

# GLOBAL DAILY FANTASY SPORTS INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

This discussion and analysis of financial position and results of operation is prepared as at November 27, 2017 and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 of Global Daily Fantasy Sports Inc. ("GDFS" or the "Company"). The following disclosure and associated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Forward-Looking Statements

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the Company's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information. The information set forth in this MD&A contains statements concerning future results, future performance, intentions, objectives, plans and expectations that are, or may be deemed to be, "forward-looking statements". These statements concerning possible or assumed future results of operations of the Company are preceded by, followed by or include the words "believes", "expects", "anticipates", "estimates", "intends", "plans", "forecasts", or similar expressions. Forward-looking statements are not guarantees of future performance. These forward-looking statements are based on current expectations that involve certain risks, uncertainties and assumptions. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. These factors should be considered carefully, and readers should not place undue reliance on forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether written or oral that may be made by or on the Company's behalf.

All of the Company's public disclosure filings, including its most recent filing statement, management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials.

### Company Overview and Change of Business

The Company was incorporated on December 2, 1985 under the provisions of the Company Act (British Columbia). On June 17, 2016 the Company changed its name from Lariat Energy Ltd. to Global Daily Fantasy Sports Inc. The Company is listed and traded on the TSX Venture Exchange ("TSXV") under the symbol "DFS". The Company's principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada and its records office is located as #910- 800 West Pender Street, Vancouver, British Columbia V6C 2V6.

The Company's past principal business activity was the acquisition, exploration and development of petroleum and natural gas interests. Effective December 31, 2015 the Company disposed of its petroleum and natural gas interests and commenced searching for other business opportunities. In January 2016 the board of directors of the Company made a decision to explore the online daily fantasy sports ("DFS") space and, if promising, change the Company's business focus to the DFS industry.

On March 16, 2016 the Company formally announced its intention to change its business and transition to the online DFS industry as a business to business ("B2B") technology provider of DFS software and network for regulated markets globally, which will allow its customers the ability to offer a customized and fully branded DFS product to their end-users. Trading in the Company's common shares was halted on March 14, 2016 and resumed trading on August 4, 2016. On August 17, 2016 the Company received TSXV approval to the change of business. The Company is currently in the final stages of development and launch of the DFS Product. See "DFS Platform and Network and Update".

In July and August 2016 the Company completed a non-brokered financing of 20,000,000 units to raise \$2,000,000. During September to November 2016 the Company completed a further non-brokered private placement of 15,000,000 units to raise \$6,000,000.

On May 11, 2017 the Company purchased the operating assets of Mondogol Limited (“Mondogol”) for DFS operations to be conducted in Italy. See “Description of the Company’s Business - Mondogol Acquisition”.

### **Description of the Company’s Business**

The Company is a B2B technology provider of DFS software and network, for regulated markets globally, which will allow its customers the ability to offer a customized and fully branded DFS Product to their end users. DFS is an accelerated variant of traditional Fantasy Sports Games that are conducted over shorter periods, such as a weekly or daily competition, as opposed to those that are played across an entire season, and is one of the fastest growing segments of the fantasy sports industry today.

The Company’s target customers includes gaming operators, such as sports books, land-based groups, media companies, big database groups and other operators who wish to quickly and easily break into the DFS industry with a customized software solution. The Company will allow its customers to seamlessly integrate into its DFS Product thereby allowing their individual end users easy access to a variety of DFS contests and content. The Company’s customers will also have the option to offer ring-fenced (internal) contests for their own database or join networked contests with all of the Company’s customers.

The Company’s revenues will be derived from a number of sources. First will be set up and customization fees for customers to integrate into the DFS Product. Second will be tournament or license fees, which is an agreed percentage of a predetermined prize pool or contest. Third will be fees for managed services which will include hosting and bandwidth, customer and technical support, scheduling contests both for ring-fenced or networked events, marketing support, sports feed and a host of other services the Company intends to offer to its customers.

The online gaming industry is heavily regulated and it is the Company’s intention to operate in regulated markets where there is clear understanding of regulation. Initially the Company’s target markets are Europe, Asia and Latin America.

### ***Daily Fantasy Sports***

DFS is a subset of year long Fantasy Sport Games. As with traditional fantasy sports games, site end users compete against others by building a team of professional athletes from a particular league or competition and earn points based on the actual statistical performance of the players in real-world competitions. DFS are an accelerated variant of traditional Fantasy Sports Games that are conducted over short-term periods, such as a week or single day of competition, as opposed to those that are played across an entire season. DFS are structured in the form of competitions referred to as contests, where site end users pay an entry fee in order to participate, and build a team of athletes in a certain sport while complying with different contest rules. Depending on the overall performance of the athletes selected, site end users may win a share of a pre-determined prize pool.

