



# PRODIGY

V E N T U R E S

**PRODIGY VENTURES INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTHS ENDED  
MARCH 31, 2016**

**May 11, 2016**

## **Basis of Presentation**

The following Management Discussion and Analysis (“MD&A”) of the financial condition and results of operations of Prodigy Ventures Inc. (the “Company”) are the views of management and should be read in conjunction with the interim financial statements and related notes for the three months ended March 31, 2016, which are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All figures are expressed in Canadian dollars unless otherwise indicated.

This report is dated as at May 11, 2016, and the Company’s additional public filings can be reviewed via the SEDAR website ([www.sedar.com](http://www.sedar.com)). The Company’s Audit Committee and Board of Directors have reviewed and approved the MD&A.

Throughout this document, Prodigy Ventures Inc. is referred to as “Prodigy”, “we”, “our” or “Company”. This MD&A provides information that management believes is relevant to an assessment and understanding of the results of operations and financial condition of the Company.

## **Forward-Looking Statements**

This MD&A contains forward-looking information. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “estimates”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or states that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. All statements in this MD&A that do not directly and exclusively relate to historical facts constitute “forward-looking information” within the meaning of Canadian securities laws. This information represents Prodigy’s intentions, plans, expectations and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking information. These factors include but are not restricted to: the timing and size of new contracts; acquisitions and other corporate developments; the ability to attract and retain qualified personnel; market competition in the rapidly evolving information technology industry; general economic and business conditions; and other risks identified in the MD&A, and Prodigy’s financial statements for the three months ended March 31, 2016 as well as assumptions regarding the foregoing. Forward-looking statements speak only as of the date on which they are made. In particular, statements relating to future performance are forward-looking information. Prodigy disclaims any intention or obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. Readers are cautioned not to place undue reliance on this forward-looking information.

## **REVERSE TAKEOVER**

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Prodigy was incorporated as 71 Capital Corp. (“71 Capital”) under the Canada Business Corporations Act on February 6, 2008 and was classified as a Capital Pool Company as defined by the TSX Venture Exchange (“TSXV”). On September 10, 2015 the Company closed its qualifying transaction (“Qualifying Transaction”) pursuant to an agreement between 71 Capital Corp., TCB Corporation (“TCB”) and 2478677 Ontario Ltd., a wholly-owned subsidiary of 71 Capital. In connection with the Qualifying Transaction, 71 Capital changed its name to Prodigy Ventures Inc. Pursuant to the agreement, 71 Capital acquired all of the issued and outstanding shares of TCB.

As part of the Qualifying Transaction, 71 Capital consolidated its common shares on the basis of 2 to 1. TCB recapitalized its share capital via the issuance of 20,024,724 Common shares and 88,051,416 restricted voting shares and the cancellation of the common, Series I Class A and Series II Class A shares that were outstanding prior to the Amalgamation. TCB amalgamated with a wholly-owned subsidiary of 71 Capital (the “Amalgamation”), pursuant to which all shares of TCB, including those issued in connection with the Amalgamation, were exchanged for shares of Prodigy. Following completion of the Qualifying Transaction, the Company had an aggregate of 25,688,232 common shares outstanding, comprising 20,024,724 common shares issued to former holders of TCB common shares, 1,183,080 common shares issued to investors who acquired subscription receipts in a private placement which closed on August 31, 2015, 2,274,793 common shares issued for financial advisory services in

connection with the transaction and 2,205,635 common shares issued to former holders of 71 Capital common shares. The Company also had 88,051,416 restricted voting shares outstanding.

Upon closing of the Qualifying Transaction, the shareholders of TCB owned approximately 95% of the common and restricted shares of the Company and as a result, the transaction is considered a reverse acquisition of 71 Capital by TCB. For accounting purposes, TCB is considered the acquirer and 71 Capital the acquiree. Accordingly, the consolidated financial statements are in the name of Prodigy Ventures Inc. (formerly 71 Capital), however they are a continuation of the financial statements of TCB which has adopted 71 Capital's financial year end of December 31.

The results of operations of 71 Capital are included in the consolidated financial statements of TCB from the date of the reverse acquisition, September 10, 2015.

The following summarizes the reverse takeover of 71 Capital by TCB and the net assets acquired and liabilities assumed at September 10, 2015:

**Fair value of consideration paid to former 71 Capital shareholders:**

2,205,635 common shares at \$0.0725 per share	\$ 159,909
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**Identifiable assets acquired and liabilities assumed :**

Cash	54,124
Deferred tax asset	16,134
Accounts payable	(266)
<b>Net assets acquired/assumed</b>	<b>69,992</b>

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<b>Listing expense</b>	<b>\$ 89,917</b>
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The Amalgamation with 71 Capital allowed TCB, a private company, to obtain a listing on the TSXV without having to go through an initial public offering process. As the acquisition was not considered a business combination, a total of \$89,917, being the excess of fair value of the consideration paid to obtain the listing over the net assets (liabilities) received (assumed), have been included in listing expense on the closing date in the consolidated statement of operations and comprehensive income.

## OVERVIEW

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On April 1, 2014, the Company commenced doing business under the registered name "Prodigy Ventures". The Company took on eight initial subcontractors and shortly thereafter signed agreements with two Canadian banks to provide technology services and began work under those master service agreements.

Prodigy is comprised of two main business units: Prodigy Labs and a "venture builder" business.

Prodigy Labs is Prodigy's technology services business, a trusted technology supplier to leading Canadian financial institutions, providing clients with consulting services for strategy, design, project management, application development, staff augmentation and services related to Prodigy's business platforms. It provides these technology services to the aforementioned clients. Prodigy Labs' technology consulting services currently represent 100% of Prodigy's revenue.

