and
- The Company has the ability to reliably measure the expenditures attributable to its development.

The amount recognized as an internally generated intangible asset represents the sum of expenditures from the date when the intangible asset first meets the recognition criteria listed above to the date the asset is available for use.

When the asset is available for use, the cost model is applied which requires the asset to be carried at cost less accumulated amortization and accumulated impairment losses, if any. Research activities are expensed as incurred.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Company's weighted average cost of capital, calculated by estimating a specific company risk premium over the risk-free rate.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognized in profit or loss.

Goodwill
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, at the date of the business acquisition, to the Company's reporting units that are expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested annually for impairment, or more frequently if there are changes in circumstances that indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Impairment of non-financial assets
The carrying value of property and equipment and intangibles are reviewed at each reporting period to determine if indicators of impairment are present. If any such indicator exists, the asset's recoverable amount is estimated.

For the purpose of impairment testing, the recoverable amount is determined for an individual asset or are grouped together into a cash generating unit ("CGU"), which represents the smallest group of assets that generates independent cash inflows. If the carrying amount of the asset or CGU exceeds its recoverable amount, an impairment loss is recognized in the consolidated statements of loss and comprehensive loss as a reduction in the carrying amount of the asset to its recoverable amount. The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairments of non-financial assets recognized in a prior period are re-assessed at the end of each reporting period to determine if indicators of impairment have reversed or no longer exist. An impairment loss is reversed if the estimated recoverable amount exceeds the asset or CGU's carrying amount. The reversal of an impairment loss may not exceed the carrying amount, net of amortization, of the asset or CGU had no impairment loss been recognized.

Employee benefit obligations
The Company has defined employee benefit plans covering its employees of PR Tech. The plans consist of a Gratuity and a Leave Encashment plan. The Gratuity benefit plan is mandated by Indian Law under "The Payment of Gratuity Act, 1972". Under the Gratuity scheme, employees with equal to or more than 5 years of service are entitled to a lump-sum payment upon retirement or leaving service from PR Tech. The benefits are based on years of service and final average salary. The Leave Encashment plan is also mandated by Indian Law. This plan is for accrued earned leave benefits for unused vacation time and is paid via lump-sum payment upon retirement or leaving service.

The Company accrues its obligations under the defined employee benefit plan as the employees render the services necessary to earn the benefits. The defined benefit obligation at the end of the year is determined based on the most recent actuarial valuation report prepared for accounting purposes. The measurement date of the defined benefit obligation coincides with the Company's fiscal year-end. The date of the most recent actuarial valuation of the plans prepared for accounting purposes was December 31, 2019.

The liability recognized in the statement of financial position is the present value of the obligation of the plans at the statement of financial position date. The liability includes the present value of the obligations as determined by discounting the estimated future required payments using interest rates of high-quality long-term corporate bonds. All actuarial gains and losses that arise in calculating the present value of the obligations are recognized immediately in the consolidated statements of loss and comprehensive loss in other comprehensive income.

The cost of the plans for the year is charged to net loss. Past service costs arising from plan amendments are immediately charged to net loss at the date of the amendment. Interest costs arising from applying the discount rate to the benefit obligation is also charged to net loss.

Share-based compensation and other share-based payments

The Company has a share-based compensation plan, which is described in Note 11. Equity instruments awarded to employees are measured and recognized based on Black-Scholes option pricing model. The compensation cost is recognized over the vesting period based on the number of awards expected to vest. Awards for past service are recognized as an expense in the period when granted.

When options are exercised, the amount initially recognized in the share based-payment reserve is reduced, with a corresponding increase in common shares.

Financial instruments and risk management

The Company classifies and measures financial assets and liabilities based on their contractual cash flow characteristics. A financial asset is classified as amortized cost; fair value through other comprehensive income (''FVOCI''); or fair value through profit and loss (''FVTPL'').

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding

Financial assets and liabilities classified as measured at amortized cost are subsequently measured using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in the consolidated statements of loss and comprehensive loss. Financial assets are derecognized when the contractual rights to receive cash flows and benefits from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership to another party. Any resulting gain or loss on derecognition is recorded in the consolidated statements of loss and comprehensive loss in the period that the asset is derecognized.

Financial assets and liabilities classified as measured at FVTPL are subsequently measured at fair value at each reporting date. Net gains and losses, including any interest or dividend income, are recorded in the consolidated statements of loss and comprehensive loss.

Financial assets whose objective is achieved by both collecting contractual cash flows and selling financial assets, are classified as measured at FVOCI. Financial assets measured at FVOCI are subsequently accounted for with any gains and losses recognized in other comprehensive income or loss and reclassified to profit and loss when the asset is derecognized. The Company does not have any financial instruments designated as FVOCI.

Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset within the scope of the standard are not separated, and the hybrid financial instrument is assessed for classification as a whole. Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recorded in the consolidated statements of loss and comprehensive loss in the period that the liability is derecognized.

Below is the summary showing the measurement categories under IFRS 9:

Financial assets and liabilities	IFRS 9
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Game acquisition payable	Amortized cost
Derivative financial instruments	FVTPL
Provisions	FVTPL
Borrowings	Amortized cost

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities classified as FVTPL, are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are expensed to the consolidated statements of loss and comprehensive loss.

The cost of issuing debt is included as part of long-term debt and is accounted for at amortized cost using the effective interest method. When long-term debt amounts are nil, but amounts are still available to be drawn, costs of issuing debt are reclassified to other assets in the consolidated statements of financial position.

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, where the conversion feature is accounted for as equity, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date. The equity component is recognized and included in equity and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. Transaction costs are divided between the liability and equity components in proportion to their values. Where the conversion feature is accounted for as a liability at the date of issuance, the fair value of the conversion feature is measured initially at fair value and the residual is allocated to the debt host. Subsequently, the debt host is accounted for at amortized cost and the liability conversion feature is accounted for at FVTPL.

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1 - Defined as observable inputs such as quoted prices in active markets.
- Level 2 - Defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3 - Defined as inputs that are based on little or no observable market data, therefore requiring entities to develop their own assumptions.

The impairment of financial assets under IFRS 9 is based on an expected credit loss ("ECL") model. Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial Instrument

The Company elected to measure loss allowances for trade and other receivables at an amount equal to lifetime ECLs applied at each reporting date. The Company adopted the practical expedient to determine ECL on trade and other receivables using a provision matrix based on historical credit loss experience to estimate lifetime ECL adjusted for estimated changes to credit risks and forecasts of future economic conditions and the results are discussed in Note 5.

Impairment losses are recorded in the consolidated statements of loss and comprehensive loss with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

When an impairment loss has decreased in a subsequent period, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed immediately in the consolidated statements of loss and comprehensive loss. The reversal of an impairment loss may not exceed the amortized cost had no impairment loss been recognized.

Compound financial instruments

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, where the conversion feature is accounted for as equity, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. Transaction costs are divided between the liability and equity components in proportion to their values. Where the conversion feature is accounted for as a liability at the date of issuance, the fair value of the conversion feature is measured initially at fair value and the residual is allocated to the debt host. Subsequently, the debt host is accounted for at amortized cost and the liability conversion feature is accounted for a fair value through profit and loss.

Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the consolidated statements of loss and comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case, the tax is also recognized in other comprehensive loss or directly in equity. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid, to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred income tax is determined on a non-discounted basis using the liability method using tax rates and laws that have been enacted or deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable the assets can be recovered. Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Deferred income tax assets and liabilities, if any, are presented as non-current.

Leases

The Company leases various offices, where rental contracts are typically made for fixed periods of 5 to 10 years, but may have extension options, in which the extension and termination options held are exercisable only by the Company and not by the respective lessor. From January 1, 2018, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Right-of-use assets arising from a lease are initially measured at fair value or, if lower, at the present value of the future minimum lease payments. The corresponding liabilities are included in the consolidated statements of financial position as a lease liability. The fixed lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Company also engaged in a sublease agreement in December 2019 for one of its offices. At the commencement of the sublease, the right-of-use asset is derecognized, and an investment in lease receivable is recognized. The investment in lease receivable is measured at fair value or, if lower, at the present value of the future minimum lease payments. The fixed lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Judgment is applied to determine whether the expected period would be the contract term or a longer period such as the estimated life of the relationship or taking into consideration the likelihood of exercising renewal options. In the case where the Company expects the renewal period to differ based on certain circumstances, the fair value of the lease liability will be recalculated, and any adjustment of the right-of-use asset will be recorded. Any gains and losses on the change in fair value of the liability or the disposition of the asset is recorded as general and administrative expense in the statement of loss and comprehensive loss.

Segment information
The Company has one operating segment with one major business activity, developing and monetizing online mobile games. Financial information about our one segment and geographic areas is incorporated into this section by reference to our consolidated financial statements including Note 7 – "Intangible assets and goodwill", Note 8 – "Property and equipment" and Note 24 – "Revenue from Contracts with Customers".

Provisions
The Company pays for certain contingent consideration associated with the acquisition of businesses and portfolios of games. Amounts are measured at fair value at the inception date and at the end of each reporting period. Gains or losses are recorded in the consolidated statements of loss and comprehensive loss for contingent consideration associated with business combinations. Gains or losses on asset acquisitions, are recorded as an adjustment to the asset acquired.

Loss per share
Basic loss per share is calculated by dividing net loss attributable to shareholders of the Company by the weighted average number of shares outstanding during the period.

Diluted loss per share is calculated by adjusting the consolidated earnings or loss available to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive shares. Such potentially dilutive common shares are excluded when the effect would be to increase earnings per share or reduce a loss per share. For the years ended December 31, 2019 and 2018, the Company has incurred a net loss, therefore the convertible debentures, share options, and warrants are all anti-dilutive.

4. Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the following:

Identification of CGUs
The Company has allocated its tangible assets, intangible assets and goodwill to the smallest identifiable group of assets that generate cash inflows and that are largely independent of the cash inflows from other assets. The determination of CGUs for the purpose of annual impairment testing requires judgment.

Impairment of goodwill and long-lived assets
Goodwill is tested for impairment annually or more frequently if there is an indication of impairment. The carrying value of property and equipment and intangible assets is reviewed each reporting period to determine whether indicators of impairment exist. The recoverable amounts attributed to CGUs reflect the higher of fair value less costs to sell (FVLCS) or value in use. The Company's determination of a CGU's recoverable amount, which could include an estimate of FVLCS, uses market information to estimate the amount the Company could obtain from disposing of the asset in an arm's length transaction, less the estimated cost of disposal. The Company estimates value in use by discounted estimated future cash flows for the CGU or asset to its present value using a pre-tax discount rate reflecting a current market assessment of the time value of money and certain risks specific to the CGU or asset. Estimated cash flows are based on management's assumptions and business plans which are supported by internal strategies, plans and external information. The estimate of the recoverable amount for an asset or CGU requires significant estimates such as future cash flows, growth rates, and terminal and discount rates. The Company has concluded that goodwill is tested at the consolidated level, since that represents the smallest identifiable group of assets that can generate cash inflows.

Business combinations and asset acquisitions
The Company uses the acquisition method to account for business combinations. This requires an entity to measure each identifiable asset and liability at fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. The purchase price allocation involves judgment with respect to the identification of intangible assets acquired and estimates of fair of fair value for assets acquired and liabilities assumed, including pre-acquisition contingencies and contingent consideration. Changes in any of the assumptions or estimates used to identify intangible assets acquired, determine the fair value of acquired assets and liabilities assumed, including pre-acquisition contingencies or contingent consideration, could affect the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

The Company makes estimates, assumptions, and judgments when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity, in addition to evaluating the recoverability of goodwill and other intangible assets on an ongoing basis. These estimates are based on a number of factors, including historical experience, market conditions, and information obtained from the management of acquired portfolios of games. Critical estimates in valuing certain intangible assets include, but are not limited to, historical and projected attrition rates, discount rates, anticipated revenue growth/decline from acquired customers, acquired technology, and the expected use of the acquired assets. These factors are also considered in determining the useful life of acquired intangible assets. The amounts and useful lives assigned to identified intangible assets also impacts the amount and timing of future amortization expense. Unanticipated events and circumstances may affect the accuracy or validity of such assumptions, estimates or actual results.

The Company considers certain acquisition of games to be asset acquisitions, on the assumption that there are no identifiable businesses acquired in the transaction. There is judgment involved in the determination of whether the acquisition involves assets or entire businesses.

Amortization of property and equipment and intangible assets
Judgment is applied to determine an asset's useful life, and where applicable, estimated residual value, used in the computation of amortization. Accordingly, an asset's actual useful life and estimated residual value may differ significantly from these estimates.

Fair value of derivative financial instruments

The Company uses a Monte Carlo simulation to estimate the fair value of derivative financial instruments, which consists of a conversion feature to convert the instrument into one common share and one warrant. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information of a comparable peer group), weighted average expected life of the instruments, expected dividends, the risk-free interest rate (based on government bonds) and probabilities of certain events occurring. The inputs to the model are subject to estimate and changes in these inputs can materially impact the estimated fair value of derivative liabilities. The fair value reported may not represent the transaction value if these instruments were exchanged at any point in time.

Share-based payments and warrant reserves

The Company uses the Black-Scholes option pricing model to estimate the fair value of shared-based compensation and warrant reserves which require the use of several input variables. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information of a comparable peer group), weighted average expected life of the instruments, expected dividends, and the risk-free interest rate (based on government bonds). The inputs to the model are subject to estimate and changes in these inputs can materially impact the estimated fair value of warrant liabilities. The fair value reported may not represent the transaction value if these options/warrants were exercised/exchanged at any point in time.

Provisions

Due to the nature of these provisions related to contingent consideration payable for the acquisition of certain games or businesses, there is a degree of uncertainty inherent in their measurement. Inputs used to arrive at the fair value of these provisions, such as discount rates and future revenues, are subject to estimate and changes in these inputs can materially impact the estimated fair value of the contingent consideration.