### ***Principal Products and Services***

The Company platform is a multi-tenant B2B gateway, which will allow customers to offer their end users the DFS Product. The DFS Product is being built with a mobile first philosophy that will allow for seamless integration at the customer level without having to share/compromise any sensitive end user data. Joining the Company’s network will allow customers to capitalize on a mature infrastructure with shared liquidity, without conflict of interest and built specifically for regulated market environments.

As a true B2B global network, the Company will offer a SaaS product that will be a turn-key solution for sportsbook operators, land-based operators, media groups, big database groups and other operators to break into the DFS industry, without having to incur large upfront costs to monetize this new business and add incremental revenue.

The Company’s online offering is designed for gaming operators worldwide. The platform will be integrated into a gaming operator’s websites, where the DFS Product will be immediately available to the end users. The end user will easily be able to access the DFS Product using any modern browser via desktop or mobile device. This will allow any customer end user the ability to access the content from any device accessible to him or her, with the benefit that a user can pause and transition the experience across any number of devices. While the end user will

access the offering through an operator's website, the Company will maintain and operate the platform to ensure a safe and secure ecosystem without conflict of interest. More information about the Company's objectives, product offering and software can be found at [www.gdfsi.com](http://www.gdfsi.com).

The networked nature of the online product offering combined with the unique features of the platform will allow end users of different operators, at the operator's discretion, to compete against each other. By combining the player base of the operators, each player will have access to contests that are appropriate to his or her skill level and risk tolerance.

DFS contests will be offered across a variety of sports.

### ***Product Development***

Effective May 12, 2016, as amended August 10, 2017, the Company and Bellwether Technologies, Inc. ("Bellwether") entered into an agreement (the "Bellwether Agreement") pursuant to which Bellwether:

- (i) granted the Company a perpetual license for a software platform (the "Bellwether Platform License"); and
- (ii) agreed to build and integrate a proprietary software (the "DFS Product") onto the Bellwether Platform for commercial use; and
- (iii) agreed to provide maintenance and support for the Bellwether Platform and the DFS Product.

The development of the DFS Product has occurred over the following four stages:

- (i) Phase I - DFS Product development; and
- (ii) Phase II - internal (Alpha) testing of the DFS Product; and
- (iii) Phase III - Beta Testing of the DFS; and
- (iv) Phase IV - DFS Product launch: Date of First Use.

In consideration for the Bellwether Platform License, the Company agreed to pay Bellwether a one-time license fee of US \$400,000, of which US \$150,000 (\$194,685) was paid on May 26, 2016 and US \$250,000 is due upon the completion and sign-off by the Company of the Phase III - Beta Testing of the DFS Product and receipt of all documentation of the DFS Product and Bellwether Platform License. The Company has also agreed to pay Bellwether for the development of the DFS Product. As at September 30, 2017 the Company has paid Bellwether development fees totaling \$1,585,467 (US \$1,222,881) in connection with the development of the DFS Product. See also "DFS Platform and Network and Update".

### ***Distribution Methods***

The Company's products and services will be distributed through the Internet via mobile and desktop, which may provide customers/network partners with advantages over traditional offline gaming competitors, including global reach and additional mobility, a reduced cost base, 24/7/365 access, greater levels of player liquidity and enhanced innovation with respect to contest offerings and technology.

### ***Principal Markets and Restricted Markets***

The Company will operate in regulated market environments and will not be engaging in partnerships in any market where there is not a clear and legal framework to operate. The Company will have a global presence with an initial focus to partner with gaming operators in the United Kingdom/European Union, Latin America, and Asia. The management of the Company believes that these markets are underdeveloped and potential for growth exists. Additional opportunities for expansion may exist across Europe, Australia, and India if the Company develops sports and contest offerings that are localized for those respective regions.

## ***Marketing Plans and Strategies***

The DFS industry is in its infancy and just beginning to take shape in Europe and other markets outside of North America. As the Company's focus will be building a B2B platform and network, it will benefit from the focus of consumer facing platforms. Central to the Company's marketing strategy is to align with key distribution partners in its target markets. These distribution partners will have relationships and access to potential target customers. The Company intends to leverage their customer databases and will not have to invest marketing dollars to acquire end users of the DFS Product. On May 31, 2016 the Company entered into an agreement (the "NYX Agreement") with NYX Digital Gaming (USA), LLC ("NYX"), a wholly owned subsidiary of NYX Gaming Group Limited, to establish a strategic relationship with NYX to develop and distribute the DFS Product on NYX's proprietary platform (the "OGS Platform") and NYX's customer base (the "OGS Network") to NYX clients worldwide. Under the NYX Agreement:

- (i) the Company and NYX are co-operating in the development of the DFS Product; and
- (ii) NYX granted the Company an exclusive, irrevocable, non-transferable (except to an affiliate or a third party non-competitor of NYX) worldwide right to distribute the DFS Product on the OGS Network (the "Network Distribution Rights"); and
- (iii) NYX granted the Company an exclusive, irrevocable, non sub-licensable and nontransferable (except to an affiliate or a third party non-competitor of NYX) worldwide license to use and exploit the OGS Platform and to use, display, install, copy and create derivative works or otherwise exploit the OGS Platform in connection with the distribution of the DFS Product on the OGS Network (the "OGS License"); and
- (iv) NYX agreed to offer and promote the DFS Product to its current and future customer base as its sole daily fantasy sports solution and to use its sales and marketing teams to maximize commercial exploitation of the DFS Product throughout the OGS Network.

In consideration for the Network Distribution Rights and the OGS License, the Company has paid NYX a total of \$322,663 (US \$250,000).

The Company must also make a payment of US \$250,000 to NYX upon the commercial launch of the DFS Product on the OGS Platform and the OGS Network. In addition, the Company will pay to NYX a monthly royalty payment for clients through the OGS Network with some minimum guarantees after the product is launched.

The Company's obligation to remit the applicable DFS Royalty will begin 30 days after the commercial launch of the DFS Product on the OGS Platform and the OGS Network. The term of the NYX Agreement is five years from the commercial launch of the DFS Product on the OGS Platform and the OGS Network, which initial term may be renewed by the Company on written notice to NYX for an additional five-year period.

In the short-term, the Company is building its marketing campaign by attending industry conferences, using direct sales tactics, utilizing a multi-pronged search engine optimization strategy, developing its website, utilizing print advertisements in trade magazines and connecting and networking with new third party platform relationships.

## ***Mondogoal Acquisition***

On May 26, 2017 the Company announced that, effective May 11, 2017, the Company entered into an asset purchase agreement (the "Mondogoal Purchase") with Mondogoal whereby the Company purchased Mondogoal's operating assets consisting of intellectual property, trademarks and client contracts (the "Purchased Assets") for the Company's DFS B2B operations to be conducted in Italy. The purchase price for the Purchased Assets is:

- (i) US \$275,000, of which the Company has paid US \$247,500 and the remaining US \$27,500 hold-back is outstanding; and
- (ii) issuance of common shares of the Company (the "Earn-out Shares"), the number of which will be determined on the anniversary of each of the next three years, having a value equal to the net gaming revenues derived from the Purchased Assets, and subject to a maximum of US \$300,000 in Earn-out Shares. All share issuances are subject to TSXV approvals.

Mondogoal is a leader in daily fantasy sports in the Italian market. Mondogoal's blue chip client base includes Lottomatica Scommesse S.r.l. and Sisal Entertainment S.p.a. two of the largest gaming brands in Italy. The Company also announced, as part of the transaction, it has secured new licensing agreements with both Italian operators for an additional two-year term.

## ***Competition***

The Internet media, entertainment, fantasy sports, and i-gaming industry are highly competitive.

European consumer facing operators (B2C) such as Oulala, PlayOn, and Fanteam (Scout Gaming), who have entered the marketplace within the last 24 months, are all relatively new to DFS. Recently some of these brands are trying to pivot and add white label operators (B2B) to their strategy to enhance their business model. Building out a true, DFS network of B2B gaming operators and product features is the essence of what makes the Company's model unique in the European gaming market. The Company believes that its management, with their fantasy sports experience and distribution relationships, puts the Company in a strong position for future growth.

## ***Proprietary Protections***

The Company will own 100% of the DFS Product. The Company will rely on a combination of patent, trademark, copyright and trade-secret laws, as well as confidentiality agreements and technical measures to protect its proprietary rights.

## ***Regulatory Matters***

On Nov 17, 2017 the Company received its UK gaming license. The license entitles the company to manufacture, supply, install and adapt gambling software for electronic devices or websites in a network setting. The Company has applied for a B2B skill based gaming license with the Malta Gaming Authority ("MGA"). Apart from the requirement to obtain the aforementioned gaming licenses there are no material regulatory approvals required for the Company to carry out its proposed business objectives.

## **DFS Platform and Network Update**

The Company's DFS Product will provide the following competitive advantages to the industry poised to grow outside of North America:

- Enables multiple operators to join a network as regulation permits to share liquidity; and
- enables operators the option to offer its clients entry into ring-fenced contests or network wide contests for enhanced liquidity and prize pools; and
- uniquely designed guided custom lobby experience will ensure players easy access to enter contests and maximize customer retention; and
- specifically designed games such as the "pick em" contest will give the casual new user unprecedented ease of entry in new emerging markets; and
- platform architecture has been designed to scale; and
- mobile accessible on Android and iOS.