Prodigy is also a "venture builder". This unit ("Prodigy Ventures") is creating new business platforms and applications in many of the highest growth technology segments: mobile video, wearables, proximity marketing, mobile payments, augmented reality, 3D and social. Prodigy Venture's business platforms and applications are

or will be designed to deliver B2B, B2C, P2P (Peer to Peer) and IoT (Internet of Things) capabilities. Prodigy's research and development expenses are related solely to the venture builder business.

### **Vision and Strategy**

Prodigy's vision and strategy consists of two tracks. The first track is to aggressively expand its services business, Prodigy Labs, into new market segments, new technologies, and a broader geographic reach. The second track is to create growth as a venture builder by building and marketing its innovative new business platforms and applications.

Management of Prodigy believes that there are a number of primary strategic benefits to operating a services business and venture builder business within one company.

1. Growth multiplier;
2. Top talent attraction and retention;
3. Shared management resources;
4. Shared infrastructure, administration, marketing and sales;
5. Streamlined access to capital for all ventures; and
6. Portfolio approach to new ventures.

Each of these benefits is discussed in greater detail below.

#### **Growth multiplier**

Management believes that operating a services business and venture builder within one company multiplies the growth opportunities for each. The enterprise technology services business is highly competitive, and requires a unique offering for a new entrant to grow. The ventures businesses provide the basis of that unique offering by demonstrating expertise in complementary high growth technology segments. While each new venture is primarily focused on building its own platform and application, many will have a significant opportunity for services revenue based on those platforms. However, independently attempting to capture that services revenue would distract from their primary platform-building focus. Instead, it is intended that the services business, Prodigy Labs, will capture and deliver these service revenues, multiplying overall growth.

#### **Talent attraction and retention**

Human resources are the core of any software and technology services business. Prodigy's two track strategy is a key enabler in its ability to attract and retain top talent. The most experienced and skilled technologists seek interesting work, opportunities to gain experience with trending developments, competitive compensation, a financial upside and a collegial environment. Prodigy's set of new ventures participate in the latest technology trends. Interesting work opportunities are provided to staff by redeploying to, or timesharing between, the services business and the ventures businesses, with a range of potential experience-building roles. Prodigy strives to keep compensation levels competitive, and its activity in the client staff augmentation business ensures that its market knowledge is current. Prodigy also offers performance incentive options to top performing personnel. A collegial environment is fostered with a relaxed work environment and a minimal hands-on management layer.

#### **Shared management resources**

By sharing management resources across a number of cross-pollinating ventures, costs are reduced. The technology talent within each venture is freed to apply itself more efficiently to real value creation and the development and delivery of its actual products and/or services.

### Shared infrastructure, administration, marketing and sales

By sharing infrastructure, administration, marketing and sales, Prodigy is able to realize additional cost savings. The pooling of these requirements for all internal ventures permits the acquisition and deployment of more and better resources to satisfy their needs.

### Streamlined access to capital

New debt and/or equity will be raised from time to time as required to meet the ongoing aggregate requirements of all ventures. As ventures become profitable, their positive cash flows may also be reinvested in new ventures. Capital will be allocated to ventures based upon management's determination of risk/reward trade-offs and regularly reviewed to adapt to changing conditions.

### Portfolio approach to new ventures

Finally, a portfolio approach to new ventures mitigates overall risk for all participants: shareholders, management and company personnel. Over time, some ventures will succeed while other may not. As new ventures mature and become successful, they may become wholly or partially legally and operationally independent, but Prodigy intends to retain ongoing interests in each, and may continue to provide enterprise services, and support for administration, marketing and sales, on a case by case basis. Timing of graduation to full/partial independence will be determined by each venture's growth, ongoing requirements and market conditions.

Prodigy may also transition from a venture builder to an incubator, investing and/or acquiring promising start-ups/businesses in technology areas similar or complementary to its core competencies.

### Services Business

Prodigy Labs is Prodigy's technology services business, a trusted technology supplier to leading Canadian financial institutions and other large enterprises, providing clients with consulting services for strategy, design, project management, application development, staff augmentation, and services related to Prodigy's business platforms. Prodigy is a leader in the development of mobile enterprise applications for Canadian banks. During 2014, most of Prodigy's revenue was generated through time and material contracts. However, beginning in 2015 revenue has been successfully shifted to emphasize fixed price contracts, and Prodigy plans to extend that trend in its mix of services business to deepen client relationships and improve margins.

Prodigy's technology consulting services currently represent 100% of its revenue. Prodigy Labs has begun the transition from the organic growth of its first year to a more aggressive business development strategy. The business has started to invest in staff for sales and marketing, has targeted specific vertical markets, is implementing a contact and sales plan, and has defined a services offering that builds upon its successful experience with Canadian banks, as well as the unique capabilities of the other Prodigy businesses. Enterprise prospects are keenly interested in mobile video, wearables, proximity marketing, mobile payments, augmented reality, 3D and social platforms and applications, and need expert assistance to apply them to their businesses. Management of Prodigy believes that this will result in significant growth for Prodigy Labs.

To date, the majority of the personnel at Prodigy are dedicated sub-contractors, although there is a gradual shift towards hiring more full time employees. This shift should have a positive impact on future gross profit, build greater staff commitment, and is better aligned with the plan to emphasize fixed price client work. It will also enhance the mobility for staff between the ventures and services tracks within Prodigy, an important attraction for potential new hires. Most of Prodigy's personnel are located at the premises of its clients and others work remotely.

Information technologies are abundant, complex and rapidly changing. In this context, Prodigy's success depends on its ability to remain at the forefront of its field, as well as to adapt its service approach to suit each client's specific needs. This situation demands the continual development of cutting-edge expertise, tools and methodology, as well as the skills of competent and committed professionals.

