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

POPREACH INCORPORATED

For the years ended December 31, 2019 and 2018

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 the audited consolidated financial statements as at and for the years ended December 31, 2019 and 2018 (the "**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

The Company is a privately owned company whose primary business activities are the acquisition, operation, production and sale of Free-to-Play **("FTP**") 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's annual audited financial statements for the years ended December 31, 2019 and December 31, 2018 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". Further discussion on the effects of the adoption can be found in the section "First Time Adoption of IFRS".

The Company prepares its financial statements in accordance with 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

RockYou portfolio of games

On December 23, 2018, the Company entered into an asset purchase agreement (the "**RockYou Acquisition**") with RockYou Inc., a Delaware corporation ("**RockYou**"), to acquire a list of developed technology consisting of FTP game assets (the "**RockYou Portfolio**"). The acquisition was inline with the Company's intention to focus on the acquisition and operation of existing FTP games. As part of the RockYou Acquisition, the Company acquired its assets in RockYou India Private Limited ("**RY India**"), a wholly owned subsidiary of RockYou based in Bangalore, India, 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 PopReach Technologies Private Limited ("**PR Tech**"), a wholly owned subsidiary of the Company incorporated pursuant to the laws of India. 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.

PR Tech is a management company in charge of managing and operating the Company's developed technology, and 114 employees.

The aggregate purchase price due to RockYou was $8,049,720 of cash consideration, 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 RockYou, 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 as described below in "Bank credit facility".

As at December 31, 2019, the entire amount of cash consideration has been paid to RockYou.

During 2019, RockYou went through bankruptcy and insolvency proceedings. As such, certain advertising engines used by the RockYou Portfolio that RockYou was operating were shut down, resulting in lower actual advertising 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.

Bank credit facility

To fund the RockYou acquisition, on December 23, 2018, the Company entered into a $10,000,000 senior secured credit agreement with Centre Lane Partners Master Credit Fund II L.P. (the "**Creditor**"), having 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 substantially all of its assets (the "**Bank Credit Facility**"). The Bank 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 Bank Credit Facility is equal to the LIBOR plus 7.00% per annum, where LIBOR floor is 2.00%. The amount drawn under the Bank 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 of the Financial Statements) 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. In June 2020, the Creditor exercised all of its warrants associated with the financing of the RockYou Acquisition.

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 by June 30, 2020. For the $3,000,000 equity financing requirement, the $1,833,550 raised pursuant to the issuance of PopReach 2020 Convertible Debentures, together with (approximately $1,430,000) cash consolidated from the Proposed Reverse Takeover Transaction (the "**Transaction")** as described in note 12 of the Financial Statements, will both be counted to fulfill the $3,000,000 requirement. The Company is in compliance with the revised financial covenants at December 31, 2019 and at March 31, 2020, and upon completion of the Transaction, satisfies the capital raise requirements prior to June 30, 2020.

Smurfs portfolio of games

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 to acquire a list of developed technology consisting of FTP game assets. More information on the present value of the aggregate purchase price and the resulting contingent consideration payable can be found in Note 7 of the Consolidated Financial Statements.

Hothead Halifax studio

On February 28, 2018, PopReach entered into an asset purchase agreement with Hothead Games Inc. ("**Hothead**") to acquire all property and equipment relating to Hotheads's game studio in Halifax, Nova Scotia, with a payment period of two years. PopReach also assumed the existing Hothead Halifax office lease (the "**Hothead Lease**"). In conjunction with this agreement, PopReach made new offers of employment to approximately 20 Hothead employees based in the Halifax studio. On July 15, 2019, PopReach entered into an agreement with Hothead whereby all property and equipment were returned to Hothead, and the assumption by PopReach of the Hothead Lease was cancelled. Concurrently, Hothead made new offers of employment to all Halifax based employees of PopReach, which were all accepted.

Server cost reductions

As part of RockYou Acquisition, 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 was estimated at approximately $1.7M annually.

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

Convertible debt raises and exercises

On August 31, 2018, unsecured convertible debentures as described in Note 21 of the Financial Statements, 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 $1.24/share Canadian each. These instruments had a maturity date of 1 year, with an annual interest rate of 1%.

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 is 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 $18,000,000 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 at the conversion price, and one common share purchase warrant at an exercise price 50% greater than the conversion price.

In the first half of 2020, the Company issued unsecured convertible debentures, for aggregate proceeds of $1,833,550, 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 common share purchase warrant at an exercise price 50% greater 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, as described above.