On March 23, 2017 Bellwether delivered to the Company a Beta version of the DFS Product. Testing, quality assurance review and ongoing software enhancements continued in the second and third quarters on the phase one development to ready the DFS Product for live production.

On August 10, 2017, the Company received Gaming Laboratories International ("GLI") certification for its DFS platform for Italy and the United Kingdom. The GLI certification covers both the Company's sports offerings of European Football and European and PGA Golf and provides the necessary accreditation required to launch the Company's platform in Italy and the UK when ready.

During the quarter the Company completed the integration of the DFS product into its Italian facing customers, Lottomatica and Sisal and began user acceptance and quality assurance testing which has continued into the next quarter.

## Selected Financial Data

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company prepared in accordance with IFRS.

	Fiscal 2017			Fiscal 2016				Fiscal 2015
	Sep. 30/17 \$	Jun. 30/17 \$	Mar. 31/17 \$	Dec. 31/16 \$	Sep. 30/16 \$	Jun. 30/16 \$	Mar. 31/16 \$	Dec. 31/15 \$
<b>Operations:</b>								
Revenue, net of royalties	36,039	Nil	Nil	Nil	Nil	Nil	Nil	1,545
Expenses	(578,287)	(550,081)	(515,854)	(405,610)	(216,748)	(172,201)	(58,969)	(20,705)
Other items	8,083	2,848	15,736	9,005	3,809	(5,771)	(55)	(13,650)
Net loss	(534,165)	(547,233)	(500,118)	(396,605)	(212,939)	(177,972)	(59,024)	(32,810)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.00)	(0.01)	(0.01)	(0.00)	(0.01)
Dividends per share	Nil							
<b>Statement of Financial Position:</b>								
Working capital	2,980,616	3,982,504	4,987,495	5,739,147	5,501,101	453,988	75,544	134,568
Total assets	5,231,165	6,385,919	6,820,534	7,346,791	6,738,784	1,458,403	150,968	173,405
Total long-term liabilities	Nil							

## Results of Operations

### Three Months Ended September 30, 2017 Compared to Three Months Ended June 30, 2017

#### Operations

During the three months ended September 30, 2017 (“Q3”) the Company reported a net loss of \$534,165 (\$0.01 per share), compared to a net loss of \$547,233 (\$0.01 per share) for the three months ended June 30, 2017 (“Q2”). The \$13,068 decrease in loss during Q3 is primarily attributed to the following significant changes:

- (i) The Company invoiced its first customers earning revenue of \$36,039 in Q3 compared to Nil revenue in Q2; and
- (ii) Professional and technical support fees decreased by \$81,593 in Q3 to \$3,559 (Q2 85,182), as the Company capitalized a higher proportion of the related fees which were directly attributable to the development of the DFS product; and
- (iii) Management and director compensation decreased by \$67,430 in, Q3 to \$86,470, (Q2 \$153,900), as the Company capitalized \$117,007 of management and director compensation in Q3 (Q2 Nil) which were directly attributable to the development of the DFS product; and
- (iv) Legal decreased by \$19,529 to 26,897 (Q2 46,426) due to the timing of licensing activity and commercial contracts; and
- (v) License fees decreased by \$17,657 to (14,313) in Q3 (Q2 3,345) as the Company capitalized the expense for the full three quarters in 2017 in Q3 (Q2 Nil).

These amounts were partially offset by:

- (i) The Company issued 3,025,000 stock options to officers, directors, employees, consultants and advisers in September 2017 which resulted in an expense of \$215,680 in Q3 (Q2 Nil), resulting in an increased expense of \$215,680 in Q3; and
- (ii) an increase in Travel expenses of 11,386 in Q3 to 30,271 (Q2 18,887) driven by additional travel in relation to product development and commercial activity.

***Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016***

*Operations*

During the nine months ended September 30, 2017 (the “2017 period”) the Company reported a net loss of \$1,581,517 (\$0.03 per share), compared to a net loss of \$449,935 (\$0.03 per share) for the nine months ended September 30, 2016 (the “2016 period”), an increase in loss of \$1,131,582. The increase in loss was mainly due to general and administrative expenses increasing from \$447,918 during the 2016 period to \$1,644,223 during the 2017 period as follows:

	2017 \$	2016 \$
Accounting and administrative	57,047	38,600
Audit	21,930	17,632
Corporate development	8,224	-
Cloud services and data access fees	151,113	-
Depreciation	4,664	806
Investment conference	6,495	5,559
Legal	123,723	103,964
Management and directors compensation	357,870	123,000
Office	52,412	19,074
Professional and technical support fees	186,843	15,558
Regulatory	-	19,900
Rent	88,305	16,593
Salaries and benefits	259,578	-
Stock-option costs	215,680	-
Shareholder costs	13,219	2,950
Sponsorship	-	3,998
Transfer agent	5,629	8,232
Travel and related	91,491	61,170
Website design and maintenance	-	10,882
	<u>1,644,223</u>	<u>447,918</u>