Competition for the services business of Prodigy Labs comes from a broad range of technology companies, from large international players like IBM and CGI, to smaller local participants, like BNotions, Pivotal Labs, and others.

Prodigy Labs' sales efforts are based upon specific targeting of prospects in sectors of interest, dictated largely by the technology development work in Prodigy's businesses. For example, Prodigy Labs is targeting large retailers to sell services based upon its proximity marketing work. It is also targeting the banks and other financial institutions to sell services based upon its work in mobile video and augmented reality. Sales efforts are on a one-to-one personal level to senior executives in these enterprises. Prodigy currently has one Account Director and plans to grow the account sales and service team to a staff of up to ten people within two years.

### **Venture Builder Business**

Prodigy is currently in the process of building a number of new ventures in its venture builder arm, which are described below:

#### iVideo

Mobile video sharing is one of the fastest growing uses of mobile technology. Instagram, Vine, Snapchat, and others have demonstrated the potential for explosive growth, and users have shown a repeated willingness to quickly adopt new platforms offering interesting new video experiences.

iVideo is Prodigy's entry into this space. iVideo is the only split-screen video camera application in Apple's App Store. With almost no marketing effort, iVideo reached over 150,000 downloads in its first year as a free video camera app. It has a world-wide user base, and has reached the Top 100 list in the Photos and Video category of the Apple App Store in many countries.

iVideo has been transformed by Prodigy from a video camera app into a full social video platform and was relaunched for iPhones and iPads in November, 2015. The release offered new social capabilities alongside its split screen interface and additional unique user interface designs for a compelling new video experience. An Apple TV companion app was also launched in December, 2015 along with an Apple Watch app launched at the same time. Android apps for iVideo are under construction. These platforms are expected to launch in 2016. iVideo will be marketed more aggressively in 2016 with a goal of quickly growing its user base before a revenue model is applied to monetize the business.

Prodigy management believes that iVideo's competitive advantage will be the uniqueness of its user interface. Users have repeatedly shown that they will rapidly adopt mobile video apps that offer interesting new experiences. iVideo's user experience is unique compared to all other current offerings. Additionally, iVideo will act as a frictionless cross-platform bridge, enabling users of other platforms to continue to save and share their videos to those platforms while adopting and switching to iVideo, by providing transparent file compatibility and auto-upload features for these competitive platforms.

Research and development expenditures for the iVideo platforms have been given priority over other venture builder investments. As a result, the development of some of our other venture builder apps and platforms described below have been deferred. The Company is limiting its investment in new venture builder apps and platforms to the level dictated by its free cash flow from operations until it determines that the time is right to raise additional capital.

Prodigy is also developing the following ventures:

- a social proximity platform, called ZETZ, enabling peer-to-peer social connections with those nearby;
- Prodigy.Works, a talent matchmaking platform for technology workers and recruiters;
- bconix, an enterprise technology platform to deliver a full suite of proximity marketing capabilities;
- another social proximity platform being developed as a marriage of iBeacon, mobile video and digital signage technologies;
- Noobify.me, a new venture for 3D personalized avatar creation and distribution, and video game personalization;
- Glass Crowd, a venture for creating shareable real time video feeds from wearable headsets;
- additional ventures are in strategic development to deploy mobile video, AR, 3D, beacon and wearable technologies to create transformative user experiences in shopping, payments, real estate and fitness.

## Intellectual Property

Currently, Prodigy has no patents. The rights to the software developed under contract for customers of Prodigy Labs are owned by those customers. As new ventures develop, their intellectual property will grow and may become significant over time. Each employee, officer, director, consultant and contractor providing services to Prodigy has validly assigned to Prodigy all rights such person or entity may have in the work completed on behalf of Prodigy.

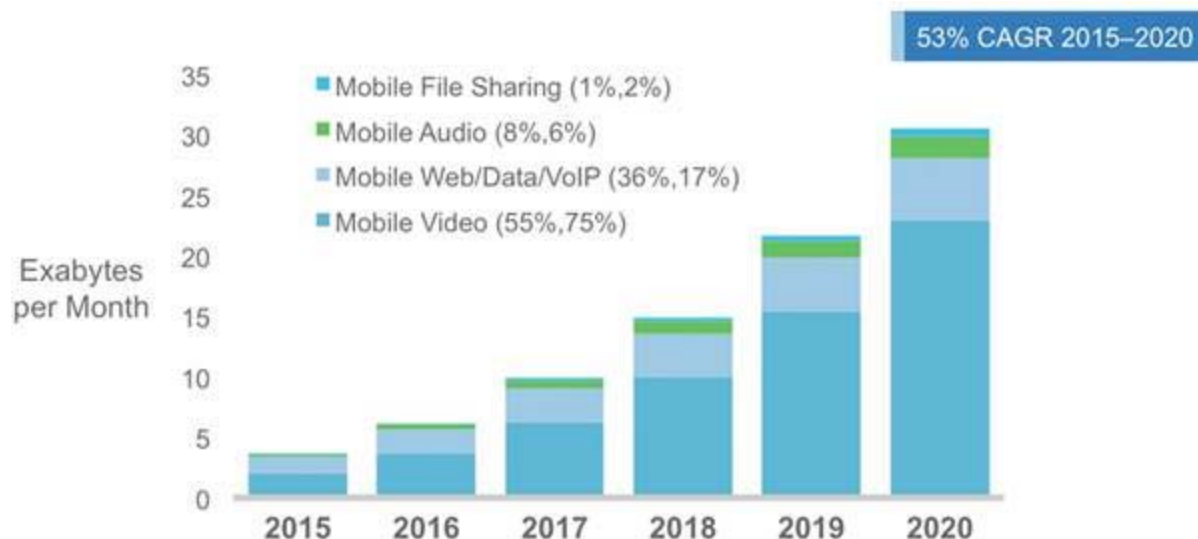
## Trends

Prodigy is directing its services and new ventures businesses into some of the highest expected growth areas for new technologies.