The Company also paid $22,593 in cash, issued $7,818 in convertible debentures, and issued non-transferable share purchase broker warrants to acquire up to 9,424 common shares to certain entities in reference to finder's fee agreements associated with the aforementioned 2020 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.

Share-based payments and exercises

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.

Warrants

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 units are not readily convertible into cash and are treated as equity and booked to share-based payment reserve.

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

In 2018, the Company issued 204,593 broker warrants as consideration for services provided in connection with the Company entering into the Bank Credit Facility, as described above in "Bank credit facility". Each of these warrants is exercisable into one common share of the Company at a nominal price at any time until the date which is sixty months following the closing of the Bank Credit Facility. 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. In June 2020, the Creditor exercised all of its warrants associated with the financing of the RockYou Acquisition. Other deferred financing fees were also incurred with the financing, which is discussed in Note 16 of the 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**"), 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 (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 similar 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, unrealized gains or losses on financial instruments, and changes in deferred revenues.

Management believes EBITDA and Adjusted EBITDA is a useful financial metric 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:

	2019	2018
Revenues	$ 17,953,874	$ 1,446,697
Average monthly revenues	1,496,156	120,558
Average MAU (in thousands)	1,110	246
Revenue per Average MAU	1.35	0.49

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 year ended December 31, 2019, the Company reported a net loss of $4,435,785 (2018 – loss of $1,462,018). For the year ended December 31, 2019, the Company reported a comprehensive loss of $4,422,335 (2018 – loss of $1,527,063), or a net loss per share of $0.91 (2018 – loss per share of $0.31).

The Company's accumulated deficit as at December 31, 2019 was $6,921,521 (2018 – deficit of $2,485,736), and its accumulated shareholders' deficit was $2,733,581 (2018 – shareholders' equity of $1,297,700).

For the year ended December 31, 2019, the Company generated cash from operating activities of $628,020, compared to cash used in operating activities of $1,405,207 for the year ended December 31, 2018. The primary reason of the change in results was due to the shift in focus to the acquisition and operation of existing FTP games and game franchises, and the subsequent acquisition of the RockYou Portfolio.

Selected Annual Information

Below is the selected annual information from the Company's consolidated financial statements for each of the annual 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.

	2019	2018
Revenues	17,953,874	1,446,697
Net Loss	(4,435,785)	(1,462,018)
Comprehensive Loss	(4,422,335)	(1,527,063)
Loss per share (basic and diluted)	(0.91)	(0.31)
Total assets	12,617,436	13,557,790
Total non-current liabilities	1,523,509	2,159,622
Non-GAAP:		
Bookings	18,515,763	2,116,320
EBITDA	717,523	(1,156,771)
Adjusted EBITDA	3,033,611	48,755

For the year ended December 31, 2018 to December 31, 2019, the Company's revenues and net losses increased significantly due to the acquired RockYou and Smurfs portfolio of games described in "Summary of Significant Milestones". The Company's non-current liabilities decreased, as provisions related to contingent consideration payable for the acquisition of certain portfolios of games became payable in 2020 and thus became short-term in nature.

Discussion of Operations

For most of 2018, the Company operated as a game developer and publisher with a single studio in Toronto. The majority of employees were working on developing a small portfolio of games. These games did not require any extensive live operation capabilities, and as such there were very limited backend services in place with PopReach utilizing Amazon AWS and Dreamhost to host approximately 3 servers. The nature of the games developed and published at that time did not require third-party vendor support.

The Company acquired the RockYou Portfolio on December 23, 2018 after which a transition and migration period began. At this time, the gaming assets were transferred to the PopReach platform accounts, and the subsequent transfer of dependent software and service agreements commenced.

By the end of March 2019, the Company had transferred agreements with nineteen vendors that included hosting services, data centers, application monitoring software, and contractors. In April 2019, the Company assumed the RockYou account with Rackspace, which was the primary hosting provider for a large subset of the RockYou Portfolio. In June 2019, the Company assumed the RockYou account with Amazon AWS.

Due to the complexity of the game operations required for the RockYou Portfolio, operational expenses and resources were increased compared with the requirements for the Company's activities prior to December 23, 2018.

Throughout 2019, 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 the Smurfs portfolio of games. In contrast with the RockYou Portfolio, the acquired Smurfs portfolio of games only required the transfer of a single Amazon AWS server hosting account and three vendor service accounts.

Below is the discussion of results and operations for the years ended December 31, 2019 and December 31, 2018.