During the 2017 period the Company:

- (i) was billed \$37,300 (2016 - \$38,600) by Chase Management Ltd. (“Chase”), a private company owned by Mr. DeMare, a director of the Company, for bookkeeping, accounting, administration and management services provided by Chase personnel, excluding Mr. DeMare. During the 2017 period the Company was also billed \$19,474 for accounting services provided by a third-party accountant for bookkeeping and accounting services provided for the Company’s Malta subsidiaries;
- (ii) recorded a total of \$357,870 (2016 - \$123,000) for services provided by current and former officers and directors of the Company. The \$234,870 increase was due to the appointments and associated compensation for the additional services provided by the director and officers. See also “Related Party Transactions and Balances”; and
- (iii) incurred \$186,843 (2016 - \$15,558) for professional and technical support fees, relating to services to review regulations and identify market opportunities for DFS markets and Mondogoal planning and training; and
- (iv) recorded a \$19,759 increase in legal expenses, from \$103,964 during the 2016 period to \$123,723 during the 2017 period. During the 2017 period the Company paid its lawyer \$79,665 primarily to review and prepare the Company’s submissions for its UK gaming license application, administrative and commercial activity. A further \$44,058 of other legal expenses was incurred in the 2017 period for services provided by other law firms. During the 2016 period the Company incurred legal services pertaining to the review of business opportunities and various agreements. During the 2017 period the legal services were mainly for licensing, trademark and purchase of assets from Mondogoal; and
- (v) incurred \$91,491 for Travel expenses driven by the development of the DFS Product and commercial activity. During the 2016 period the Company incurred \$61,170 travel expenses to review business opportunities and negotiations in the DFS industry; and
- (vi) incurred \$151,113 for Cloud services and data access fees. No data access fees were incurred in the 2016 period; and

- (vii) incurred \$88,305 (2016 - \$16,593) for rent, of which \$21,912 was for office rent in Toronto and \$58,743 for office rent in Malta. The Toronto office was established in July 2016 and the Malta office was established in September 2016; and
- (viii) incurred \$259,578 for salaries and benefits for staff in Malta. No staff were employed during the 2016 period; and
- (ix) experienced a decrease of \$15,210 in regulatory and transfer agent fees, from \$28,132 during the 2016 period to \$5,629 during the 2017 period. During the 2016 period the Company incurred various fees associated with the corporate name change and the change of business and share financings.

#### *Financing Activities*

The Company did not perform an equity financing in 2017.

#### *Investment Activities*

During the 2017 period the Company incurred a total of \$783,331 for the continuing development of the DFS Platform, of which \$659,450 was paid to Bellwether and \$123,881 was incurred for internal development costs. In addition, in May 2017 the Company completed the Mondogal Purchase for US \$275,000, of which the Company paid \$335,696 and \$35,554 is outstanding at September 30, 2017. See also “Description of the Company’s Business - Mondogal Acquisition” and “Description of the Company’s Business - Product Development and Marketing Plans and Strategies”.

No investing activities were conducted during the 2016 period.

#### **Financial Condition / Capital Resources**

The Company’s operations have been primarily funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. As at September 30, 2017 the Company had working capital in the amount of \$2,980,616. Management considers that the Company has adequate resources to successfully develop its on-line gaming platform and necessary infrastructure and establish future profitable operations. However, the Company recognizes the Company’s objectives and scope of expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful in securing financing in the past, there can be no assurance that it will be able to do so in the future. If for any reason the Company is unable to continue as a going concern, it could impact the Company’s ability to realize assets at their recognized values and to meet its liabilities in the ordinary course of business at the amounts stated in the condensed interim financial statements.

#### **Contractual Commitments**

The Company has lease commitments for office space in Toronto, Canada and Sliema, Malta. The Company also has entered into a license agreement whereby it has agreed to pay monthly fees for access to real-time sports data feed and content.

Estimated contractual payments are as follows:

	<b>2017</b> \$	<b>2018 - 2019</b> \$	<b>Total</b> \$
Office rent	25,700	137,300	163,000
Data license	10,600	111,600	122,200
	<u>36,300</u>	<u>248,900</u>	<u>321,500</u>

#### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

#### **Proposed Transactions**

The Company has no proposed transactions.

## Changes in Accounting Principles

There were no changes in accounting policies during the 2017 period. A detailed summary of all the Company's significant accounting policies is included in Note 3 to the December 31, 2016 annual consolidated financial statements.