### Mobile Video<sup>1</sup>

More and more people are watching video content on their mobile devices. What's astounding is how fast mobile video consumption is growing.

According to the Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2015–2020 White Paper, mobile video will generate much of the mobile traffic growth through 2020. Mobile video will grow at a CAGR of 62% between 2015 and 2020, higher than the overall average mobile traffic CAGR of 53%. Of the 30.6 exabytes per month crossing the mobile network by 2020, 23.0 exabytes will be due to video. Mobile video represented more than half of global mobile data traffic beginning in 2012. Ooyala's numbers show 54% of mobile phone video viewing is spent on content that runs 10-minutes or less.



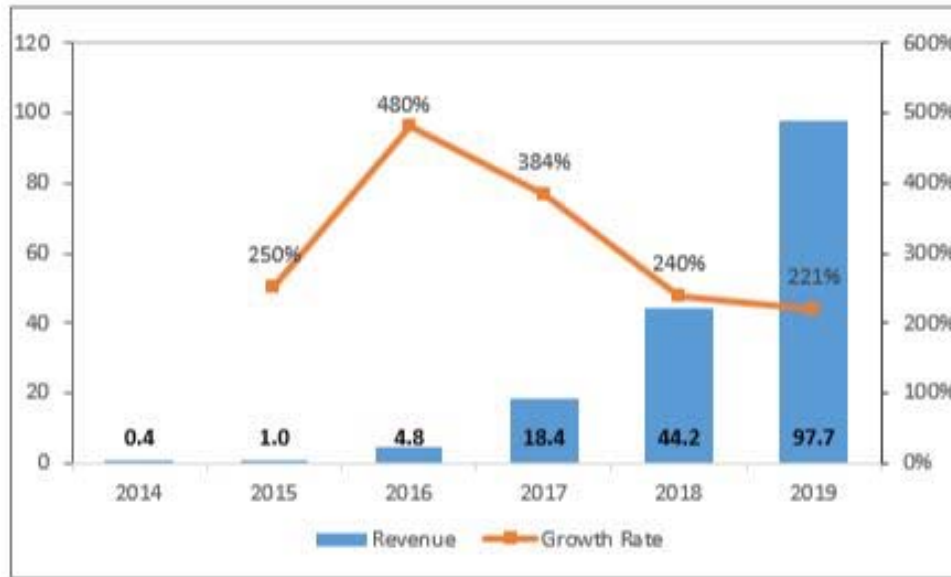
## Proximity

iBeacon is the name for Apple's technology standard, which allows Mobile Apps (running on both iOS and Android devices) to listen for signals from beacons in the physical world and react accordingly. According to publicly available information, many well-known companies are already developing technology for iBeacons (using or have tested iBeacon technology): Major League Baseball, Orlando Magic, Marriott, Starwood Hotels, Tesco, Virgin Airlines, American Airlines, Japan Airlines, Coca Cola, Oscar Mayer, Hillshire, Walgreens, Walmart, Hammerson, Nivea, American Eagle, Macy's, Lord & Taylor, Levi's, Philips, and, of course, Apple.

<sup>1</sup> (ref: <http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/mobile-white-paper-c11-520862.html>, <http://www.ooyala.com/online-video-index>)

They are not all retailers, but many are. With so many high-caliber companies exhibiting such interest in iBeacon technology, there would seem to be excellent prospects for continued growth. iBeacon technology is set to become a prolific part of the retail environment.

Global iBeacon Market 2014-2019 (\$ millions)



Source: Technavio Research

### Wearables<sup>2</sup>

Quoting the Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2015–2020 White Paper, “Wearable devices, as the name suggests, are devices that can be worn on a person and have the capability to connect and communicate to the network either directly through embedded cellular connectivity or through another device (primarily a smartphone) using Wi-Fi, Bluetooth, or another technology. These devices come in various shapes and forms, ranging from smart watches, smart glasses, heads-up displays (HUDs), health and fitness trackers, health monitors, wearable scanners and navigation devices, smart clothing, etc. The growth in these devices has been fueled by enhancements in technology that have supported compression of computing and other electronics (making the devices light enough to be worn). These advances are being combined with fashion to match personal styles, especially in the consumer electronics segment, along with network improvements and the growth of applications, such as location-based services and augmented reality.”

“By 2020, we estimate that there will be 601 million wearable devices globally, growing fivefold from 97 million in 2015 at a CAGR of 44 percent.”

<sup>2</sup> (ref: <http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/mobile-white-paper-c11-520862.html>)





### Augmented and Virtual Reality<sup>3</sup>

From the Facebook acquisition of Oculus Rift and Google’s investment in Magic Leap to the Samsung GearVR announcement, Google Ingress, Google Cardboard, and the Microsoft HoloLens, the industry set the stage for augmented reality (“AR”) and virtual reality (“VR”) to become popular technologies in 2016 and beyond.

There continues to be a pressing need for businesses and consumers to be able to see and experience things that can’t be physically present and to project layers of virtual data onto real world environments, creating deeper and more meaningful experiences. AR and VR technologies are finally ready to help solve these problems. Some of the developments that are expected to occur are the following:

1. Affordable VR headsets will normalize Virtual Reality – “It’s not just for gamers anymore”
2. Evolved AR & VR business and marketing solutions
3. Retailers get serious with AR and VR as consumers start to expect it
4. Virtual test drives – and virtual vacations
5. Phones built for AR & VR

### **OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2016**

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Operating results for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 are discussed below.