Revenue

During most of 2018, the Company generated revenue as a game developer and publisher with a single studio in Toronto. Revenue was generated from production and publishing of a small portfolio of games developed in house. Effective December 23, 2018, revenue increased significantly from the acquisition of the RockYou Portfolio of games.

The increase in revenues from the year ended December 31, 2018 to December 31, 2019 was largely related to the acquisition of the RockYou Portfolio which increased both in-app purchase and advertising revenue. With the much larger catalogue of game titles the number of paying users and overall MAU increased drastically, including a much higher revenue per average MAU as the paying players contributed higher on a per player basis to overall revenue.

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 year:

		2019		2018
Revenue	$	17,953,874	$	1,446,697
Add: Change in deferred revenue		561,889		669,623
Total bookings		18,515,763		2,116,320

The increase in bookings from year ended December 31, 2018 to December 31, 2019 was largely related to the acquisition of the RockYou Portfolio mentioned above and in the “Summary of Significant Transactions”.

Revenue by geographic location

The following table presents the Company's revenue disaggregated based on the geographic location of the Company's paying players.

		2019	Percentage of revenue %		2018	Percentage of revenue %
North America	$	13,954,244	78%	$	707,972	49%
Europe		2,277,961	13%		409,507	28%
Australia		707,428	4%		261,359	18%
Other		1,014,241	5%		67,859	5%
Total revenue		17,953,874	100%		1,446,697	100%

Revenue by category

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

		2019	Percentage of revenue %		2018	Percentage of revenue %
In-app purchases	$	16,970,160	95%	$	763,550	53%
Advertising		719,762	4%		470,817	32%
Other		263,952	1%		212,330	15%
Total revenue		17,953,874	100%		1,446,697	100%

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:

		2019	Percentage of in-app revenue %		2018	Percentage of in-app revenue %
Apple	$	6,404,671	38%	$	432,403	57%
Facebook		7,505,518	44%		229,813	30%
Google		2,779,293	16%		84,664	11%
Amazon		280,678	2%		16,670	2%
Total revenue		16,970,160	100%		763,550	100%

Cost of sales

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

		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

The increase in cost of sales from the year ended December 31, 2018 to December 31, 2019 was related to the acquisition of certain portfolios of games discussed in "Summary of Significant Milestones". These acquisitions resulted in increased platform fees on in-app purchases, increased hosting costs, salaries and benefits associated with employees at PR Tech, and user acquisition fees to increase player traffic.

Operating Expenses

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

	2019	2018
Operating expenses:		
Research and development	3,245,964	674,113
General and administrative	4,128,368	1,514,448
Amortization	3,720,177	210,959
Impairment of goodwill and other	994,525	–
	12,089,034	2,399,520

The increase in operating expenses from the year ended December 31, 2018 to December 31, 2019 was related to the acquisition of certain portfolios of games discussed in "Summary of Significant Milestones". This resulted in increased salaries and expenses associated with employees at PR Tech, and increased professional fees, interest expenses, and deferred financing fees associated with these acquisitions and the associated Bank Credit Facility, and the Proposed Reverse Takeover Transaction.

Research and development

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

		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

The increase in research and development expenses from the year ended December 31, 2018 to December 31, 2019 was largely related to the acquisition of certain portfolios of games discussed in "Summary of Significant Milestones".

General and administrative

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

		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

The increase in general and administrative expenses from the year ended December 31, 2018 to December 31, 2019 was largely related to the acquisition of certain portfolios of games discussed in "Summary of Significant Milestones". This resulted in increased salaries and benefits expenses associated with employees at PR Tech, interest and accretion expenses associated with the Bank Credit Facility, and increased professional fees and deferred financing fees associated with these acquisitions and the associated Bank Credit Facility, and the Proposed Reverse Takeover Transaction.

Amortization

Amortization increased from the year ended December 31, 2018 to December 31, 2019 due mainly to the amortization of intangible assets acquired as at December 23, 2018 as discussed in "Summary of Significant Transactions". The Company's intangible assets are amortized over their expected useful lives which ranges from 2 – 7 years.

Impairment of goodwill and other

The Company incurred a charge to operating income for impairment of goodwill for the period ending December 31, 2019 relating to the purchase of intangible assets associated with the RockYou Portfolio, as discussed in "Summary of Significant Milestones".

