Condensed Interim Consolidated Financial Statements of

POPREACH INCORPORATED

(Unaudited)

For the three months ended March 31, 2020 and 2019

POPREACH INCORPORATED

Condensed Interim Consolidated Statements of Financial Position

As at March 31, 2020 and December 31, 2019 (unaudited - stated in US dollars, unless otherwise stated)

	March 31 2020	December 31 2019
Assets		
Current Assets:		
Cash and cash equivalents	$ 887,471	$ 1,126,160
Trade and other receivables (note 4)	1,678,380	1,444,428
Investment tax credits receivable	538,045	587,715
Investment in lease receivable (note 12)	41,190	43,567
Prepaid assets	395,196	330,407
	3,540,282	3,532,277
Property and equipment (note 6)	160,562	131,820
Intangible assets (note 5)	7,003,194	7,651,485
Goodwill	6,084	6,084
Investment tax credits receivable	384,050	360,812
Deferred financing costs (note 14)	340,260	371,467
Right-of-use asset (note 11)	346,454	415,745
Investment in lease receivable (note 12)	124,458	147,746
	11,905,344	12,617,436
Liabilities and Shareholders' (Deficit) Equity		
Current Liabilities:		
Trade and other payables	1,886,181	2,074,058
Game acquisition payable (note 15)	–	370,029
Taxes payable	72,439	72,439
Deferred revenue	1,269,853	1,231,512
Derivative financial instruments (note 16)	741,206	205,590
Lease liabilities (note 11)	322,125	327,408
Borrowings (note 14)	–	7,874,626
Provisions (note 15)	1,361,181	1,671,846
	5,652,985	13,827,508
Non-current liabilities:		
Borrowings (note 14)	8,858,642	663,366
Employee benefit obligations (note 17)	511,441	538,217
Lease liabilities (note 11)	213,888	321,926
	15,236,956	15,351,017
Shareholders' (deficit) equity:		
Share capital (note 7)	3,141,880	3,141,880
Warrant reserve (note 8)	388,621	382,155
Share-based payment reserve (note 9)	726,450	694,309
Accumulated other comprehensive income (loss)	10,700	(30,404)
Deficit	(7,599,263)	(6,921,521)
	(3,331,612)	(2,733,581)
	11,905,344	12,617,436

See accompanying notes to condensed interim consolidated financial statements.

On behalf of the Board:

______________________________ Director

______________________________ Director

POPREACH INCORPORATED

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise stated)

	Three months ended 2020	2019
Revenue (note 22):		
In-App purchases	$ 4,451,628	$ 4,292,445
Advertising and other	224,916	269,809
	4,676,544	4,562,254
Cost of sales (note 23)	2,531,397	2,643,626
Gross profit	2,145,147	1,918,628
Operating expenses:		
Research and development (note 24)	690,434	894,027
General and administrative (note 24)	1,373,570	939,048
Amortization	734,794	889,193
	2,798,798	2,722,268
Loss before income taxes	(653,651)	(803,640)
Income taxes	24,091	54,329
Net loss	(677,742)	(857,969)
Other comprehensive income (loss):		
Employee benefit obligations actuarial earnings (loss), net of income tax of nil (note 17)	41,104	(56,638)
Comprehensive loss	(636,638)	(914,607)
Basic and diluted loss per share	(0.12)	(0.18)
Weighted average number of shares outstanding	5,109,012	4,861,062

See accompanying notes to condensed interim consolidated financial statements.

POPREACH INCORPORATED

Condensed Interim Consolidated Statements of Changes in Shareholders' (Deficit) Equity

For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise stated)

	Number of shareholders shares	Share capital (note 7)	Share-based payment reserve (note 9)	Warrant reserve (note 8)	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total
December 31, 2019	5,109,012	$ 3,141,880	$ 694,309	$ 382,155	$ (30,404)	$ (6,921,521)	$ (2,733,581)
Share-based compensation	–	–	32,141	–	–	–	32,141
Warrants issued during the period	–	–	–	6,466	–	–	6,466
Comprehensive income (loss)	–	–	–	–	41,104	(677,742)	(636,638)
March 31, 2020	5,109,012	3,141,880	726,450	388,621	10,700	(7,599,263)	(3,331,612)

	Number of shareholders shares	Share capital (note 7)	Share-based payment reserve (note 9)	Warrant reserve (note 8)	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total
December 31, 2018	4,861,062	2,707,411	493,125	626,754	(43,854)	(2,485,736)	1,297,700
Share-based compensation	–	–	44,134	–	–	–	44,134
Warrants issued during the period	–	(11,316)	–	11,316	–	–	–
Comprehensive income (loss)	–	–	–	–	(56,638)	(857,969)	(914,607)
March 31, 2019	4,861,062	2,696,095	537,259	638,070	(100,492)	(3,343,705)	427,227

See accompanying notes to condensed interim consolidated financial statements.

