PopReach™

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

# POPREACH INCORPORATED

## For the three months ended March 31, 2020 and 2019

The following management's discussion and analysis of financial condition and results of operations (the "**MD&A**") has been prepared by management and provides a review of the activities, results of operations and financial condition of PopReach Incorporated (the "**Company**") based upon International Financial Reporting Standards ("**IFRS**"). This MD&A, dated June 26, 2020 should be read in conjunction with a) the condensed interim unaudited consolidated financial statements and notes thereto for the three months ended as at March 31, 2020 and 2019 (the "**Interim Financial Statements**"); and b) the audited consolidated financial statements and notes thereto for the years ended December 31, 2019 and 2018 (the "Annual **Financial Statements**"). All amounts disclosed below are in US dollars unless otherwise noted.

## Cautionary Note Regarding Forward-Looking Information

The following MD&A contains forward-looking information and forward-looking statements. All statements and information, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, but not limited to, statements related to the Company's prospects and future plans and goals of the Company) are considered forward-looking information or forward-looking statements. These statements and information reflect the current expectations of the Company based on all information currently available. These statements and information are subject to a number of risks and uncertainties that may cause the Company's actual results to differ materially.

Factors that could cause actual results or events to differ materially from current expectations include, but are not limited to:

- Limited history of operations
- Competition from other companies
- Risks related to the Company's growth strategy
- Ability to acquire sufficient financing to acquire new games

Any forward-looking information and forward-looking statements given in the MD&A speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information or forward-looking statement. Although the Company believes that the assumptions used in making or providing any forward-looking information or forward-looking statements are reasonable, they are not guarantees of future performance of operations, and as such, undue reliance should not be put on such information or statements due to their inherent uncertainty.

## Company Overview

PopReach Incorporated is a privately owned company whose primary business activities are the acquisition, operation, production and sale of Free-to-Play video game franchises, which are published on popular digital platforms such as Apple's App Store, the Google Play Store, the Amazon App Store, and the Facebook App Center. The Company is incorporated under the laws of the Province of Ontario. The head office of the Company is located at 1 University Avenue, 3rd Floor, Toronto, ON, M5J 2P1.

The Company operates a wholly owned subco, PopReach Technologies Private Limited ("PR Tech"), in Bangalore, India. PR Tech is incorporated pursuant to the laws of India, and its' accounts are consolidated into the Company's Interim Financial Statements and Annual Financial Statements. PR Tech manages the Company's portfolio of live video game franchises, and employs approximately 114 employees on a full time basis.

The Company's Interim Financial Statements and Annual Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). However, the Company considers certain Non-GAAP (as hereinafter defined) financial measures as useful additional information to assess its financial performance. Please refer to the "Non-GAAP Measures" section of this MD&A for additional details regarding the use of Non-GAAP measures in this MD&A.

## Summary of Significant Milestones

**Bank credit facility**

On February 3, 2020, a signed waiver was obtained from the Centre Lane Partners Master Credit Fund II L.P. (the "**Creditor**"), with revised financial covenants, and waiving the right for the Creditor to call the facility as a result of a September 30, 2019 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. For the $3,000,000 equity financing requirement, the $1,833,550 raised pursuant to the issuance of PopReach 2020 Debentures, together with (approximately $1,430,000) cash consolidated from the Proposed Reverse Takeover Transaction (the "**Transaction**") as described in note 10 of the Interim Financial Statements, will both be counted to fulfill the $3,000,000 requirement. The Company is in compliance with the revised financial covenants at March 31, 2020, and upon completion of the Transaction, satisfies the capital raise requirements prior to June 30, 2020

**Server cost reductions**

As part of the acquisition of a portfolio of 22 games from RockYou Inc. (the "RockYou Acquisition"), which occurred on December 23, 2018, PopReach inherited server hosting accounts with several vendors, including Amazon AWS, IBM Softlayer, Rackspace and Switch, as well as considerable server and network hardware at the DigitalRealty data center in San Francisco. In an effort to consolidate hosting services and thereby reduce costs pursuant to PopReach's operation and business strategy, the physical hardware at DigitalRealty was moved to the Switch data center, and was reconfigured to create an environment to which games hosted at Rackspace and IBM Softlayer could be migrated. The forecasted cost reduction of operating the games at Switch while closing accounts with Rackspace and IBM Softlayer is estimated to be approximately $1,700,000 annually.