Adjusted EBITDA

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

		2019		2018
Net loss	$	(4,435,785)	$	(1,462,018)
Add:				
Income taxes		191,269		–
Gain/loss on disposal of assets		(84,700)		–
Fair value gain/loss on financial liabilities		60,468		–
Interest and accretion expenses		1,123,108		92,108
Amortization		3,720,177		210,959
Amortization of deferred financing fees		142,986		2,180
EBITDA		717,523		(1,156,771)
Add:				
Impairment of goodwill and other		994,525		–
Share-based compensation expense		201,184		295,816
Change in deferred revenue		561,889		669,623
Legal expenses		377,209		240,087
Restructuring costs		181,281		–
Adjusted EBITDA		3,033,611		48,755

The increase in EBITDA and Adjusted EBITDA from the year ended December 31, 2018 to December 31, 2019 was related to the acquisition of certain portfolios of games discussed in "Summary of Significant Milestones".

The increase 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. Restructuring costs of PR Tech were also incurred in 2019, which comprised of certain vacation, termination, and severance pay.

The gain on the disposal of assets largely related to the disposals of property and equipment during the year, as well as terminations of leases associated with the Hothead Halifax studio, as discussed in "Summary of Significant Milestones"

Increases in amortization was largely related to the acquisition of the RockYou Portfolio of games discussed in "Summary of Significant Milestones". Increases in interest and accretion expenses, legal fees, and amortization of deferred financing fees were also related to the financing of the acquisition.

Impairment was recognized during the year ended December 31, 2019, and was related to the bankruptcy of RockYou discussed in "Summary of Significant Milestones".

Off-balance Sheet Arrangements

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

Liquidity and Capital Resources

As at December 31, 2019, the Company had cash and cash equivalents of $1,126,160 (2018 - $196,924) and a working capital deficit of $10,295,231 (2018 - $8,587,805). 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.

During 2019, the Company generated 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 does also expect to raise additional funding for general corporate purposes, including satisfying long-term debt obligations and future acquisitions.

Balance sheet obligations
The Company's contractual obligations as at December 31, 2019, at their undiscounted value, are described in the following table:

								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 in February 2020 as described above in "Summary of Significant Milestones".

Cash Flows

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

	2019	2018
Cash generated from (used in) operating activities	$ 628,020	$ (1,405,207)
Cash used in investing activities	(2,912,501)	(343,662)
Cash generated from financing activities	3,201,480	507,954

Cash generated by operating activities in 2019 was positively influenced by the acquisition of the RockYou Portfolio of games as described above in "Summary of Significant Milestones"

Cash used in investing activities increased in 2019 due to payments relating to game acquisitions for the RockYou Portfolio of games and Smurfs portfolio of games as described above in "Summary of Significant Transactions".

Cash generated from financing activities in 2019 are from net proceeds from borrowings in order to fund the game acquisitions under investing activities. The Company has also participated in capital raises during the years ended December 31, 2019 and December 31, 2018, which is discussed in "Summary of Significant Milestones".

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.

Lease liabilities

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 Hothead Lease, which is discussed in “Summary of Significant Milestones”. The Company also derecognized $164,563 of right-of-use assets related to the acquisition of a sublease for its 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

Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of common shares. As at December 31, 2019, the Company had outstanding 5,109,012 common shares, 214,718 common share purchase warrants and 702,246 stock options. Please refer to the Company's December 31, 2019 and 2018 audited financial statements for detailed conversion features.

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 above under the "First Time Adoption of IFRS". 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 were subsequently converted into common shares along with the rest of the convertible debt issuance and described above under "Summary of Significant Milestones".

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		789,625		584,341

First Time Adoption of IFRS

The Company's annual audited financial statements for the years ended December 31, 2019 and December 31, 2018 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 Company has made the election to move to IFRS as a condition of a future probable public market listing.

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.

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 of the Consolidated Financial Statements, 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.

The summary of the adjustments to the opening balance sheet as at January 1, 2018 can be found in Note 2 of the annual audited consolidated financial statements.

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.

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.

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.

Financial Instruments and Other Instruments

Fair value of financial assets and liabilities
The carrying amounts for cash and cash equivalents, restricted cash, trade and other receivables, and trade and other payables approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in an immediate settlement of the financial instruments. The fair value hierarchy is discussed in the "Significant accounting policies".

Other financial instruments include borrowings, game acquisition payables and provisions, and derivative financial instruments and convertible debentures. The amounts of income, expenses, gains and losses associated with financial instruments are included below.

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

Below is a summary of the game acquisition payable for the 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

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

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

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.

The Company does not believe it has significant foreign exchange exposure as at December 31, 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.

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 has been discussed in Note 15 of the Consolidated Financial Statements. The Company does not use derivative instruments to reduce its exposure to interest rate risk, however the interest rates are mostly fixed and therefore the Company does not have significant interest rate risk.

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).