POPREACH INCORPORATED
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise

	Three months ended 2020	2019
Cash flows from (used in) operating activities:		
Net loss	$ (677,742)	$ (857,969)
Items not affecting cash:		
Amortization	734,794	889,193
Amortization on deferred financing fees	31,207	31,790
Fair value loss (notes 15 and 16)	238,020	4,181
Share-based compensation expense	32,141	44,134
Finance income on investment in lease receivable	(6,260)	–
Unrealized foreign exchange losses (gains)	(39,201)	25,091
Accretion expense	127,302	54,583
Employee benefit obligations expensed	43,106	33,703
Changes in working capital (note 18)	(502,008)	(1,149,461)
Employee benefit obligations paid	–	(44,908)
Interest expense paid in financing activities	179,676	82,349
Cash generated from (used in) operating activities	161,034	(887,314)
Cash flows from (used in) investing activities:		
Additions to property and equipment	(45,954)	(2,919)
Payments for game acquisitions (note 15)	(824,361)	–
Proceeds from lessee	16,173	–
Changes in restricted cash	–	(92,303)
Cash used in investing activities	(854,142)	(95,222)
Cash flows from financing activities:		
Proceeds from borrowings	–	1,934,655
Payments of borrowings	(389,794)	(291,787)
Payments of interest on borrowings	(179,676)	(82,349)
Payments for lease liabilities	(100,028)	(37,846)
Cash proceeds from convertible debentures	1,173,530	460,096
Cash generated from financing activities	504,032	1,982,769
Net cash inflow (outflow)	(189,076)	1,000,233
Cash and cash equivalents, beginning of the period	1,126,160	196,924
Effects of foreign currency exchange rate on cash	(49,613)	2,719
Cash and cash equivalents, end of the period	887,471	1,199,876
Income taxes paid	24,091	–

See accompanying notes to condensed interim 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 10).

2. Significant accounting policies

Statements of compliance
The interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). These statements are condensed and prepared in accordance with IAS 34 – "Interim Financial Reporting" and should be read in conjunction with the annual audited financial statements. There have been no other changes to the significant accounting policies since the annual audited financial statements for the years ended December 31, 2019 and December 31, 2018.

3. 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 interim 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.

For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise stated)

Going concern

Management has applied significant judgment in the assessment of the Company's ability to continue as a going concern when preparing its condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019. Management prepares the interim 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.

Seasonality of interim operations

The operations of the Company can be seasonal, and the results of operations for any interim period are not necessarily indicative of operations for the full fiscal year or any future period.

Other

Other areas where the Company employs judgment and estimates include the determination of expected credit loss as described in Note 4.

COVID-19 pandemic

During 2020, 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.

4. Trade and other receivables

	March 31 2020	December 31 2019
Trade receivables	$ 1,604,171	$ 1,381,898
Less expected credit losses	–	–
Trade receivables, net	1,604,171	1,381,898
Other receivables	59,444	46,302
Government remittances receivables	14,765	16,228
	1,678,380	1,444,428

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 $1,678,380 (December 31, 2019 - $1,444,428).

For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise stated)

As at March 31, 2020 and December 31, 2019, 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.

5. 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, 2019	$ 9,083,124	$ 3,069,902	$ 12,153,026
Additions	–	–	–
Balance at December 31, 2019 and March 31, 2020	9,083,124	3,069,902	12,153,026
Accumulated amortization and impairment			
Balance at December 31, 2019	3,733,665	767,876	4,501,541
Amortization	473,491	174,800	648,291
Balance at March 31, 2020	4,207,156	942,676	5,149,832
Carrying amounts			
Balance at December 31, 2019	5,349,459	2,302,026	7,651,485
Balance at March 31, 2020	4,875,968	2,127,226	7,003,194

For the three-month periods ending March 31, 2020 and 2019, there were no indicators of impairment noted for goodwill and intangible assets.