The Company evaluates operational performance based on two reportable operating segments. Prodigy’s technology services provider (“Prodigy Labs”) provides clients with consulting services for strategy, design, project management, application development, staff augmentation and services related to Prodigy’s business platforms. Prodigy is also a venture builder. This segment (“Prodigy Ventures”) is creating new business platforms and applications in many of the highest growth technology segments: mobile video, wearables, proximity marketing, mobile payments, augmented reality, 3D and social. Prodigy Venture’s business platforms and applications are or will be designed to deliver B2B, B2C, P2P (Peer to Peer) and IoT (Internet of Things) capabilities.

Total revenue for the three months ended March 31, 2016 increased \$1,815,319 from \$881,948 to \$2,697,267. The increase in revenue was due to a number of new service contracts entered into by the Company. 100% of

<sup>3</sup> (ref: <http://www.marxentlabs.com/top-virtual-reality-augmented-reality-trends-2015/>)

the Company's revenue was derived from its service business, of which 64% related to fixed price projects and 36% related to time and materials contracts. Management expects further revenue growth in 2016. Prodigy's ability to renew existing contracts and enter into new contracts in turn depends to a great degree on the quality of services provided and technology developed for its customers. Approximately 85% (March 31, 2015 – 80%) of the Company's revenue for the period relates to transactions entered into with one client.

Direct costs for the three months ended March 31, 2016 increased \$999,216 from \$694,727 to \$1,693,943. Direct costs consists of fees and salaries paid to developers working directly for clients in the Company's service business. Direct costs will increase in relation to changes in revenue. Gross profit increased \$816,103 from \$187,221 to \$1,003,324. Revenue has been successfully shifted to emphasize fixed price contracts, which has contributed to the increased margins during the period. The net and comprehensive income for the three months ended March 31, 2016 increased \$338,009 from \$34,294 to \$372,303.

Net income per share was \$0.00 for the three months ended March 31, 2016 and 2015.

<i>Summary of Expenses</i>	<b>Three months ended March 31 2016 \$</b>	<b>Three months ended March 31 2015 \$</b>
<b>Expenses</b>		
Advertising and promotion	25,770	7,756
Computer	9,267	23,587
Depreciation	2,017	554
Finance costs	7,568	3,898
Management fees and compensation	188,976	28,550
Office and general	439	250
Professional fees	35,885	6,427
Rent and occupancy costs	7,365	1,923
Research and development	186,999	62,207
Share-based compensation	17,497	492
Telecommunications	917	1,232
Travel	7,306	9,859
	<u>490,006</u>	<u>146,735</u>

Advertising and promotion expenses for the three months ended March 31, 2016 increased \$18,014 year over year from \$7,756 to \$25,770. Of the total, \$2,635 (March 31, 2015 – \$7,756) relates to Prodigy Labs and \$23,135 (March 31 2015 - \$Nil) relates to Prodigy Ventures. The increase relates primarily to the promotion of iVideo during the period. The overall cost is expected to increase in connection with increased sales and new ventures promotion.

Computer expenses for the three months ended March 31, 2016 decreased \$14,320 from \$23,587 to \$9,267. The overall cost is expected to increase as additional projects are developed and new staff are hired.

Depreciation for the three months ended March 31, 2016 increased \$1,463 year over year from \$554 to \$2,017. The expense will increase as additional property is acquired.

Finance costs for the three months ended March 31, 2016 increased \$3,670 from \$3,898 to \$7,568 as a result of the increased loan balance in the current period. As the loans are repaid the interest cost will be reduced.

Management fees and compensation for the three months ended March 31, 2016 increased \$160,426 year over year from \$28,550 to \$188,976. The increase relates to the hiring of additional administrative staff and an increase in management fees during the period. The overall cost is expected to increase as the Company grows.

Office and general expenses for the three months ended March 31, 2016 increased \$189 year over year from \$250 to \$439. The overall cost is expected to increase as the Company grows.

Professional fees for the three months ended March 31, 2016 increased \$29,458 year over year from \$6,427 to \$35,885. The increase relates primarily to filing and listing costs not applicable in the comparative period as well as increased audit and insurance costs. In the short-term these costs are expected to be consistent with the current period.

Rent and occupancy costs for the three months ended March 31, 2016 increased \$5,442 year over year from \$1,923 to \$7,365. The Company entered into a new lease in 2015 to accommodate new staff. These costs are expected to increase as the Company grows.

Research and development expenses for the three months ended March 31, 2016 increased \$124,792 year over year from \$62,207 to \$186,999, as a result of increased spending on the Company's new ventures. 100% of the research and development expenses related to Prodigy Ventures. Future increases or decreases will vary based on the status of projects in development.

Share-based compensation for the three months ended March 31, 2016 increased \$17,005 from \$492 to \$17,497. The Company issued 1,375,000 options to officers, directors, consultants and employees in October, 2015. The fair value of the share-based compensation is expensed over the vesting period, which concludes on December 31, 2016.

Telecommunications expenses for the three months ended March 31, 2016 decreased \$315 year over year from \$1,232 to \$917. The overall cost is expected to increase as the Company grows.

Travel expenses for the three months ended March 31, 2016 decreased \$2,553 year over year from \$9,859 to \$7,306. The overall cost is expected to increase as the Company grows.

### Summary of Quarterly Results

The following table provides selected unaudited financial information for each of the last eight quarters where financial information is available, presented in Canadian dollars:

For the quarters ended <sup>(i)</sup>	Mar 31/16 \$	Dec 31/15 \$	Sep 30/15 \$	Jun 30/15 \$
Total revenue	2,697,267	2,576,342	2,335,971	1,275,453
Net income for the period	372,303	267,547	204,153	88,997
Net income per share – basic and diluted <sup>(i)</sup>	0.00	0.00	0.00	0.00
For the quarters ended <sup>(i)</sup>	Mar 31/15 \$	Dec 31/14 \$	Sep 30/14 \$	Jun 30/14 \$
Total revenue	881,948	880,741	579,703	388,306
Net income for the period	34,294	77,709	28,740	18,486
Net income per share – basic and diluted	0.00	0.00	0.00	0.00

(i) The basic and diluted number of shares for all periods prior to the quarter ended December 31, 2015 (including 2014) have been adjusted to reflect the impact of the share reorganization.