Deferred revenue and revenue

The Company uses judgment and estimates to determine the amount of revenue to defer for each reporting period. The Company expects that in future periods, there will be changes in estimates of the average playing period of payers and/or changes in the ability to make such estimates. In particular, if the estimated average playing period of payers increases on average, the amount of revenue recognized in a current or future period may be reduced, perhaps materially. Conversely, if the estimated average playing period of payers decreases on average, the amount of revenue that is recognized in a future or future period may be accelerated, perhaps materially.

Leases and investment in lease receivable

The Company uses judgment to determine whether the expected period would be the contract term or a longer period such as the estimated life of the relationship, where renewal periods would be considered. The Company also uses judgment in estimating the incremental borrowing rate based on borrowing rates of similar companies. Changes in these inputs can materially impact the estimated fair value of the lease liability and the investment in lease receivable.

Employee benefit obligations

The Company uses judgment to determine the fair value of employee benefit obligations at the end of each reporting period, including regulatory requirements, an evaluation of relevant discount rates, expected long-term returns on plan liabilities, mortality, expected changes in wages and retirement benefits, analysis of current market conditions, and input from actuaries and other consultants. Changes in these inputs can materially impact the estimated fair value of the employee benefit obligations.

Deferred taxes

Significant estimates are required in determining the Company's income tax provision. Some estimates are based on interpretations of existing laws or regulations. Various internal and external factors may have favourable or unfavourable effects on the Company's future effective tax rate. These include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, results of tax audits by tax authorities, changes in estimates of prior years' items and changes in overall levels of pre-tax earnings.

Going concern

Management has applied significant judgment in the assessment of the Company's ability to continue as a going concern when preparing its consolidated financial statements for the years ended December 31, 2019 and 2018. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. The Company has considered the receipt of the waiver as disclosed in Note 16 and the issuance of unsecured convertible debentures subsequent to December 31, 2019 as disclosed in Note 29 in making this assessment.

Other

Other areas where the Company employs judgment and estimates include the determination of expected credit loss as described in Note 5.

5. Trade and other receivables

	December 31 2019	December 31 2018	January 1 2018
Trade receivables	$ 1,381,898	$ 681,235	$ 84,907
Less expected credit losses	–	–	–
Trade receivables, net	1,381,898	681,235	84,907
Other receivables	46,302	205	1,355
Government remittances receivables	16,228	9,300	8,166
	1,444,428	690,740	94,428

Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognized at fair value. The group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The maximum credit risk exposure associated with the trade receivables is the carrying value of $1,444,428 (2018 - $690,740, January 1, 2018 - $94,428).

As at December 31, 2019, December 31, 2018, and January 1, 2018, the Company concludes there to be nil credit losses. Historically, there have been no bad debts, and the majority of trade receivables are related to the platform partners that remit within 30 to 60 days.

6. Business combinations

On December 23, 2018, the Company entered into an asset purchase agreement with RockYou Inc, a Delaware corporation ("RockYou acquisition") to acquire a list of developed technology consisting of certain game assets from RockYou Inc. The acquisition was inline with the Company's intention to focus on game production and the related operations. As part of the same RockYou acquisition, the Company acquired its assets in RockYou India ("RY India"), a wholly owned subsidiary of RockYou Inc including the net working capital, property, plant and equipment, and employees inclusive of the related employee liabilities. On May 7, 2019, the investment in RY India was legally transferred to PR Tech, a wholly owned subsidiary of PopReach Incorporated. PR Tech is a management company in charge of managing the Company's developed technology. As the process to transfer PR Tech was administrative in nature, the Company accounted for such transfer on December 23, 2018, at the time of entering into the RockYou acquisition as the Company had full control over the related assets and employees at this date.

The aggregate purchase price of the assets acquired was $8,049,720, plus a contingent consideration based on a percentage of revenues during the next 12 months which was estimated to be $1,011,382. As at December 31, 2018, the cash consideration has not been paid to the sellers of the RockYou Inc., and therefore, the cash consideration has been recognized as a current liability as at December 31, 2018. The contingent consideration has been recorded within provisions as a non-current liability on the statement of financial position as at December 31, 2018, as the amounts are due in June 2020. To fund the acquisition, the Company entered into a senior secured credit agreement discussed in Note 16 – Borrowings.

The following table summarizes the purchase price allocation and estimated fair value of the assets acquired and liabilities assumed at the date of the RockYou acquisition:

Assets		
Property and equipment	$	75,880
Intangible assets – Developed technology		8,360,000
Intangible assets – Brand		1,868,000
Goodwill		6,084
Total enterprise value		10,309,064
Less: Employee benefit obligations assumed (note 19)		(475,573)
Less: Deferred revenue assumed		(670,594)
Less: Other liabilities assumed		(102,695)
Aggregate purchase price		9,061,102

The total consideration is broken down as follows:

Game acquisition payable	$	8,049,720
Provisions, at present value		1,011,382
Aggregate purchase price		9,061,102

As of December 31, 2019, the entire cash consideration of $8,049,720 has been fully paid to the seller as described in Note 17.

As of the year-ended December 31, 2018, the actual revenue of the acquired business was $455,548, and the net income was $308,652. No pro forma revenue and net income were calculated for 2018, since the acquisition of the portfolio of games and employees was a subset of another entity, and financial information was not available for the specific portfolio of games and employees acquired to assess the corresponding pro forma impact.

During 2019, the seller of the RockYou portfolio of games went through bankruptcy and insolvency proceedings. As such, certain advertising engines that the seller was operating were shut down, resulting in lower actual revenues compared to forecasted revenues during the year. As such, an indication of impairment was noted for the year ended December 31, 2019, and the recoverable amount was calculated using its value in use. The discount rate of the future cash flows was estimated to be 24.5%-31.0%, which is consistent with the discount rate used in the determination of the fair value of the initial acquisition. The amount of impairment, determined by the difference between the recoverable amount and the carrying amount of the associated intangible assets, was calculated to be $911,494 for the technology and $83,031 for the brand, and is recorded under operating expenses in the statements of loss and comprehensive loss. Changes in inputs, such as discount rates and future cash flows, are subject to estimate and changes in these inputs can materially impact the estimated value in use of the intangible assets.

There were no indicators of impairment noted during the year ended December 31, 2018.