The Company undertook these endeavours in September of 2019, successfully completed them in April 2020, and began to realize the associated cost savings in May 2020.

**Convertible debt raises and exercises**

For the three months ended March 31, 2020, the Company issued unsecured convertible debentures, for aggregate proceeds of $1,173,530 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 (and as more specifically detailed in the Interim Financial Statements). 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 at the Conversion Price, and one warrant at a price that is 50% greater than the Conversion Price for a period of 24 months from the completion of the liquidity event.

The Company also paid $7,818 in cash, issued $7,818 in convertible debentures, and issued non-transferable share purchase broker warrants to acquire 4,784 common shares to certain entities in reference to finder's fee agreements associated with the aforementioned convertible debt issuance. Each warrant is exercisable to purchase one common share at the Conversion Price, and has a maturity date of 2 years after the date of issuance of the associated convertible debentures.

In the second quarter of 2020, the Company issued unsecured convertible debentures, for aggregate proceeds of $660,020, to certain investors. These terms governing these instruments are the same as the unsecured convertible debentures issued in the first quarter of 2020.

The Company also paid $14,775 in cash, and issued non-transferable share purchase broker warrants to acquire 4.640 common shares to an entity in reference to a finder's fee agreement associated with the second quarter 2020 convertible debt issuance. Each warrant is exercisable to purchase one common share at the Conversion Price, and has a maturity date of 2 years after the date of issuance of the associated convertible debentures.

The issuance of the unsecured convertible debentures combined with the amounts raised in the Transaction, as described in Note 10 of the Interim Financial Statements, satisfy the credit facility waiver requirement of Company issue equity interests or debentures in an amount not less than $3,000,000 on or before June 30, 2020, as described in Note 14 of the Interim Financial Statements.

**Share-based payments and exercises**

No share-based payments or employee incentive stock options were awarded during the three month period ended March 31, 2020.

**Warrants**

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 debentures as disclosed in Note 14 of the Interim Financial Statements, which are exercisable into 4,784 common shares for a period of 24 months following the closing of the associated convertible debentures.

10,125 warrants were unexercised and expired during the three months ended March 31, 2020.

In June 2020, the Creditor exercised all of its warrants associated with the financing of the RockYou Acquisition, as discussed in Note 14 of the Interim Financial Statements.

## Proposed Transactions

**Proposed Reverse Takeover Transaction**

On November 11, 2019, the Company signed a letter of intent (the "**Mithrandir Letter of Intent**") with Mithrandir Capital Corp ("**Mithrandir**"), whereby 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 (the "**Proposed Reverse Takeover Transaction**").

Pursuant to the Mithrandir Letter of Intent, Mithrandir is to be valued at $3 million Canadian dollars and the Company at $31.2 million Canadian dollars for the purposes of the Proposed Reverse Takeover Transaction.

Immediately prior to and as a condition to closing of the Proposed Reverse Takeover Transaction, Mithrandir shall complete a share consolidation on the basis of one new share for every eight outstanding Mithrandir Shares (the "S**hare 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-Share Consolidation) for each Company share (the "**Exchange Ratio**") held; and
- options, warrants, debentures or other securities convertible into Company shares shall be exchanged, based on the Exchange Ratio, for equivalent securities to purchase Mithrandir shares on substantially similar terms and conditions.

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.

## Key Metrics

The Company regularly reviews a number of metrics, including the following key financial and operating metrics, to evaluate the business, measure performance, identify business trends, prepare financial projections and make strategic decisions.

**Key Financial Metrics**

***Revenue and Bookings***

Revenue is primarily derived from the sale of virtual items associated with our online games and the sale of advertising. For details on how revenue is calculated please see “Revenue recognition” under “Significant accounting policies” below.

Bookings is a non-GAAP financial measure that is equal to revenue recognized plus or minus the change in deferred revenue during the period. The Company records the sale of virtual items in our games as deferred revenue and then recognizes the revenue rateably over the estimated average playing period of payers for the applicable game.