For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise stated)

6. 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, 2019	$ 118,741	$ 71,160	$ 10,205	$ 24,290	$ 224,396
Additions	45,289	665	–	–	45,954
Balance at March 31, 2020	164,030	71,825	10,205	24,290	270,350
Accumulated amortization and impairment					
Balance at December 31, 2019	$ 43,950	$ 37,476	$ 4,558	$ 6,592	$ 92,576
Amortization	8,930	6,126	958	1,198	17,212
Balance at March 31, 2020	52,880	43,602	5,516	7,790	109,788
Carrying amounts					
Balance at December 31, 2019	74,791	33,684	5,647	17,698	131,820
Balance at March 31, 2020	111,150	28,223	4,689	16,500	160,562

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

	March 31 2020	December 31 2019
Canada	$ 109,438	$ 75,939
India	51,124	55,881
Total property and equipment, net	160,562	131,820

For the three-month periods ending March 31, 2020 and 2019, there were no indicators of impairment noted for property and equipment.

7. Share capital

Authorized and issued

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

	Number of Shares	Total Value
Balance at December 31, 2019 and March 31, 2020	5,109,012	3,141,880

In the first quarter of 2020, the Company incurred a net loss, with antidilutive securities including broker warrants as described in Note 8, share-based payments in Note 9, and convertible debentures described in Note 16.

8. Warrant reserve

In the first quarter of 2020, the Company issued 4,784 broker warrants as consideration for services provided in connection with the issuance of convertible debt as disclosed in Note 14, which are exercisable into 4,784 common shares for a period of 24 months following the closing of the convertible debentures.

The value of the warrants issued during 2020 was calculated using the Black-Scholes option pricing model and the assumptions at grant dates were as follows:

Grant dates – for the three months ended March 31, 2020
Risk-free interest rate: 1.15%
Expected volatility: 39.50-42.88%
Expected life: 2.00 years
Expected dividends: $nil
Exercise price (expressed in Canadian $): 4.39
Share price (expressed in Canadian $): 5.49
Fair value, per option (expressed in Canadian $): 1.77-1.86

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.

10,125 warrants expired during the three months ended March 31, 2020. 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, 2019	214,718	$	0.06	0.01-4.00	$	382,155
Broker warrants issued	4,784		4.39	1.92		6,466
Warrants expired during the period	(10,125)		1.24	–		–
Balance at March 31, 2020	209,377		0.10	3.69		388,621

9. 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.

The following is a summary of the share options for three months ended March 31, 2020 and 2019:

	Three months ended			
	2020		2019	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at January 1	C$1.65	702,246	C$1.41	537,246
Granted during the period			C$2.39	80,000
As at March 31	C$1.65	702,246	C$1.54	617,246
Vested and exercisable at March 31	C$1.52	550,879	C$1.41	411,298

For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise stated)

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

Grant date	Expiry date	Exercise price	Share options March 31, 2020	Share options March 31, 2019
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	80,000
Total			702,246	617,246
Weighted average remaining contractual life of options outstanding at end of period (in years)			2.91	3.63

During the three months ended March 31, 2020, the Company incurred share-based payment expenses to employees and directors of the Company in the amount of $32,141 (three months ended March 31, 2019 - $44,134) in relation to its share option programs. These costs are included in general and administrative expenses in the Interim 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.

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 Interim consolidated statements of loss and comprehensive loss.

10. 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 of 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 approximately 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, if any, 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 interim consolidated losses, cash flow or financial position.

11. 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 during the three months ended March 31, 2020 was $41,208 (2019 – nil) and was recorded as a general and administrative expense in the statement of loss and comprehensive loss.

For the three months ended March 31, 2020 and 2019 (unaudited - stated in US dollars, unless otherwise stated)

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

		March 31 2020		December 31 2019
Right-of-use assets				
Buildings – Cost	$	554,327	$	554,327
Buildings – Accumulated Amortization		(207,873)		(138,582)
		346,454		415,745
Lease liabilities				
Current		322,125		327,408
Non-current		213,888		321,926
		536,013		649,334

During the three months ended March 31, 2020, the Company recognized $69,291 of depreciation expense related to right-of-use assets (three months ended March 31, 2019 - $23,537) and $24,218 of interest expense related to lease liabilities (three months ended March 31, 2019 - $37,846).