7. Goodwill and intangible assets

Intangible assets

Intangible assets include costs to acquire certain portfolios of games. The movements of the Company's intangibles are summarized as follows:

	Technology Based	Brand/ License Based	Total Value
Cost			
Balance at December 31, 2017	$ –	$ –	$ –
Acquired through business combination (note 6)	8,360,000	1,868,000	10,228,000
Balance at December 31, 2018	8,360,000	1,868,000	10,228,000
Purchase price and legal fees acquired through asset acquisition	634,273	1,054,224	1,688,497
Adjustment to contingent consideration for asset acquisition	88,851	147,678	236,529
Balance at December 31, 2019	9,083,124	3,069,902	12,153,026
Accumulated amortization and impairment			
Balance at December 31, 2017	–	–	–
Amortization	65,982	15,041	81,023
Balance at December 31, 2018	65,982	15,041	81,023
Amortization	2,756,189	669,804	3,425,993
Impairment of intangible assets acquired in business combination (note 6)	911,494	83,031	994,525
Balance at December 31, 2019	3,733,665	767,876	4,501,541
Carrying amounts			
Balance at December 31, 2018	8,294,018	1,852,959	10,146,977
Balance at December 31, 2019	5,349,459	2,302,026	7,651,485

On September 5, 2019, the Company entered into an asset purchase agreement with Flashman Games LLC, a California corporation and Bongfish GmbH, an Austria corporation ("Smurfs acquisition") to acquire a list of developed technology consisting of certain game assets from Flashman LLC. All intangible assets are based in Canada.

The asset was recorded using the present value of the cash consideration plus the contingent consideration as follows:

Cash consideration, present value	$	1,309,233
Contingent consideration on revenues from September 2019 – December 2019, at present value (note 17)		204,767
Contingent consideration on revenues from September 2019 – August 2020, at present value (note 17)		119,682
Legal invoices associated with acquisition		54,815
Aggregate purchase price		1,688,497

The consideration was allocated to the technology and the license based on their estimated fair values. The fair value of the license was calculated using a multi-period excess earnings method, and the technology was calculated using a cost approach.

The consideration for the portfolio of games included a potential increase of consideration based on certain revenues earned by the Company for the four-month period from September to December 2019. As such, $236,529 was added to the asset value as at December 31, 2019 based on revised actual revenues as determined at December 31, 2019. Legal fees of $54,815 associated with the asset acquisition were also capitalized to the intangible asset value and pro-rated accordingly to the technology and license/brand values. The amount owing on the acquisition of the games is described in Note 17.

8. Property and equipment

The following represents property and equipment, net by class:

	Computer Equipment	Furniture and Fixtures	Computer Software	Leasehold Improvements	Total Value
Cost					
Balance at December 31, 2017	$ 23,310	$ –	$ –	$ –	$ 23,310
Additions	70,409	67,206	3,468	19,321	160,404
Additions from business combination (note 6)	49,840	13,443	6,002	6,595	75,880
Disposals	–	–	–	–	–
Balance at December 31, 2018	143,559	80,649	9,470	25,916	259,594
Additions	52,284	8,783	5,390	37	66,494
Disposals	(77,102)	(18,272)	(4,655)	(1,663)	(101,692)
Balance at December 31, 2019	118,741	71,160	10,205	24,290	224,396
Accumulated amortization and impairment					
Balance at December 31, 2017	$ 14,760	$ –	$ –	$ –	$ 14,760
Amortization	26,055	19,539	2,684	1,376	49,650
Balance at December 31, 2018	40,815	19,539	2,684	1,376	64,413
Amortization	45,146	27,501	6,530	6,880	86,057
Disposals	(42,011)	(9,564)	(4,656)	(1,664)	(57,894)
Balance at December 31, 2019	43,950	37,476	4,558	6,592	92,576
Carrying amounts					
Balance at December 31, 2018	94,185	62,250	14,208	24,539	195,181
Balance at December 31, 2019	74,791	33,684	5,647	17,698	131,820

The property and equipment broken down by geographic location is as follows:

	December 31 2019	December 31 2018
Canada	$ 75,939	$ 120,859
India	55,881	74,322
Total property and equipment, net	131,820	195,181

For the years ending December 31, 2019 and December 31, 2018, there were no indicators of impairment noted for property and equipment.

9. Share capital

Authorized and issued

The Company's authorized share capital consists of an unlimited number of common shares with no par value. During the year, the Company issued nil (2018 - 154,036) common shares for aggregate cash proceeds of $nil (2018 - $282,516), issued nil (2018 - 244,353) shares on conversion of convertible debentures along with the accrued interest, issued 247,950 shares upon exercise of warrants (2018 – nil) and issued nil (2018 - 15,625) shares upon exercise of options for cash proceeds of nil (2018 - $14,929).

	Number of Shares	Total Value
Balance at December 31, 2017	4,447,048	$ 2,128,554
Shares issued for:		
Cash	154,036	282,516
Conversion of convertible debentures	244,353	260,255
Conversion of stock options	15,625	36,086
Balance at December 31, 2018	4,861,062	2,707,411
Shares issued for:		
Warrants exercised	247,950	445,785
Less:		
Broker warrants issued (note 10)	–	(11,316)
Balance at December 31, 2019	5,109,012	3,141,880

10. Warrant reserve

As at December 31, 2019, the Company had outstanding 214,718 (2018 – 462,668) common share purchase warrants.

In December 2019, certain warrants were exercised by investors for an aggregate amount of $189,870.

In January 2019, the Company issued units of $11,316 in aggregate value consisting of one common share and one warrant as consideration for services provided in connection with the issuance of convertible debt, which is exercisable at any time until the date which is twenty-four months following the closing of said issuance. These broker "units" (common share and warrants) are unit payments and are not readily convertible into cash - hence, they are treated as equity and booked to share-based payment reserve. On the future date if these units are granted on exercise, they would be bifurcated into common shares and warrants on that date.

In 2018, the Company issued 204,593 broker warrants as consideration for services provided in connection with the Company entering into a senior secured credit facility (see Note 16). Each broker warrant is exercisable into one common share of the Company at a nominal exercise at any time until the date which is sixty months following the closing of said purchase. A deferred financing fee of $360,425 was recorded in other long-term assets on the consolidated statement of financial position for the initial measurement of the warrants and will be amortized until the maturity of the debt facility, which is December 2022. Other deferred financing fees were also incurred with the financing, which is discussed in Note 16.

The value of the warrants issued during 2018 was calculated using the Black-Scholes option pricing model and the assumptions at grant date were as follows:

Grant date – December 23, 2018
Risk-free interest rate: 1.97%
Expected volatility: 39.48%
Expected life: 5.00 years
Expected dividends: $nil
Exercise price (expressed in Canadian $): 0.0001
Fair value, per option (expressed in Canadian $): 2.39

The Company observed similar public companies in order to estimate volatility over the estimated life of the warrants. Changes in these variables can materially impact the estimated fair value of the warrants.

No warrants were forfeited or cancelled during the year ended December 31, 2019 and 2018. Below is a summary of the outstanding warrants.

	Number of Warrants	Weighted average exercise price (in Canadian dollars)	Remaining contractual life (years)	Total Value
Balance at December 31, 2017	258,075	$ 1.24	1.67-2.01	$ 266,329
Warrants issued during the year	204,593	0.0001	5.00	360,425
Balance at December 31, 2018	462,668	0.69	1.67-5.00	626,754
Warrants to be issued			2.00	11,316
Warrants exercised during the year	(247,950)	1.24	–	(255,915)
Balance at December 31, 2019	214,718	0.06	0.01-4.00	382,155

11. Share-based payments

Description of the share-based payment arrangements with employees

The Company has a share option plan with the objective of attracting, retaining and motivating key employees, officers and directors in long-term success of the Company. In accordance with this plan, options are exercisable at the exercise price of each option, as determined on the grant date. Each share option expires on the date that is the earlier of 5 years from the date of grant or such earlier date as may be set out in the participant's award agreement.