## Critical Accounting Estimates

The preparation of financial statements in conformity 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 revenues and expenditures during the reporting period. Examples of significant estimates made by management include the determination of mineralized reserves, plant and equipment lives, estimating the fair values of financial instruments, impairment of long-lived assets, reclamation and rehabilitation provisions, valuation allowances for future income tax assets and assumptions used for share-based compensation. Actual results may differ from those estimates.

## Related Party Transactions and Balances

Transactions with related parties are made in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

### (a) *Transaction with Key Management Personnel*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and executive officers.

During the 2017 period the Company incurred the following compensation amounts to the directors and officers of the Company, as follows:

	2017	2016
	\$	\$
Executive officers <sup>(1)</sup>	326,470	109,500
Directors	148,400	13,500
Stock-based payments	<u>207,574</u>	<u>-</u>
	<u>682,444</u>	<u>123,000</u>

(1) \$117,000 of this was capitalized as Deferred Development Cost in 2017 (2016 Nil), as the related work was solely for the development of the DFS Product.

As at September 30, 2017, \$117,894 (December 31, 2016 - \$2,500) remained unpaid.

### (b) *Transaction with Other Related Parties*

During the 2017 period the Company was charged \$9,800 (2016 - \$38,600) by Chase for accounting and administration services provided by Chase personnel, excluding Mr. DeMare. As at September 30, 2017, \$8,230 (December 31, 2016 - \$9,600) remained unpaid.

(c) During fiscal 2016 the Company completed two non-brokered private placements of which directors, officers and close family members purchased 8,410,000 units, at \$0.10 per unit, for \$841,000 and a director of the Company purchase 62,500 units, at \$0.40 per unit, for \$25,000.

## Risk Factors

The Company is a digital entertainment company focused on developing its business to become a B2B technology provider of daily fantasy sports software and network, for regulated markets globally and subject to certain risks. These risks could have a significant impact on the Company's business, revenues, cash flows, earnings financial condition, results of operations and prospects for the future. The following risk factors are not a definitive list of all risk factors associated with the Company's business.

### ***Additional Financing***

The Company may need additional financing. The Company's ability to obtain additional financing will depend on investor demand, operating performance, the condition of the capital markets and other factors. If the Company raises additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of holders of the Company shares, and existing holders of such shares may experience dilution.

### ***Risks Related to Potential Inability to Protect Proprietary Technology***

To protect its proprietary technology, the Company will rely principally upon copyright and trade secret protection. All proprietary information that can be copyrighted will be marked as such. There can be no assurance that the steps taken by the Company in this regard will be adequate to prevent misappropriation or independent third-party development of the Company's technology. Further, the laws of certain countries in which the Company anticipates licensing its technologies and products do not protect software and intellectual property rights to the same extent as the laws of Canada. The Company will generally not include in its software any mechanism to prevent or inhibit unauthorized use, but the Company will generally require the execution of an agreement that restricts unauthorized copying and use of its products. If unauthorized copying or misuse of its products were to occur, the Company's business and results of operations could be materially adversely affected.

While the disclosure and use of the Company's proprietary technology, know-how and trade secrets will be generally controlled under agreements with the parties involved, there can be no assurance that all confidentiality agreements will be honored, that others will not independently develop similar or superior technology, that disputes will not arise concerning the ownership of intellectual property, or that dissemination of the Company's proprietary technology, know-how and trade secrets will not occur. Further, if an infringement claim is brought against the Company, litigation would be costly and time consuming, but may be necessary to protect its proprietary rights and to defend itself. The Company could incur substantial costs and diversion of management resources in the defense of any claims relating to the proprietary rights of others or in asserting claims against others. If the Company cannot prevent other companies from infringing on its technologies, it may not achieve profitability and an investor may lose his or her investment.

### ***Risks Related to Potential Intellectual Property Rights Claims***

Companies in the Internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. The Company may be subject to intellectual property rights claims in the future and its technologies may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert management resources and attention. An adverse determination also could prevent the Company from offering its products and services to others and may require that it procure substitute products or services for these members.

With respect to any intellectual property rights claim, the Company may have to pay damages or stop using technology found to be in violation of a third party's rights. The Company may have to seek a license for the technology, which may not be available on reasonable terms and may significantly increase its operating expenses. The technology also may not be available for license to the Company at all. As a result, the Company may also be required to develop alternative non-infringing technology, which could require significant effort and expense. If the Company cannot license or develop technology for the infringing aspects of its business, it may be forced to limit its product and service offerings and may be unable to compete effectively. Any of these results could harm the Company's brand and prevent the Company from generating sufficient revenue or achieving profitability.