Below is a summary of the maturity of the lease liabilities as at March 31, 2020:

Year		Payments		Interest		Total
2020	$	287,474	$	48,831	$	238,643
2021		222,034		21,380		200,654
2022		64,438		8,915		55,523
2023		42,959		1,766		41,193
		616,905		80,892		536,013

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).

12. 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:

	March 31 2020	December 31 2019
Current	$ 41,190	$ 43,567
Non-current	124,458	147,746
	165,648	191,313

Below is a summary of the maturity of the investment in lease receivable as at March 31, 2020:

Year	Payments	Finance income	Total
2020	44,762	14,372	30,390
2021	60,254	14,886	45,368
2022	60,254	8,649	51,605
2023	40,169	1,884	38,285
	205,439	39,791	165,648

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

13. 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 2019.

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.

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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:

				March 31, 2020
			Payments due	
	Total	Less than 1 year	1-3 years	After 3 years
Trade payables and accrued liabilities	$ 1,886,181	$ 1,886,181	$ –	$ –
Provisions	1,420,272	1,420,272	–	–
Borrowings – principal	9,176,874	2,369,627	3,400,000	3,407,247
Borrowings – interest	1,716,047	732,028	624,638	359,381

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 March 31, 2020 and 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%. Interest expense has been recorded as general and administrative expenses in the statement of loss and comprehensive loss.

14. 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 March 31, 2020 is $7,484,832 (March 31, 2019 - $5,543,958). 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 were incurred with the facility, in addition to broker warrants and are amortized over the life of the debt facility. As at March 31, 2020, the net carrying value of the deferred financing fees is $340,260

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(December 31, 2019 - $371,467). The amortization of deferred financing fees is recorded as general and administrative expenses in the Interim 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 on or before June 30, 2020, which will include the amounts potentially raised in the reverse takeover transaction as described in Note 10. The Company is in compliance with the revised financial covenants at March 31, 2020, and satisfies the capital raise requirements subsequent to period end and before June 30, 2020 (see Note 25).

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

		March 31 2020		December 31 2019
Bank credit facility	$	7,484,832	$	7,874,626
Convertible debentures (note 16)		1,373,810		663,366
Total borrowings		8,858,642		8,537,992
Current		–		7,874,626
Non-current		8,858,642		663,366
Total borrowings		8,858,642		8,537,992

15. 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

Game acquisition payable at December 31, 2019	$	370,029
Accretion expense		5,571
Cash consideration paid		(375,600)
Game acquisition payable at March 31, 2020		–

Provisions

For the asset acquisition of the Smurfs portfolio of games, the discount rate used to estimate the fair value of the provision as at March 31, 2020 and December 31, 2019 was 25%.

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For the acquisition of the RockYou portfolio of games recorded as a business combination, the discount rate used to estimate the fair value of the provision as at March 31, 2020 and December 31, 2019 was 24%.
Below is a summary of the contingent consideration provisions as at the end of each period:

		Total Value
Balance at December 31, 2019	$	1,671,846
Cash consideration paid		(448,761)
Accretion expense		54,774
Change in fair value of contingent consideration		83,322
Balance at March 31, 2020		1,361,181

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.

16. Derivative financial instruments and convertible debentures

For the three months ended March 31, 2020, the Company issued unsecured convertible debentures, for aggregate proceeds of $1,173,530 (year ended December 31, 2019 - $716,657) to certain investors of the Company. 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 June 30, 2023, 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 (as defined in the annual audited financial statements), 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.

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 – three months ended March 31, 2020
Risk-free interest rate: 1.13%
Expected volatility: 40.0%
Stock price (expressed in Canadian $): $5.49
Expected life: 2.43 years
Expected dividends: $nil
Liquidity event: July 31, 2020
Discount to Liquidity event share price: 20%
Probability of liquidity event: 75%

The remainder of the value was allocated towards the debt feature, with the effective interest rate being 25%. 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 Interim 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 – March 31, 2020
Risk-free interest rate: 0.45%
Expected volatility: 40.00%
Stock price (expressed in Canadian $): $5.49
Expected life: 2.33 years
Expected dividends: $nil
Liquidity event: July 31, 2020
Discount to Liquidity event share price: 20%
Probability of liquidity event: 80%

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

	Debt host value (note 14)	Conversion/ Warrant value (liability)	Conversion value (equity)	Total Value
Balance at December 31, 2019	$ 663,366	$ 205,590	$ –	$ 868,956
Debentures issued during the year	752,755	420,775	–	1,173,530
Debt issuance cost	(6,466)	–	–	(6,466)
Accretion expense	50,205	–	–	50,205
Effect of foreign exchange rates	(86,050)	(39,857)	–	(125,907)
Change in fair value of conversion feature	–	154,698	–	154,698
Balance at March 31, 2020	1,373,810	741,206	–	2,115,016

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17. 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 March 31, 2020.