In 2019, the Company awarded executive officers 281,912 share options. 25% of the options vest after 12 months, and 6.25% vest each quarter thereafter. All options expire on the 5th anniversary from the date of grant. A total of 91,912 shares were later cancelled during the year, and 25,000 share options were forfeited during 2019 due to employee departures.

In 2018, the Company awarded executive officers and employees 77,500 share options. 25% of the options vest after 12 months, and 6.25% vest each quarter thereafter. All options expire on the 5th anniversary from the date of grant. 15,625 options were exercised during the year.

The following is a summary of the share options for the years ended December 31, 2019 and 2018.

	2019		2018	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As January 1	C$1.41	537,246	C$1.24	544,746
Granted during the year	C$2.39	281,912	C$2.39	77,500
Exercised during the year	–	–	C$1.24	(15,625)
Forfeited during the year	C$2.16	(25,000)	–	–
Cancelled during the year	C$2.39	(91,912)	C$1.24	(69,375)
As at December 31	C$1.65	702,246	C$1.41	537,246
Vested and exercisable at December 31	C$1.46	501,197	C$1.38	365,101

No options expired during the periods covered by the above tables. Share options outstanding at the end of the year have the following expiry dates and exercise prices:

			Share options	
Grant date	Expiry date	Exercise price	December 31 2019	December 31 2018
Jan 2017 – Oct 2017	Jan 2022 – Oct 2022	C$1.24	454,746	459,746
Jan 2018	Jan 2023	C$2.39	57,500	77,500
Jan 2019 – Oct 2019	Jan 2024 – Oct 2024	C$2.39	190,000	–
Total			702,246	537,246
Weighted average remaining contractual life of options outstanding at end of period (in years)			3.16	3.70

During the year ended December 31, 2019, the Company incurred share-based payment expenses to employees and directors of the Company in the amount of $201,184 (2018 - $295,816) in relation to its share option programs. These costs are included in general and administrative expenses in the consolidated statements of loss and comprehensive loss.

Inputs for measurement of grant date fair values

The grant date fair value of stock options was estimated using the Black-Scholes option pricing model and the assumptions at grant dates were as follows:

2019:

Risk-free interest rate: 1.37%-1.89%
Expected volatility: 39.54-39.58%
Expected life: 5.00 years
Expected dividends: $nil
Exercise price (expressed in Canadian $): $2.39
Fair value, per option (expressed in Canadian $): $0.87-$0.89

2018:

Risk-free interest rate: 1.87%
Expected volatility: 41.41%
Expected life: 5.00 years
Expected dividends: $nil
Exercise price (expressed in Canadian $): $2.39
Fair value, per option (expressed in Canadian $): $0.92

The Company observed similar public companies in order to estimate volatility over the estimated life of the option. Changes in these variables can materially impact the estimated fair value of share-based compensation and consequently, the related amount recognized to general and administrative expenses in the consolidated statements of loss and comprehensive loss.

12. Commitments

Reverse Takeover Transaction

On November 11, 2019, the Company signed a letter of intent with Mithrandir Capital Corp ("Mithrandir"), where Mithrandir will acquire the Company, by way of a three-corner amalgamation, share exchange, plan or arrangement or other similar form of transaction as agreed by the parties.

Under the terms of the letter of intent ("the Transaction"), the transaction values Mithrandir at $3 million Canadian dollars and the Company at $31.2 million Canadian dollars.

Immediately prior to and as a condition to closing of the Transaction, Mithrandir shall complete a share consolidation on the basis of one new share for every eight outstanding Mithrandir Shares (the "Share Consolidation"). Post Share Consolidation, Mithrandir shall have 3.75 million common shares issued and outstanding (the "Mithrandir Shares"). Pursuant to the Transaction:

- holders of issued and outstanding shares of the Company will receive 7.62 Mithrandir Shares (post-consolidation) for each Company share (the "Exchange Ratio") held;
- options, warrants, debentures or other securities convertible into Company shares shall be exchanged, based on the Exchange Ratio, for similar securities to purchase Mithrandir shares on substantially similar terms and conditions; and
- any securities issued pursuant to the Private Placement will similarly be exchanged (based on the Exchange Ratio) for securities of Mithrandir.

The letter of intent contemplates the negotiation of a formal agreement, which will be subject to a number of conditions precedent, including receipt of all regular approvals with respect to the Transaction and the listing of the resulting issuer's common shares on the TSX Venture Exchange.

Other

The Company and its subsidiaries are subject to routine legal proceedings and tax audits. The Company does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated losses, cash flow or financial position.

13. Leases

Short Term Leases

The Company and its subsidiaries are parties to various rent and software license costs. For leases in which the lease has a term less than 12 months on the commencement date, all commitments are on a month-to-month basis and can be cancelled at any time within a 30 to 60 day notice period.

In December 2019, the Company signed a short-term lease for an office space in Toronto, Ontario, with the intention to utilize the office space for less than 12 months. The amount of rent expensed was $15,105 (2018 – nil) and was recorded as a general and administrative expense in the statement of loss and comprehensive loss.

The following is a summary of the right-of-use asset and lease liabilities as reported on the statement of financial position:

	December 31 2019	December 31 2018	January 1 2018
Right-of-use assets			
Buildings – Cost	$ 554,327	$ 720,674	$ –
Buildings – Accumulated Amortization	(138,582)	(80,282)	–
	415,745	640,392	–
Lease liabilities			
Current	327,408	64,089	–
Non-current	321,926	632,625	–
	649,334	696,714	–

During the year ended December 31, 2019, the Company recognized $208,128 of depreciation expense related to right-of-use assets and $101,744 of interest expense related to lease liabilities. The Company derecognized $406,283 of right-of-use assets related to the cancellation of the Halifax lease. The Company also derecognized $164,563 of right-of-use assets related to the acquisition of a sublease for the Toronto office.

During the year ended December 31, 2018, the Company recognized $80,283 of depreciation expense related to right-of-use assets and $73,158 of interest expense related to lease liabilities.
Below is a summary of the maturity of the lease liabilities:

Year	Payments	Interest	Total
2020	$ 403,334	$ 75,926	$ 327,408
2021	236,860	23,146	213,714
2022	70,387	9,738	60,649
2023	49,491	1,928	47,563
	760,072	110,738	649,334

The weighted average incremental borrowing rate for the lease liabilities was estimated to be 16%.

Right-of-use assets are amortized over the expected lease term of 2-9.5 years (2018 – 5.5-9.5 years).

14. Investment in lease receivable

On December 1, 2019, the Company entered into a sublease agreement for the existing Toronto office with a lessee, expiring on August 1, 2023.