### ***Risks Related to Uncertainty of Online Fantasy Sports and Gaming***

Online, social, causal and mobile gaming is a relatively new industry that continues to evolve. The success of this industry and the Company's DFS business will be affected by future developments in social networks, mobile platforms, legal or regulatory developments (such as the passage of new laws or regulations or the extension of existing laws or regulations to fantasy sports and online gaming activities), data privacy laws and regulations, and other factors that the Company is unable to predict and which are beyond the Company's control.

### ***Potential Changes in Laws and Regulations Relating to the Resulting Issuer's Business***

Apart from obtaining a gaming license in Malta with the Malta Gaming Authority and a United Kingdom gaming license from the United Kingdom Gambling Commission, the Company does not anticipate requiring any government approvals to carry out its business plan and launch the DFS Product. However further licensing may be required as the Company's business matures and enters new markets globally. Legislation regarding fantasy sports is in a flux and not uniform. Changes in applicable laws or regulations or evolving interpretations of existing law could, in certain circumstances, result in increased compliance costs or capital expenditures, which could affect the Company's profitability, or impede the Company's ability to carry on its business which could affect its revenues.

Changes in existing gaming regulations or industry standards may hinder or prevent the Company from continuing to operate in those jurisdictions where it intends to carry on business, which would harm its operating results and financial condition. In particular, the enactment of unfavorable legislation or government efforts affecting or directed at fantasy sports, such as taxing or attempts to restrict the content or access to fantasy sports products may have a negative impact on the Company's operations. It cannot be assured that the Company will be able to adequately adjust to such potential changes.

Public opinion can also exert a significant influence over the regulation of the fantasy sports. A negative shift in the public's perception of fantasy sports could affect future legislation in individual jurisdictions. Negative public perception could lead to new restrictions on fantasy sports in jurisdictions in which the Company proposes to operate.

### ***Risks Related to Potential for Regulations that May be Adopted with Respect to the Internet and Electronic Commerce***

In addition to regulations pertaining to the fantasy sports and gaming industry, the Company may become subject to any number of laws and regulations that may be adopted with respect to the Internet and electronic commerce. New laws and regulations that address issues such as user privacy, pricing, online content regulation, taxation, advertising, intellectual property, information security, and the characteristics and quality of online products and services may be enacted. As well, current laws, which predate or are incompatible with the Internet and electronic commerce, may be applied and enforced in a manner that restricts the electronic commerce market. The application of such pre-existing laws regulating communications or commerce in the context of the Internet and electronic commerce is uncertain. Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement, libel and personal privacy are applicable to the Internet. The adoption of new laws or regulations relating to the Internet, or particular applications or interpretations of existing laws, could decrease the growth in the use of the Internet, decrease the demand for the Company's DFS Product, increase the Company's cost of doing business or could otherwise have a material adverse effect on the Company's business, revenues, operating results and financial condition.

### ***Risks Related to Changing Customer Preferences***

The demands of the Company's customers and the end users of the DFS Product and their preferences will be continually changing. In the gaming industry, there is constant pressure to develop and market new game content and technologically innovative products. The Company's revenues will be dependent on the earning power and life span of its DFS Product. The Company will therefore face increased pressure to design and deploy new successful game content to maintain and increase its revenue and remain competitive. The success of newly introduced technology and products will be dependent on customer acceptance of the Company's products.

As a result of changing consumer preferences, many Internet websites are successfully marketed for a limited period of time. Even if the Company's products become popular, there can be no assurance that any of its DFS Product will continue to be popular for a period of time. The Company's success will be dependent upon its ability to develop new and improved product lines. The Company's failure to introduce new features and product lines and to achieve and sustain market acceptance could result in it being unable to continually meet consumer preferences and generate significant revenues.

### ***Competition***

The Internet media, entertainment fantasy sports and Internet gaming industry are highly competitive. To the Company's knowledge there are no established true B2B products and networks presently in the European market place that will compete with the Company.

New competitors may enter the Company's key market areas. If the Company is unable to obtain significant early market presence or it loses market share to its competitors, it will materially affect its results of operations and future prospects.

***Reliance on Key Personnel and Absence of Key Person Insurance***

The Company's future success will depend heavily upon the continuing services of the members of its senior management team. If one or more of its senior executives or other key personnel are unable or unwilling to continue in their present positions, the Company may not be able to replace them easily or at all, and the Company's business may be disrupted and its financial condition and results of operations may be materially and adversely affected. Competition for senior management and key personnel is intense, the pool of qualified candidates is very limited, and the Company may not be able to retain the services of its senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. It is anticipated that the Company will not initially maintain key man insurance on its senior managers. The loss of the services of its senior management team and employees could result in a disruption of operations which could result in reduced revenues.