## LIQUIDITY AND CAPITAL RESOURCES

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The Company had working capital of approximately \$1,490,624 as at March 31, 2016 (December 31, 2015 – \$1,135,010). The Company used \$61,943 in cash from operating activities for the three months ended March 31, 2016 (March 31, 2015 - \$38,057). Cash flows from operations fluctuate based on the timing of customer payments. The Company used \$5,476 in investing activities in connection with property and equipment acquired during the three months ended March 31, 2016 (March 31, 2015 - \$Nil) and \$36,138 in financing activities (March 31, 2015 – net advances of \$36,540) relating to the Company's loans outstanding. New debt and/or equity will be raised from time to time as required to meet the ongoing aggregate requirements of all ventures. As ventures become profitable, their positive cash flows may also be reinvested in new ventures. Capital will be allocated to ventures based upon management's determination of risk/reward trade-offs and regularly reviewed to adapt to changing conditions. Management believes that it will have sufficient capital to fund its operations for the next twelve months.

## SUBSEQUENT EVENTS

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There were no subsequent events that would have a material impact on this report.

## COMMITMENTS AND GUARANTEES

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The Company's long-term debt comprises three credit facilities with the Business Development Bank of Canada ("BDC"). Each facility is guaranteed personally by the Chief Executive Officer of the Company and bears interest at BDC's floating base interest rate plus 1% per annum, payable monthly. The first facility was negotiated effective May 27, 2014 and matures on July 22, 2018 to a maximum of \$200,000. The second facility was negotiated effective December 11, 2014 and matures December 22, 2018 to a maximum of \$50,000. This \$50,000 facility was drawn upon by the Company during the year ended December 31, 2015. The third facility was negotiated effective June 2, 2015 and matures on November 22, 2019 to a maximum amount of \$100,000. There are no financial performance covenants in connection with the credit facilities. Loan repayments are due on a monthly basis over the term of the respective loans. On the date of maturity, the balance of each facility in principal and interest and all other amounts owing on the loan are due and payable. The Company made repayments of \$28,570 during the three months ended March 31, 2016 (\$8,364 during the three months ended March 31, 2015), resulting in a balance of \$242,016 outstanding as at March 31, 2016 (December 31, 2015 - \$270,586).

Repayments under the credit facilities as at March 31, 2016 are due as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2016	65,574	9,100	74,674
2017	87,432	7,773	95,205
2018	66,290	2,987	69,277
2019	22,720	643	23,363
	<u>242,016</u>	<u>20,503</u>	<u>262,519</u>

The Company has entered into a one year lease agreement effective December, 2015. The future minimum annual base rent on office premises under the existing operating lease is:

2016	\$ 11,880
Total	<u>\$ 11,880</u>

## OFF BALANCE SHEET ARRANGEMENTS

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The Company has not entered into any off-balance sheet arrangements.

## CAPITAL MANAGEMENT

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The Company defines capital as the aggregate of shareholder equity and debt. The Company's equity comprises the shares of the Company subscribed by the shareholders and retained earnings. The Board of Directors manages the dividend policy and the pricing of products and services of the Company so as to ensure that there is adequate cash flow to fund the Company's operations and safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is optimal.

There were no changes in the Company's approach to capital management during the periods ended March 31, 2016 and 2015. The Company is not subject to externally imposed capital requirements.

## RELATED PARTY TRANSACTIONS

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The Company rented its premises from its Chief Executive Officer on a month-to-month lease. These transactions were in the normal course of operations and are measured at their transaction amount, which is the amount agreed to by the related parties. During the three months ended March 31, 2016, the Company paid \$3,000 (March 31, 2015 - \$1,923) in rent and occupancy costs.

### Compensation to key management personnel

Compensation earned for the three months ended March 31, 2016 and 2015 due to persons and corporations in charge of the planning, direction and control of the Company, including executive and non-executive directors is as follows:

	Three months ended March 31, 2016 \$	Three months ended March 31, 2015 \$
Salaries, fees and benefits	369,873	150,350
Share-based compensation	14,952	492
Total	<u>384,825</u>	<u>150,842</u>

## FINANCIAL INSTRUMENTS

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The Company's financial instruments comprise cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities and long-term debt. The fair values of these financial instruments approximate

their carrying values, unless otherwise noted, due to their short-term maturities or interest rates which management believes approximates those of similar instruments in the current market. Except as otherwise noted the Company is not exposed to significant risks in relation to its financial instruments.

The Company's risk management policies are established to identify and analyze the Company's risk, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no changes to the Company's exposure to risks in respect of its financial instruments, and there have been no changes in respect of management's objectives, policies and processes in the management of its financial instruments from that of the prior reporting period.

The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

#### Credit risk

Concentration of credit risk relates primarily to the Company's accounts receivable, as the receivables principally derive from one revenue source: technology services. During the period, the Company derived 100% of its revenue from three customers (85% from one customer). As at March 31, 2016, one customer represented 91% (December 31, 2015 – 95%) of the accounts receivable balance. All of the Company's customers are currently located in Canada.