Below is a summary of the change in employee benefit obligations from December 31, 2019 to March 31, 2020:

		Three months ended March 31 2020		Year ended December 31 2019 (annual)
Change in benefit obligations				
Beginning benefit obligation	$	538,217	$	475,573
Service cost		19,652		112,602
Interest cost		23,454		34,599
Actuarial losses (gains)		(41,104)		(13,450)
Benefits paid		–		(59,070)
Foreign currency translation adjustments		(28,778)		(12,037)
Ending benefit obligation		511,441		538,217

The key assumptions for the gratuity and leave encashment plans are as follows:
Discount rate: 6.60%
Salary escalation: 10%
Attrition rate: 16%
Indian Assured Lives mortality rate (ages 20-60): 0.0924% – 1.1162%

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18. Supplementary cash flow information

Change in working capital

		Three months ended 2020		2019
Trade and other receivables	$	(233,952)	$	(2,382,705)
Prepaid assets		(64,789)		(45,221)
Investment tax credits receivable		(53,731)		(114,602)
Trade payables and accrued liabilities		(187,877)		929,460
Taxes payable		–		54,329
Deferred revenue		38,341		409,278
Total change in working capital		(502,008)		(1,149,461)

19. 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 the first quarter of 2020, of the C$1,600,500 of convertible debentures issued (US$1,173,530), C$275,000 (US$201,637) was issued to existing shareholders and key management personnel.

20. 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:

		Three months ended 2020		2019
Management salaries, bonuses and other benefits	$	166,705	$	128,712
Share-based payments - management		24,348		31,715
Share-based payments - directors		1,673		3,607
Total key management compensation		192,726		164,034

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21. 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 as at March 31, 2020, totalled $4,639,559 (December 31, 2019 - $4,678,251).

22. 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 three months ended March 31, 2020 or March 31, 2019:

	Three months ended 2020	Three months ended 2019
North America	$ 3,589,371	$ 3,439,365
Europe	599,213	592,763
Other	487,960	530,126
Total revenue	4,676,544	4,562,254

During the three months ended March 31, 2020 and March 31, 2019, 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.

23. Breakdown of cost of sales by nature

	Three months ended 2020	Three months ended 2019
Platform fees	$ 1,309,498	$ 1,459,501
Hosting and other	990,734	1,127,111
Licensor share	61,239	16,241
Salaries and benefits	34,878	40,773
User acquisition	135,048	–
Total cost of sales	2,531,397	2,643,626

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24. Breakdown of operating expenses by nature

		Three months ended		
		2020		2019
Salaries and benefits	$	641,208	$	851,548
Employee benefits expenses		43,106		33,703
Share-based compensation expense		6,120		8,776
Total research and development expenses		690,434		894,027

		Three months ended		
		2020		2019
Salaries and benefits	$	256,014	$	211,109
Professional fees		354,207		282,102
Interest and accretion expenses		345,492		188,998
Amortization of deferred financing fees		31,206		31,790
Share-based compensation expense		26,021		35,358
Other expenses		360,630		189,691
Total general and administrative expenses		1,373,570		939,048

25. Subsequent events

In the second quarter of 2020, the Company issued unsecured convertible debentures, for aggregate proceeds of $660,020, 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 June 30, 2023, 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 $14,775 in cash, and issued non-transferable share purchase warrants to acquire up to 4,640 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.

The issuance of the unsecured convertible debentures combined with the projected amounts raised in the reverse takeover transaction as described in Note 10 are sufficient to satisfy the credit facility waiver requirement of raising equity interests or debentures in an amount not less than $3,000,000 as described in Note 14.

In June 2020, the Company's creditor exercised all of its warrants associated with the financing of the acquisition of the RockYou portfolio of games discussed in Note 14.