***Reliance on Highly Skilled Personnel***

The Company's performance and future success will depend on the talents and efforts of highly skilled individuals. The Company will need to identify, hire, develop, motivate and retain highly skilled personnel for all areas of its organization. Competition in the software industry for qualified employees is intense. The Company's ability to compete effectively will depend on its ability to attract new employees and to retain and motivate existing employees.

As competition in its industry intensifies, it may be more difficult for the Company to hire, motivate and retain highly skilled personnel. If the Company does not succeed in attracting additional highly skilled personnel or retaining or motivating the existing personnel, it may be unable to grow and effectively generate sufficient revenues and achieve profitability.

***Risks Relating to Potential Inability to Adapt or Expand Existing Technology Infrastructure to Accommodate Greater Demand for Services***

The Company expects that its DFS Product will serve a large number of users and customers. The Company's technology infrastructure will be highly complex and may not provide satisfactory service in the future, especially as the number of customers increases. The Company may be required to upgrade its technology infrastructure to keep up with the increasing demand for its services, such as increasing the capacity of its hardware servers and the sophistication of its software. If the Company fails to adapt its technology infrastructure to accommodate greater demand for services, its users and customers may become dissatisfied with its services and switch to competitors' products, which will prevent the Company from achieving profitability.

***Risks Relating to Potential Inability to Develop and Enhance the DFS Product***

The markets for the Company's DFS Products will be characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction of products embodying new technology and the emergence of new industry standards could render the Company's DFS Product obsolete and unmarketable. It is critical to the success of the Company to be able to anticipate, react and adapt quickly to changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis. Further, the Company's competitors may adapt to an emerging technology more quickly or effectively than the Company, resulting in the creation of products that are technologically superior to the Company's, more appealing to customers, or both. The Company cannot give assurance that it will successfully develop new products or enhance and improve its existing DFS Product, that new products or an enhanced and improved version of the DFS Product will achieve market acceptance or that the introduction of new products or enhanced existing products by others will not render the Company's DFS Product obsolete.

***Reliance on Development and Maintenance of the Internet Infrastructure***

The success of the Company's services will depend largely on the development and maintenance of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity, and security, as well as timely development of complementary products, for providing reliable Internet access and

services. The Internet has experienced, and is likely to continue to experience, significant growth in the numbers of users and amount of traffic. The Internet infrastructure may be unable to support such demands. In addition, increasing numbers of users, increasing bandwidth requirements, or problems caused by “viruses”, “worms”, and similar programs may harm the performance of the Internet. The backbone computers of the Internet have been the targets of such programs. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage generally as well as the level of usage of the DFS Product and reduce the Company’s revenues.

***Risks Related to Potential Interruption or Failure of the Resulting Issuer’s Information Technology and Communications Systems***

The Company’s ability to provide the DFS Product will depend on the continuing operation of its information technology and communications systems. Any damage to or failure of its systems could interrupt its service. Service interruptions could reduce the Company’s revenues and profits and damage its brand if its system is perceived to be unreliable.

***Risks Related to Potential Inability of Internet Infrastructure to Meet the Demand***

The growth of Internet usage has caused frequent interruptions and delays in processing and transmitting data over the Internet. There can be no assurance that the Internet infrastructure or the Company’s own network systems will be able to meet the demand placed on it by the continued growth of the Internet, the overall online fantasy sports and gaming industries or of the Company’s customers.

The Internet’s viability could be affected if the necessary infrastructure is not sufficient, or if other technologies and technological devices eclipse the Internet as a viable channel.

***Risks Related to Potential Undetected Errors in the Resulting Issuer’s DFS Product***

The Company’s DFS Product could contain undetected errors or “bugs” that could adversely affect its performance. This could cause the Company to lose market share, damage its reputation and brand name, and reduce its revenues.

***Risks Related to Potential Systems, Network Failures or Cyber-Attacks***

The Company’s operations and databases of business or customer information will be susceptible to outages due to fire, floods, power loss, break-ins, cyber-attacks, network penetration, data privacy or security breaches, denial of service attacks and similar events. The Company’s DFS Product will be vulnerable to viruses, malicious software, worms, Trojan horses or spy-ware, which could have a material adverse effect on the Company’s business, reputation, operating results and financial condition.

**Outstanding Share Data**

The Company’s authorized share capital is unlimited common shares with no par value. As at November 27, 2017 there were 47,426,293 common shares issued and outstanding. In addition, there were 12,500,000 warrants outstanding at exercise prices ranging from \$0.15 to \$0.75 per share. The company granted stock options in September 2017 to directors, officers, employees, consultants and advisers for the purchase of up to 3,025,000 common shares, at a price of \$0.48 per share, for a period of 5 years. The stock options are subject to vesting provisions.