The identified performance obligation for revenue recognition 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. Bookings is a fundamental top-line metric we use to manage our business, as we believe it is a useful indicator of the sales activity in a given period, and corresponds directly to actual cash receipts. We use revenue and bookings to evaluate the results of our operations, generate future operating plans and assess the performance of our company.

**Key Operating Metrics**

***Monthly Average Users***

Please see below discussion on monthly average users in “Non-GAAP Measures”.

## Non-GAAP Measures

The Company prepares its financial statements in accordance with IFRS. However, the Company considers certain non-GAAP financial measures as useful additional information to assess its financial performance. These measures, which it believes are widely used by investors, securities analysts and other interested parties to evaluate its performance, do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-GAAP measures include “Bookings”, “EBITDA” and “Adjusted EBITDA”.

**Bookings**

Bookings is a financial measure that is equal to revenue recognized plus or minus the change in deferred revenue during the period. As such, it is representative of the actual gross revenue paid by paying players in the Company’s games.

**EBITDA and adjusted EBITDA**

Earnings before interest, taxes, depreciation and amortization ("**EBITDA**") and consolidated adjusted earnings before interest, taxes, depreciation and amortization ("**Adjusted EBITDA**") are non-IFRS measures of financial performance. The presentation of these non-IFRS financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with IFRS, and may be different from non-IFRS financial measures used by other companies. PopReach management defines EBITDA as follows: IFRS Net income (loss) adding back accretion and interest expenses, income taxes, amortization, gain/loss on disposal of assets, and fair value gain/loss on financial liabilities. Adjusted EBITDA is calculated as EBITDA and excludes discontinued operations and the effects of significant items of income and expenditure which may have an impact on the quality of earnings, such as restructuring costs, legal expenses, and impairments where the impairment is the result of an isolated, non-recurring event. It also excludes the effects of equity-settled share-based payments, and changes in deferred revenues.

Management believes EBITDA and Adjusted EBITDA are useful financial metrics to assess its operating performance on a cash basis before the impact of non-cash items.

**Monthly Average Users (MAU)**

The Company manages the business by tracking several operating metrics including Monthly Average Users ("**MAU**") which measure monthly active users of our games, and revenue per average MAU ("**Revenue per Average MAU**") which is the total annual revenue divided by 12, and then divided by the average MAU being, for a particular period, the average of the MAUs at each month-end during that period ("**Average MAU**"). The following table shows the Average MAU and Revenue per Average MAU for each period:

| | | Three months ended March 31 2020 | | Three months ended March 31 2019 |
|---|---|---|---|---|
| Revenues | $ | 4,676,544 | $ | 4,562,254 |
| Average monthly revenues | | 1,558,848 | | 1,520,751 |
| Average MAU (in thousands) | | 1,206 | | 1,053 |
| Revenue per Average MAU | | 1.29 | | 1.44 |

We use MAU as a measure of total game audience size and define MAU as the number of individuals who played one of our games in the 30-day period ending with the measurement date. The numbers for these MAU are calculated using information provided by the third-party platforms. Under this metric, an individual who plays two different games in the same 30-day period is counted as two MAUs.

## Overall Performance

For the three months ended March 31, 2020, the Company reported a net loss of $677,742 (March 31, 2019 – net loss of $857,969). For the three months ended March 31, 2020, the Company reported a comprehensive loss of $636,638 (March 31, 2019 – comprehensive loss of $914,607), and a net loss per share of $0.12 (March 31, 2019 – net loss per share of $0.18).

The Company's accumulated deficit as at March 31, 2020 was $7,599,263 (March 31, 2019 – accumulated deficit of $6,921,521), and its accumulated shareholders' deficit was $3,331,612 (March 31, 2019 – accumulated shareholder's deficit of $2,733,581).

For the three months ended March 31, 2020, the Company generated cash from operating activities of $161,034, compared to cash used in operating activities of $887,314 for the three months ended March 31, 2019. The primary reason of the difference in cash generated from operating activities was due to delays surrounding the transition of platform accounts associated with the RockYou Acquisition in the first quarter of 2019. The impact was that accounts receivables generated in the first quarter of 2019 were not received until late in the second quarter of 2019.