The following is a summary of lease receivable as recorded in the statement of financial position:

	December 31 2019	December 31 2018	January 1 2018
Current	$ 43,567	$ –	$ –
Non-current	147,746	–	–
	191,313	–	–

Below is a summary of the maturity of the investment in lease receivable:

Year	Payments	Finance income	Total
2020	65,816	22,249	43,567
2021	65,816	16,260	49,556
2022	65,816	9,448	56,368
2023	43,878	2,056	41,822
	241,326	50,013	191,313

The incremental borrowing rate for the investment in lease receivable was estimated to be 13%.

15. Financial risks

Currency risk

The Company is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates. In the normal course of business, the Company has revenue and purchases that are denominated in a currency other than the functional currency of the Company, being the US dollar. These transactions are primarily denominated in Canadian dollars and Indian rupees (INR). The Company does not currently enter into forward contracts to mitigate this risk. There have been no changes in the risk exposure from fiscal 2018.

As at December 31, 2019, a 5% increase/decrease in the USD/CAD currency rate would increase/decrease the net loss by $56,860 (2018 - $45,551).

As at December 31, 2019, a 5% increase/decrease in the USD/INR currency rate would decrease/increase the net loss by $24,269 (2018 – $27,537).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through ongoing review of accounts receivable balances; following up on amounts past due; and management of cash.

The Company continues to take advantage of government assistance programs which promote interactive digital media development in the Canadian economy as investment tax credits available from qualifying research and development expenditures.

These financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. The following tables outline the Company's remaining contractual maturities for its non-derivative financial liabilities, at their undiscounted value, based on the earliest date the Company is required to make payment on these amounts:

								2019
					Payments due			
		Total		Less than 1 year		1-3 years		After 3 years
Trade payables and accrued liabilities	$	2,074,058	$	2,074,058	$	–	$	–
Game acquisition payable		375,600		375,600		–		–
Provisions		1,781,871		1,781,871		–		–
Borrowings – principal		8,606,070		7,874,626		731,444		–
Borrowings – interest		63,392		58,516		4,876		–

Of the total borrowings above, the principal related to the acquisition of the RockYou portfolio of games of $7,874,626, which was due on demand, was later waived and described in Note 16.

								2018
					Payments due			
		Total		Less than 1 year		1-3 years		After 3 years
Trade payables and accrued liabilities	$	1,023,824	$	1,023,824	$	–	$	–
Game acquisition payable		8,049,720		8,049,720		–		–
Provisions		1,242,854		–		1,242,854		–
Borrowings – principal		329,864		293,212		36,652		–

Credit risk

Credit risk is that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities primarily from cash and trade and other receivables as amounts are owing primarily from three customers. As at December 31, 2019, the trade and other receivables were within normal repayment terms and the Company had recorded no expected credit losses.

Interest rate risk
The Company's bank loan has a variable interest rate based on the LIBOR plus 7.00%. As a result, the Company is exposed to interest rate risk due to fluctuations in the prime rate – however LIBOR has a floor of 2%. The impact of a 1% increase on the rate change would increase the interest expense in 2019 by $76,772 (2018 - nil). However, since there is a floor rate of 2%, the impact of a 1% decrease on the rate change would only decrease the interest expense in 2019 by $27,409 (2018 – nil). Interest expense has been recorded as general and administrative expenses in the statement of loss and comprehensive loss.

16. Borrowings

Bank credit facility
To fund the RockYou acquisition, on December 23, 2018, the Company entered into a senior secured credit agreement of $10,000,000 with a maturity date of December 23, 2022, where the Company has agreed to secure all of its obligations by granting the lender a first priority security interest on all of its assets. The credit facility is available on a delayed draw loan basis used to fund milestone payments of the RockYou acquisition. The interest rate charged on the credit facility is equal to the LIBOR plus 7.00% per annum, where LIBOR floor is 2.00%. The amount drawn under the credit facility as at December 31, 2019 is $7,874,626 (2018 - nil). In the event of default, the Company is obligated to pay an additional 2.00% per annum for the period in which the Company has defaulted.

Certain deferred financing fees of $138,708 were incurred with the facility, in addition to $360,425 worth of warrants (note 10) and are amortized over the life of the debt facility. As at December 31, 2019, the net carrying value of the deferred financing fees is $371,467 (2018 - $496,953). The amortization of deferred financing fees is recorded as general and administrative expenses in the consolidated statements of loss and comprehensive loss.

During 2019, the Company violated certain financial covenants in the credit agreement and was in default. A signed waiver was obtained from the creditor on February 3, 2020, with revised financial covenants, and waiving the right for the creditor to call the facility as a result of the covenant violation. The waiver also requires that the Company issue equity interests or debentures in an amount not less than $3,000,000, which will include the amounts potentially raised in the reverse takeover transaction as described in note 12. The Company is in compliance with the revised financial covenants at December 31, 2019 other than completion of this capital requirement.

Other
In July 2018, the Company entered into an agreement with a certain entity to acquire property and equipment with a payment period of 2 years. However, the property and equipment was subsequently returned back to the entity in July 2019, with the full amount of the loan forgiven. The corresponding gain of $29,501 associated with the disposition and forgiveness of the loan has been recorded against general and administrative expenses in the statement of loss and comprehensive loss.

Below is a summary of the borrowings owing by the Company:

		December 31 2019		December 31 2018		January 1 2018
Bank credit facility	$	7,874,626	$	–	$	–
Convertible debentures (note 18)		663,366		256,561		215,337
Other		–		73,303		–
Total borrowings		8,537,992		329,864		–
Current		7,874,626		293,212		215,337
Non-current		663,366		36,652		–
Total borrowings		8,537,992		329,864		215,337

17. Provisions and game acquisition payable

Provisions are related to the present value of contingent consideration payable to entities for the purchase of certain portfolios of games or businesses. As there is judgment involved in estimating the discount rate of the contingent consideration and the future cash flows of which the consideration is calculated based on, it is separated out from the fixed portion of consideration classified as "Game acquisition payable" in the statements of financial position.

Game acquisition payable – Smurfs portfolio of games

Cash consideration, present value (note 7)	$	1,309,233
Cash consideration paid to date		(950,000)
Accretion expense		10,796
Game acquisition payable at December 31, 2019		370,029

Game acquisition payable – RockYou portfolio of games

Of the total borrowing assumed in Note 16 for the acquisition described in Note 6, the Company's lender paid a certain portion to RockYou directly. A portion of the consideration was also reduced where RockYou had still been collecting revenues on behalf of the Company. Below is a schedule summarizing the consideration paid:

Consideration paid by lender	$	4,451,231
Consideration paid by the Company		2,097,752
Consideration reduced by revenues earned by the Company		1,500,737
Game acquisition payable at December 31, 2018		8,049,720

As at December 31, 2019 the entire amount owing to the seller has been paid as noted in the schedule above.

Provisions

For the asset acquisition of the Smurfs portfolio of games in Note 7, the discount rate used to estimate the fair value of the provision as at the acquisition date and December 31, 2019 was 25%.