As at March 31, 2016, approximately 46% (December 31, 2015 - 26%) of the Company's accounts receivable are greater than 30 days past due. As at the following dates, the aging of gross trade and other receivables were as follows:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	\$	\$
Current	830,088	791,452
1-30 days	133,340	283,494
31-60 days	609,005	341,554
61-90 days	-	26,408
Greater than 90 days	219,559	
Total	<u>1,791,992</u>	<u>1,442,908</u>

The allowance for doubtful accounts was \$Nil at the reporting dates. There is no indication, as at these dates, that the debtors will not meet their obligations. Bad debt expenses were \$Nil for all reporting periods. The Company manages its credit risk relating to its trade receivables through credit approval and monitoring procedures, including senior management prior approval of all rental contracts. Such approvals are based on trade information, payment history, credit rating and financial analysis, where possible.

The Company reviews the components of these accounts on a regular basis to evaluate and monitor this risk. The Company's customers are generally large financially established organizations which limits the credit risk relating to the customers.

#### Liquidity risk

The Company is exposed to liquidity risk to the extent that it must meet its financial obligations as and when due. The Company's approach to managing liquidity risk is to ensure that it always has sufficient cash and other current financial assets to meet its obligations when due without incurring unacceptable losses or damage to the Company's reputation. Management forecasts cash flows to identify financing requirements. These requirements are then addressed through combination of cash management and access to additional capital.

Management is of the view, based on historical cash flow, that there is sufficient current and future cash flow from its operating activities and third-party loans to sustain ongoing operations. Should contractual commitments require payment, management believes that its current sources of liquidity are sufficient to cover these obligations. A maturity analysis of the payments required under long-term debt is presented above.

### Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to variable market interest rates on its long-term debt. As at March 31, 2016, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income to changes in interest rates was (\$2,420) (December 31, 2015 – (\$2,706)), based on an increase and \$2,420 (December 31, 2015 - \$2,706) based on a decrease.

### **DISCLOSURE OF OUTSTANDING SHARE DATA**

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As at March 31, 2016 and May 11, 2016 the Company had outstanding 25,688,232 common shares (unlimited authorized) and 88,051,416 restricted shares (unlimited authorized). As of May 11, 2016, 15,915,440 common shares and 66,038,562 restricted shares bear a restrictive legend whereby 3,183,088 common shares and 13,207,712, (an amount equal to 15% of the original total number of escrowed shares) are released from the restrictions in accordance with a defined schedule. This release schedule commenced with the release of 2,122,059 common shares and 8,805,142 restricted shares in September, 2015, with additional amounts being released at six month intervals through until September, 2018, at which time all restrictions will have expired.

As of May 11, 2016 there were 1,375,000 options outstanding. On October 16, 2015 the Company issued options to acquire a total of 1,375,000 common shares at an exercise price of \$.10 per share. Of these options, 1,175,000 were issued to officers and directors of the Company. The options vest on December 31, 2016, and expire on December 31, 2018.

### **CHANGE IN ACCOUNTING POLICIES**

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#### **Future and recently adopted accounting policy changes**

At the date of this report, the IASB has issued the following new and revised standards and amendments which are not yet effective for the relevant periods.

IFRS 9 - Financial Instruments ("IFRS 9") - IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting this standard of the Company's financial statements and related note disclosures.

IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") - IFRS 15, replaces IAS 11, Construction Contracts and IAS 18, Revenue, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's financial statements and related note disclosures.

IFRS 16 – Leases ("IFRS 16") - In January 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases (IAS 17) standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require

an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The extent of the impact of adoption of the standard has not yet been determined.

## **CRITICAL ACCOUNTING ESTIMATES**

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The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of expenses and other income during the period.

Management continuously evaluates the estimates and underlying assumptions based on management's experience and knowledge of facts and circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods if affected.

Significant estimates made by management include the following:

### *Revenue recognition for professional service:*

Revenue relating to fixed price professional services contracts is recognized based on the percentage of completion of the project which is assessed based on actual labour cost and budgeted cost required to complete the project. The Company estimates the costs associated with the project based on historical experience.

### *Allowance for doubtful accounts:*

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual accounts receivable balance will be paid. Credit risks for outstanding accounts receivable is regularly assessed and reviewed. The allowance for doubtful accounts is recorded based on specific customer information and experience.

### *Deferred tax assets and liabilities:*

The Company estimates the amount and the timing of the reversing of temporary differences giving rise to deferred tax assets or liabilities and recognizes this amount based on historical experience and substantively enacted tax rates.

### *Property and equipment:*

Significant judgment is involved in the determination of useful lives and residual values of property and equipment, for the computation of depreciation. The determination of useful lives and residual values is based on the Company's expectations of the asset's future economic benefits and is reviewed annually and adjusted if required.

These estimates have been applied in a manner consistent with that of prior periods and there are no known trends, commitments, events or uncertainties that management believes will materially affect the assumptions utilized in the accompanying financial statements.

## **RISKS AND UNCERTAINTIES**

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The Company's operations involve certain risks and uncertainties that are inherent to the Company's industry and rapidly changing environment that could impact its business, financial condition or results of operations. Additional risks and uncertainties of which the Company is unaware, or that it currently deems to be immaterial,



may also become important factors that affect the Company. The following is a description of the principal risk factors that will impact the Company:

*Prodigy is a development stage company with a limited operating history*

Prodigy is a development stage company, subject to all the risks and uncertainties inherent in a new business and the development and sale of new products. As a result, it still must establish many functions necessary to operate a business, including finalizing its administrative structure, continuing product development, assessing its marketing activities, and personnel recruitment.

*Prodigy has limited operating history and may not maintain profitability*

Prodigy's operating subsidiary, while incorporated in 1992, only commenced its current operations on April 1, 2014. Prodigy is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Prodigy will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Prodigy may not be able to maintain profitability. In addition, Prodigy expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If Prodigy's revenues do not increase to offset these expected increases in costs and operating expenses, Prodigy will not be profitable.