## Selected Quarterly Information

Below is selected quarterly information from the Company's consolidated financial statements for each of the quarterly periods indicated. The Company's functional and presentation currency is US Dollars. Except where indicated, the following financial data is reported in accordance with IFRS.

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|---|---|---|
| Revenues | 4,676,544 | 4,562,254 |
| Net Loss | (677,742) | (857,969) |
| Comprehensive Loss | (636,638) | (914,607) |
| Loss per share (basic and diluted) | (0.12) | (0.18) |
| Total assets | 11,905,344 | 12,617,436 |
| Total non-current liabilities | 15,236,956 | 15,351,017 |
| *Non-GAAP:* | | |
| Bookings | 4,714,885 | 4,971,532 |
| EBITDA | 695,861 | 310,522 |
| Adjusted EBITDA | 860,065 | 810,882 |

## Discussion of Operations

Due to the complexity of the game operations required for the RockYou Acquisition, operational expenses increased substantially subsequent to December 23, 2018. Throughout 2019 and into early 2020, the Company sought to reduce server costs through server consolidation and optimization, re-engineering of the game assets, elimination of unnecessary third-party services, and negotiation of lower cost third-party agreements.

In September 2019 the Company acquired a portfolio of 4 games, based on "Smurfs" IP licensed from Lafig Belgium S.A., from Flashman Games LLC and Bongfish Gmbh (the "Smurfs Portfolio"). In contrast with the RockYou Acquisition, the Smurfs Portfolio of games only required the transfer of a single server hosting account and three vendor service accounts.

Below is the discussion of results and operations for the three months ended March 31, 2020 and 2019.

**Revenue**

The increase in revenues for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 was largely related to the acquisition of the Smurfs Portfolio of games, for both in-app purchase and advertising revenue. The addition of the Smurfs Portfolio increased the number of MAU, but due to its lower monetization on a per user basis resulted in a decrease in Revenue per Average MAU.

***Bookings***

Bookings is a non-GAAP financial measure that is equal to revenue recognized plus or minus the change in deferred revenue during the period. The following table is the reconciliation from revenue to bookings for each period:

| | | Three months ended March 31, 2020 | | Three months ended March 31, 2019 |
|---|---|---|---|---|
| Revenue | $ | 4,676,544 | $ | 4,562,254 |
| Add: Change in deferred revenue | | 38,341 | | 409,278 |
| **Total bookings** | | 4,714,885 | | 4,971,532 |

The decrease in bookings for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 is largely related to the games and portfolios of games acquired by the Company at the end of 2018, of which some that have entered the decline stage or have been discontinued by the Company after since the first quarter of 2019 and have contributed to lower overall bookings.

***Revenue by geographic location***

The following table presents the Company's revenue disaggregated based on the geographic location of the Company's paying players. All the geographic markets presented below represent at least 10% of total revenues for each period:

| | | Three months ended March 31, 2020 | Percentage of revenue % | | Three months ended March 31, 2019 | Percentage of revenue % |
|---|---|---|---|---|---|---|
| North America | $ | 3,589,371 | 77% | $ | 3,439,365 | 75% |
| Europe | | 599,213 | 13% | | 592,763 | 13% |
| Other | | 487,960 | 10% | | 530,126 | 12% |
| **Total revenue** | | 4,676,544 | 100% | | 4,562,254 | 100% |

***Revenue by category***

The following table presents the Company's revenue disaggregated based on the specific nature of revenues earned for each period:

| | | Three months ended March 31, 2020 | Percentage of revenue % | | Three months ended March 31, 2019 | Percentage of revenue % |
|---|---|---|---|---|---|---|
| In-app purchases | $ | 4,451,628 | 95% | $ | 4,292,445 | 94% |
| Advertising | | 224,674 | 5% | | 210,747 | 5% |
| Other | | 242 | 0% | | 59,062 | 1% |
| **Total revenue** | | 4,676,544 | 100% | | 4,562,254 | 100% |

For the three months ended March 31, 2019, other revenues related to a revenue share agreement, which was terminated on July 31, 2019 as resourcing has shifted to internally developed games