For the acquisition of the RockYou portfolio of games recorded as a business combination in Note 6, the discount rate used to estimate the fair value of the provision as at the acquisition date and December 31, 2019 and 2018, was 24%.

Below is a summary of the contingent consideration provisions as at the end of each year:

		Total Value
Balance at December 31, 2017	$	–
Contingent consideration acquired in business combination, at present value (note 6)		1,011,382
Accretion expense		3,390
Balance at December 31, 2018		1,014,772
Contingent consideration acquired in asset acquisition, at present value (note 7)		324,449
Accretion expense		155,796
Adjustment to contingent consideration (note 7)		236,529
Change in fair value of contingent consideration		(59,700)
Balance at December 31, 2019		1,671,846

Changes in these variables can materially impact the estimated fair value of contingent consideration and consequently, the related amount recognized to general and administrative expenses with respect to the contingent consideration recorded for the acquisition of the RockYou portfolio of games/business and intangible assets with respect to the contingent consideration recorded for the acquisition of the Smurfs portfolio of games recorded as an asset acquisition.

For the acquisition of the RockYou portfolio of games, an increase/decrease of 1% in the discount rate will decrease/increase the contingent consideration by $5,221/$5,251 (2018 – decrease/increase of $249/$249).

For the acquisition of the Smurfs portfolio of games, an increase/decrease of 1% in the discount rate will decrease/increase the contingent consideration by $1,141/$1,150.

18. Derivative financial instruments and convertible debentures

On January 25, 2019, the Company issued unsecured convertible debentures, for aggregate proceeds of $716,657 to certain investors of the Company, of which $256,561 was received in 2018 and held in escrow as at December 31, 2018. These instruments are convertible into fully paid and non-assessable units of the Company, consisting of one common share and one warrant at the conversion price, upon a liquidity event defined by either a public offering transaction or an RTO/Merger transaction. The conversion price on issuance was calculated to be the lesser of a 25% discount to the liquidity event price, and the price determined based on a pre-money valuation of $60,000,000 Canadian. The maturity of the convertible debentures is 2 years after the date of issuance, with an annual interest rate bearing 8%. In the event, prior to the maturity date, that the Company consummates the liquidity event, the outstanding principal amount due under the debentures, plus all accrued unpaid interest, shall, automatically, immediately prior to or concurrently with the liquidity event, convert into fully paid and non-assessable units of the Company consisting of one common share and one warrant, at the conversion price. In August 2019, the terms of the convertible debentures were amended by adjusting the conversion feature on the debentures to be the lesser of a 25% discount to the liquidity event price, and the price determined based on a pre-money valuation of $18,000,000 CAD. The Company assessed the fair value of the conversion feature and debt host on the modification date and determined the valuation of the modified convertible debt approximated the carrying values on the modification date.

On August 31, 2018, unsecured convertible debentures as described in Note 21, originally issued on August 31, 2017, were converted into common shares. Upon issuance of the convertible debentures, at the option of the investor, the outstanding principal and accrued interest can be converted into common shares upon completion of a Conversion Election Notice. These instruments were converted to 244,353 shares, with a value of $0.81 Canadian each. These instruments had a maturity date of 1 year, with an annual interest rate bearing 1%.

Inputs for measurement of issuance date fair values

As the convertible debt instruments are in Canadian dollars, these do not meet the fixed-for-fixed condition. The fair value of the conversion feature and warrants were estimated using the Monte Carlo simulation method and the assumptions at the issuance date were as follows:

Issuance date – January 25, 2019
Risk-free interest rate: 1.88%
Expected volatility: 36.60%
Stock price (expressed in Canadian $): $2.39
Expected life: 2.00 years
Expected dividends: $nil
Liquidity event: May 31, 2019
Conversion price using pre-money valuation (expressed in Canadian $): $12.34
Probability of liquidity event: 20%

The remainder of the value was allocated towards the debt feature, with the effective interest rate being 15%. At the end of each reporting period, the conversion feature and warrant liabilities are measured at fair value, with any gains or losses recorded in the consolidated statements of loss and comprehensive loss. The fair value of the conversion feature and warrants were revalued using the assumptions as follows:

Revaluation date – December 31, 2019
Risk-free interest rate: 1.74%
Expected volatility: 36.60%
Stock price (expressed in Canadian $): $2.50
Expected life: 1.07 years
Expected dividends: $nil
Liquidity event: May 31, 2020
Conversion price using pre-money valuation (expressed in Canadian $): $11.74
Probability of liquidity event: 50%

The convertible debt instruments originally issued on August 1, 2017 converted on August 31, 2018 were initially recorded with a conversion feature within equity. The fair value of the debt host was estimated using an estimated interest rate of 15%, representing the estimated interest rate of a similar instrument without a conversion feature. The remainder of the value was allocated towards the conversion feature, classified as equity.

The summary of the convertible debt liability and related conversion features is as follows:

	Debt host value (note 16)	Conversion/ Warrant value (liability)	Conversion value (equity)	Total Value
Balance at December 31, 2017	$ 215,337	$ –	$ 28,160	$ 243,497
Accretion expense	23,480	–	–	23,480
Interest expense added to debt value	1,697	–	–	1,697
Effect of foreign exchange rates	(8,419)	–	–	(8,419)
Debentures converted into common shares	(232,095)	–	(28,160)	(260,255)
Debt to be issued	256,561	–	–	256,561
Balance at December 31, 2018	256,561	–	–	256,561
Debentures issued during the year	340,038	81,265	–	421,303
Accretion expense	53,356	–	–	53,356
Effect of foreign exchange rates	13,411	4,157	–	17,568
Change in fair value of conversion feature	–	120,168	–	120,168
Balance at December 31, 2019	663,366	205,590	–	868,956

19. Employee benefit obligations

The Company has a statutory defined benefit obligation related to payment of gratuity and leave encashment pursuant to regulations in India. This obligation covers only the employees based in India. The liability recognized in the statement of financial position in respect of the defined benefit gratuity plan and the leave encashment plan is the present value of defined benefit obligations at the end of the reporting period. The defined benefit obligation is calculated through an actuarial valuation using the projected unit credit method. The benefits are based on years of service and last drawn salary.

The most recent actuarial valuation of the benefit plans for accounting purposes was as of December 31, 2019.