*Economic dependence on a limited number of customers*

Prodigy's revenue is obtained exclusively from its services business and 100% of the revenue earned from the services business in the period is derived from customers. During the period, the Company derived 100% of its revenue from three customers (85% from one customer). As at March 31, 2016, one customer represented 91% (December 31, 2015 – 95%) of the accounts receivable balance. Prodigy's contracts with these customers are limited in duration, typically with terms of 6-12 months. Prodigy's ability to continue to generate revenue from its services business depends on its ability to regularly renew these contracts and enter into contracts with new customers. Prodigy's ability to renew existing contracts and enter into new contracts in turn depends to a great degree on the quality of services provided and technology developed for its customers.

Prodigy believes that its focus on customer service and support is critical to onboarding new customers and retaining its existing customers. Prodigy's reputation among customers is critical for the growth and success of its business. Any perception that it does not provide satisfactory customer service, even if factually incorrect or based on isolated incidents, could damage Prodigy's reputation, undermine the trust and credibility it has established and have a negative impact on its ability to attract new, or retain existing, customers and enter into new markets or sectors.

*Future growth dependent upon success of venture business*

Prodigy's future growth depends on the success of its venture builder business, the strategy of identifying, developing and launching new business platforms and applications in potentially high growth technology segments such as mobile video, wearables, proximity marketing, mobile payments, augmented reality, 3D and social. These areas are highly competitive and Prodigy may not be able to develop and implement its new platforms or applications before its competitors. Prodigy only has a small window of opportunity in which to gain the customer acceptance necessary to become a market leader in a particular target market, and it may not be able to develop its ventures before its potential competitors do so.

There is also no guarantee that Prodigy's platforms or applications will gain market acceptance ahead of those of its competitors, and thus may only have limited potential. Prodigy may realize, only after investing significant resources in a new platform or application, that such platform or application is not likely to generate the profits, growth or value that it expected.

### *Need for ongoing innovation*

The markets in which Prodigy competes are characterized by constant change and innovation and they are expected to continue to evolve rapidly. Prodigy's success has been based on its ability to identify and anticipate the needs of its customers and design platforms that provides them with the tools to serve their needs. Prodigy's ability to attract new customers, retain existing customers and increase revenue from both new and existing customers will depend in large part on its ability to continue to improve and enhance the functionality, performance, reliability, design, security and scalability of its platforms.

### *Ongoing need for financing*

Prodigy has had limited revenue from its new ventures. Its ability to continue operations will be largely reliant on its continued attractiveness to equity investors. The Company may incur operating losses as it spends funds to develop its venture builder business operations. There is no guarantee that the Company will be able to achieve its business objectives. The continued development of Prodigy may require substantial additional financing in future. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. While the services business will provide some level of funding, a critical source of funding available to the Company will consist of equity financing. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

### *Attraction and retention of key personnel*

The Company has a small management team and the loss of a key individual or inability to attract suitably qualified staff could have a material adverse impact on its business. The Company may also encounter difficulties in obtaining and maintaining suitably qualified staff. Prodigy has sought to and will continue to ensure that management, directors and any key employees are provided with appropriate incentives; however, their services cannot be guaranteed.

Prodigy's future growth and success will depend upon its ability to identify, hire, develop, motivate and retain talented personnel with outstanding skills. There is no guarantee that it will be able to retain the services of any of its employees or other members of senior management in the future. Competition for talent is intense, particularly in technology driven industries such as Prodigy's, and its competitors may be able to offer Prodigy's potential or current personnel better pay, experience, benefits or opportunities. Failure to effectively recruit and retain talent could limit Prodigy's ability to increase sales, expand operations and achieve other strategic objectives.

### *Competition*

The industries in which Prodigy operates are highly competitive. The Company faces strong competition from other companies in the industry. Many of these companies have greater financial resources, operational experience and technical capabilities than Prodigy. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of the Company could be materially adversely affected.

To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis.

### *Key Executives*

Prodigy is dependent on the services of key executives, including its directors and has a small number of highly skilled and experienced executives and personnel. Due to the relatively small size of Prodigy, the loss of these

persons or either company's inability to attract and retain additional highly skilled employees may adversely affect its business and future operations.

*Prodigy operates in an industry with the risk of intellectual property litigation. Claims of infringement against it may hurt its business*

Prodigy's success depends, in part, upon non-infringement of intellectual property rights owned by others and being able to resolve claims of intellectual property infringement without major financial expenditures or adverse consequences. Participants that own, or claim to own, intellectual property may aggressively assert their rights. From time to time, Prodigy may be subject to legal proceedings and claims relating to the intellectual property rights of others.

Future litigation may be necessary to defend Prodigy or its clients by determining the scope, enforceability, and validity of third-party proprietary rights or to establish its proprietary rights. Some competitors have substantially greater resources and are able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time. Regardless of whether claims that Prodigy are infringing patents or other intellectual property rights have any merit, these claims are time-consuming and costly to evaluate and defend and could:

- adversely affect relationships with future clients;
- cause delays or stoppages in providing products or services;
- divert management's attention and resources;
- require technology changes to its products that would cause Prodigy to incur substantial cost;
- subject Prodigy to significant liabilities; and
- require Prodigy to cease some or all of its activities.

In addition to liability for monetary damages, which may be tripled and may include attorneys' fees, or, in some circumstances, damages against clients, Prodigy may be prohibited from developing, commercializing, or continuing to provide some or all of its products unless it obtains licenses from, and pays royalties to, the holders of the patents or other intellectual property rights, which may not be available on commercially favorable terms, or at all.

#### *Management of growth*

Prodigy may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Prodigy to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Prodigy to deal with this growth may have a material adverse effect on Prodigy's business, financial condition, results of operations and prospects.