***In-app purchases by platform***

The following table presents the Company's in-app purchases disaggregated based on the digital platform the games are published on for each period:

| | | Three months ended March 31, 2020 | Percentage of in-app revenue % | | Three months ended March 31, 2019 | Percentage of in-app revenue % |
|---|---|---|---|---|---|---|
| Apple | $ | 2,005,458 | 45% | $ | 1,477,014 | 34% |
| Facebook | | 1,517,493 | 34% | | 2,051,042 | 48% |
| Google | | 854,970 | 19% | | 681,785 | 16% |
| Amazon | | 73,707 | 2% | | 82,604 | 2% |
| **Total revenue** | | 4,451,628 | 100% | | 4,292,445 | 100% |

The Company considers the Apple and Google mobile digital platforms as strategic drivers of growth, and has shifted resources towards these platforms accordingly – the distribution of revenue between the four platforms for the three months ended March 31, 2020 is the result of this shift.

**Cost of sales**

The following table presents the Company's cost of sales, broken down by nature for each period:

| | Three months ended March 31, 2020 | Three months ended March 31, 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 |

The decrease in cost of sales for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 was related to the efforts to reduce server cost expenses as mentioned in the "Summary of Significant Transactions", offset by increases in licensor share expenses related to royalty fees relating to the Smurfs Portfolio of games, as well as user acquisition spend on a game that the Company is currently test marketing.

**Operating Expenses**

The following table presents the Company's operating expenses for each period:

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|---|---|---|
| Operating expenses: | | |
| Research and development | $ 690,434 | $ 894,027 |
| General and administrative | 1,373,570 | 939,048 |
| Amortization | 734,794 | 889,193 |
| | 2,798,798 | 2,722,268 |

The increase in operating expenses for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 was related to the increase in interest expenses associated with bank credit facility used to finance the RockYou Acquisition, increased interest and accretion charges from the increase in convertible debentures, along with the increase in professional fees related to the proposed Transaction mentioned in the "Summary of Significant Transactions".

***Research and development***

The following tables presents the Company's research and development expenses, broken down by nature by period:

| | | Three months ended March 31, 2020 | | Three months ended March 31, 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 |

The decrease in research and development expenses for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 was largely related to restructuring efforts during the fourth quarter of 2019 in order to reduce salaries and benefits at PR Tech.

***General and administrative***

The following tables presents the Company's general and administrative expenses, broken down by nature by period:

| | | Three months ended March 31, 2020 | | Three months ended March 31, 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 |

The increase in general and administrative expenses for the three months ended March 31, 2019 compared to the three months ended March 31, 2020 was largely related to the increase in bank debt associated with the RockYou Acquisition, additional convertible debenture investments, and the increase in costs related to the proposed Transaction mentioned in the "Summary of Significant Transactions". This resulted in increased interest and accretion expenses, professional fees, and fair value losses which are included in "Other expenses".

**Amortization**

Amortization decreased for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 due to an impairment charge recorded during the fourth quarter of the year ended December 31, 2019. As a result of this impairment charge, the carrying values of the intangible assets were reduced, resulting in a lower amortization per period moving forward. The Company's intangible assets are amortized over their expected useful lives, which ranges from 2 – 7 years.

**Adjusted EBITDA**
The following table presents the Company's calculation of EBITDA and Adjusted EBITDA for each period:

| | | Three months ended March 31, 2020 | | Three months ended March 31, 2019 |
|---|---|---|---|---|
| Net loss | $ | (677,742) | $ | (857,969) |
| Add: | | | | |
| Interest and accretion expenses | | 345,492 | | 188,998 |
| Income taxes | | 24,091 | | 54,329 |
| Amortization | | 734,794 | | 889,193 |
| Amortization of deferred financing fees | | 31,206 | | 31,790 |
| Fair value gain/loss on financial liabilities | | 238,020 | | 4,181 |
| **EBITDA** | | 695,861 | | 310,522 |
| Add: | | | | |
| Share-based compensation expense | | 32,141 | | 44,134 |
| Change in deferred revenue | | 38,341 | | 409,278 |
| Legal expenses | | 93,722 | | 46,948 |
| **Adjusted EBITDA** | | 860,065 | | 810,882 |

The increase in EBITDA and Adjusted EBITDA for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 was largely related to the acquisition of the Smurfs Portfolio in September 2019.