Below is a summary of the change in employee benefit obligations:

	December 31 2019	December 31 2018	January 1 2018
Change in benefit obligations			
Beginning benefit obligation	$ 475,573	$ –	$ –
Service cost	112,602	–	–
Interest cost	34,599	–	–
Actuarial losses (gains)	(13,450)	–	–
Benefits paid	(59,070)	–	–
Foreign currency translation adjustments	(12,037)	–	–
Acquired through business combination (Note 6)	–	475,573	–
Ending benefit obligation	538,217	475,573	–

The key assumptions for the gratuity and leave encashment plans are as follows:
Discount rate: 6.95%
Salary escalation: 10%
Attrition rate: 16%
Indian Assured Lives mortality rate (ages 20-60): 0.0924% – 1.1162%

Below is a summary of the impact in the value of the employee benefit obligations due to a change in the key assumptions:

	Change in rate	Change in value
Discount rate	1%	$ (50,198)
Discount rate	(1%)	60,424
Salary growth	1%	43,342
Salary growth	(1%)	(39,534)
Attrition rate	1%	(12,043)
Attrition rate	(1%)	13,098
Mortality rate	10%	(253)

20. Supplementary cash flow information

Change in working capital

		2019		2018
Trade and other receivables	$	(2,254,425)	$	(596,312)
Prepaid assets		(256,218)		(47,482)
Investment tax credits receivable		(94,738)		(533,810)
Trade payables and accrued liabilities		1,005,257		700,181
Taxes payable		72,439		–
Deferred revenue		561,889		(971)
Total change in working capital		(965,796)		(478,394)

21. Related party transactions

Trade and other receivables

In 2018, there was $7,523 in trade and other receivables related to a reimbursement owing from a certain shareholder, in which the full amount was received during 2019.

Convertible debentures

In 2018, the Company has adjusted the opening balance of borrowings to record the conversion feature on the convertible debt, as described in Note 2. The Company has assessed the conversion feature to meet the definition of equity. Accordingly, the debt host was recorded at the estimated fair value assuming no conversion rights which was determined to be a 15% discount rate. A total of $300,000 CAD of convertible debt was issued which has resulted in a debt host of $215,337 at January 1, 2018, with the residual amount on issuance of $28,160 recorded as an increase to the share-based payment reserve for the equity conversion feature described in Note 18, and $4,358 decrease to the deficit for accretion expense, prior to January 1, 2018.

22. Key management compensation

Compensation for key management personnel, including the Company's officers and Board of Directors, and private companies controlled by the Company's Officers and Board of Directors, was as follows:

		2019		2018
Management salaries, bonuses and other benefits	$	609,891	$	327,907
Share-based payments - management		168,755		231,646
Share-based payments - directors		10,979		24,788
Total key management compensation		789,624		584,340

23. Management of capital

The Company's capital management objectives are to safeguard its ability to continue as a going concern and to preserve its capital through adapting its strategic efforts and working to optimize revenues from its game production and operations. The Company also attempts to raise additional funds through the issuance of debt or equity.

In the management of capital, the Company's definition of capital includes shareholders' (deficit) equity and borrowings, net of cash and restricted cash, which for the year ended December 31, 2019, totalled $4,678,251 (December 31, 2018 - $1,174,079).

24. Revenue from contracts with customers

The following table presents our revenue disaggregated based on the geographic location of our paying players. All of the geographic locations presented below represent at least 10% of total revenues in either the year ended December 31, 2019 or December 31, 2018.

	2019	2018
North America	$ 13,954,244	$ 707,972
Europe	2,277,961	409,507
Australia	707,428	261,359
Other	1,014,241	67,859
Total revenue	17,953,874	1,446,697

During the years ended December 31, 2019 and 2018, there was no significant impact from discontinued games or from changes in our estimated average playing period of payers that required adjusting the recognition period of deferred revenue generated in prior periods.

During the year ended December 31, 2019, the Company recognized all of the revenue that was included in the $669,623 current deferred revenue balance as of December 31, 2018.

25. Breakdown of cost of sales by nature

	2019	2018
Platform fees	$ 5,228,129	$ 230,040
Hosting and other	4,536,081	148,923
Licensor share	133,590	125,859
Salaries and benefits	164,497	3,605
User acquisition	47,059	768
Total cost of sales	10,109,356	509,195

26. Breakdown of operating expenses by nature

	2019	2018
Salaries and benefits	$ 3,089,420	$ 670,946
Employee benefits expenses	135,164	–
Share-based compensation expense	21,380	3,167
Total research and development expenses	3,245,964	674,113

	2019	2018
Salaries and benefits	$ 944,278	$ 440,534
Professional fees	1,271,430	494,632
Interest and accretion expenses	1,123,108	92,108
Amortization of deferred financing fees	142,986	2,180
Share-based compensation expense	179,804	292,649
Other expenses	466,762	192,345
Total general and administrative expenses	4,128,368	1,514,448

27. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 - 26.5%) to the effective tax rate is as follows:

		2019		2018
Net loss before recovery of income taxes	$	4,244,516	$	1,462,018
Expected income tax (recovery) expense		(1,124,797)		(387,435)
Difference in foreign tax rates		(6,021)		–
Share-based compensation and non-deductible expenses		135,050		96,468
Other		58,024		–
Change in tax benefits not recognized		1,129,013		290,967
Income tax expense		191,269		–

The Company's income tax is allocated as follows:

		2019		2018
Current tax expense	$	191,269	$	–
Deferred tax expense		–		–
		191,269		–

28. Deferred taxes

The following table summarizes the components of deferred tax:

		2019		2018
Deferred Tax Assets				
Lease liabilities	$	160,870	$	169,704
Non-capital losses carried forward		279,264		234,533
Deferred Tax Liabilities				
Right-of-use assets		(160,870)		(169,704)
Investment tax credits receivable		(251,360)		(226,254)
Deferred financing costs		(7,182)		(8,279)
Unrealized foreign exchange gains or losses		(20,722)		–
Net Deferred Tax Assets		–		–

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		2019		2018
Tangibles and intangibles	$	4,776,284	$	176,327
Lease liabilities		42,275		56,322
Non-capital losses carried forward		538,746		864,229

The Canadian non-capital loss carry forwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

2036	$	164,548
2037		–
2038		1,428,024
		1,592,572

29. Subsequent events

In the first half of 2020, the Company issued unsecured convertible debentures, for aggregate proceeds of $1,258,470, to certain investors. These instruments are convertible into fully paid and non-assessable units of the Company, consisting of one common share at the conversion price, and one warrant at 50% higher strike price than the conversion price, upon a liquidity event defined by either a public offering transaction or an RTO/Merger transaction. The conversion price is calculated to be a 20% discount to the liquidity event price. The maturity of the convertible debentures is 2 years after the date of issuance, with an annual interest rate bearing 8%. On the event, prior to the maturity date, that the Company consummates the liquidity event, the outstanding principal amount due under the debentures, plus all accrued unpaid interest, shall, automatically, immediately prior to or concurrently with the liquidity event, convert into fully paid and non-assessable units of the Company consisting of one common share and one warrant, at the conversion price.

The Company also paid $7,818 in cash, issued $7,818 in convertible debentures, and issued non-transferable share purchase warrants to acquire up to 4,784 common shares to certain entities in reference to finder's fee agreements associated with the aforementioned convertible debt issuance. Each warrant will be exercisable to purchase one additional common share at a 20% discount to the liquidity event price mentioned above, and have a maturity of 2 years after the date of issuance of the convertible debentures.

COVID-19 pandemic

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. The Company cannot accurately predict the impact COVID-19 will have on its operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. In addition, a significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could further affect the Company's operations and ability to finance its operations.