The decrease in income taxes was related to income taxes payable in India by PR Tech. Income taxes in India arise from transfer pricing, where taxes are payable based on a markup of costs incurred in India, such as salaries and benefits and other general and administrative expenses. As salaries and benefits in India decreased from the three months ended March 31, 2019 to March 31, 2020, the income tax expense also decreased.

Decreases in amortization was due to the impairment charge recorded at the end of the year December 31, 2019. As a result of the impairment charge, the carrying values of the intangible assets were decreased, resulting in a lower amortization per period. Increases in interest and accretion expenses were related to the financing of the RockYou Acquisition. Increases in the fair value loss was related to the continued convertible debenture raises. As the probability of the Transaction mentioned in the "Summary of Significant Transactions" increases, the fair value of the conversion feature also increases. Legal expenses also increased due to the Transaction.

## Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

## Liquidity and Capital Resources

As at March 31, 2020, the Company had cash and cash equivalents of $887,471 (December 31, 2019 - $1,126,160) and a working capital deficit of $2,112,703 (December 31, 2019 – deficit of $10,295,231). The Company believes that based on its current financial position and liquidity profile, the Company will be able to satisfy its current and long-term obligations.

The Company consistently generates positive cash flow from operations which exceed current working capital requirements. Excess funds from operating cash flow are used for principal debt repayments as well as to fund future game acquisitions. The Company also expects to raise additional funding for general corporate purposes, including satisfying long-term debt obligations and future game acquisitions.

**Balance sheet obligations**

The Company's contractual obligations as at March 31, 2020, at their undiscounted value, are described in the following table:

| | | | | | | | | 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 |

**Cash Flows**

The following table summarizes the Company's Consolidated Statements of Cash Flows for each period:

| | | Three months ended March 31, 2020 | | Three months ended March 31, 2019 |
|---|---|---|---|---|
| Cash generated from (used in) operating activities | $ | 161,034 | $ | (887,314) |
| Cash used in investing activities | | (854,142) | | (95,222) |
| Cash generated from financing activities | | 504,032 | | 1,982,769 |

Cash generated by operating activities for the three months ended March 31, 2020 was positively influenced by the full integration of the RockYou Acquisition compared to the three month period ended March 31, 2019 in which the transition of RockYou Acquisition assets was incomplete. During the first quarter of 2019, revenues were not received until during the second quarter of 2019, resulting in a significant increase in working capital as at March 31, 2020.

Cash used in investing activities increased during the three months ended March 31, 2020 compared to the three months ended March 31, 2019, due to payments relating to game acquisitions for the Smurfs Portfolio.

Cash generated from financing activities for the three month period ending March 31, 2020 include cash generated from issuance of convertible debenture as mentioned above in “Summary of Significant Transactions”, less interest and repayment of principal on debt to the Creditor. During the same three month period ending March 31, 2019 the large net increase in cash generated were from net proceeds from borrowings in order to fund the RockYou Portfolio of games and cash proceeds from convertible debentures.

## 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 with 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.

**Lease liabilities**

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 |

## Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of common shares. As at March 31, 2020, the Company had outstanding 5,109,012 common shares, 209,377 common share purchase warrants and 702,246 employee incentive stock options. Please refer to the Company's Interim Financial Statements for the three months ended March 31, 2020 and 2019 for detail on the conversion features.

## Related Party Transactions

### 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 management.

### 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 March 31, 2020 | Three months ended March 31, 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 |

## Significant accounting policies

The Company uses information from the financial statements, prepared in accordance with IFRS and expressed in US dollars, to prepare the MD&A. The significant accounting policies used are outlined below.

**Statements of compliance**

The Interim 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 Financial Statements. There have been no other changes to the significant accounting policies since the Annual Financial Statements for the years ended December 31, 2019 and December 31, 2018.

## Use of estimates and judgments

Please see Note 3 in the Interim Financial Statements for full discussion of use of estimates and judgments.

## Financial Instruments and Other Instruments

Please see Notes 13, 14, 15, 16 and 21 in the Interim Financial Statements for full discussion of financial instruments and other instruments.