



PRODIGY
VENTURES

PRODIGY VENTURES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2019**

November 26, 2019

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 consolidated interim financial statements and related notes for the three and nine months ended September 30, 2019 and 2018, which were 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 November 26, 2019, and the Company’s additional public filings can be reviewed via the SEDAR website (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 consolidated financial statements for three and nine months ended September 30, 2019 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.

OVERVIEW

Prodigy delivers Fintech innovation. The Company develops software and services with emerging technologies for digital transformation, identity and payments. Digital transformation services include strategy, architecture, design, project management, agile development, quality engineering and staff augmentation. Prodigy has been recognized as one of Canada’s fastest growing companies with multiple awards: Deloitte’s Fast 50 Canada and Fast 500 North America (2016, 2017, 2018), Branham 300 (2017, 2018), Growth 500 (2018 and 2019), Canada’s Top Growing Companies (2019).

Prodigy Labs is a trusted technology supplier to leading Canadian financial institutions and other large enterprises. Prodigy Labs’ technology consulting services currently represent 100% of Prodigy’s revenue.

Previously, Prodigy was involved in the creation of new business platforms and applications with emerging technologies. Beginning in the second quarter of 2019 Prodigy redirected its research and development expenditures to support the growth of its services business. Research and development expenditures are now focused on developing work product to enable rapid growth of the company’s evolving practices of digital transformation, identity, payments.

Vision and Strategy

Prodigy's vision and strategy is to aggressively expand its services business, Prodigy Labs, into new market segments, new technologies, and a broader geographic reach. The Company has an M&A strategy to acquire additional complementary services business, as well as technology platform businesses that are a synergistic fit with Prodigy Labs' identity and payments practices.

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, and staff augmentation. Prodigy is a leader in the development of mobile enterprise applications for Canadian banks. The Company is a major go-to-market services participant for SecureKey Technologies Verified.Me platform for digital identity, and is also an innovator in developing new payment systems.

Prodigy Labs has transitioned from the organic growth of its first four years to a more aggressive business development strategy. The business invested in new staff for sales and marketing led by the President and a newly appointed Senior Vice President, Professional Services, targeted specific vertical markets, built a pipeline of new client prospects, implemented a contact and sales plan, and defined new services offerings that built upon its successful experience with Canadian banks. Enterprise prospects are keenly interested in mobile, digital transformation, identity, and payments, and need expert assistance to apply them to their businesses. Management of Prodigy believes that this will result in significant growth for Prodigy Labs. Year over year, we have reduced our dependency on our largest client from approximately 78% to 57% of revenue.

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. Each employee, officer, director, consultant and contractor providing services to Prodigy has assigned to Prodigy all rights such person or entity may have in the work completed on behalf of Prodigy.

Summary of Quarterly Results

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

For the quarters ended	Sep 30/19	Jun 30/19	Mar 31/19	Dec 31/18
	\$	\$	\$	\$
Total revenue	5,162,469	5,290,696	4,877,728	4,687,362
Net income for the period	150,933	96,701	144,822	1,418
Net income per share – basic and diluted	0.00	0.00	0.00	0.00

For the quarters ended	Sep 30/18	Jun 30/18	Mar 31/18	Dec 31/17
	\$	\$	\$	\$
Total revenue	4,600,786	4,086,275	3,568,622	3,007,244
Net income for the period	60,525	89,280	24,372	5,310
Net income per share – basic and diluted	0.00	0.00	0.00	0.00

Prodigy's revenue is based on management's ability to renew existing contracts, enter into new contracts with its customers and expand its customer base. Margins are expected to remain constant or increase slightly in the short term.

In 2019, the Company continued to increase its investment in management and sales staff. The Company also incurred expenditures in research and development of its identity and payments practices. These research and development expenditures have been fully expensed. The R&D expenses and sales staff costs have led to an increase in revenue, including revenue from new clients.

OPERATING RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

Operating results for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 are discussed below.

Total revenue for the nine months ended September 30, 2019 increased \$3,075,210 from \$12,255,683 to \$15,330,893, an increase of 25% from the nine months ended September 30, 2018. The increase in revenue was due to a number of new service contracts entered into by the Company during the period. 100% of the Company's revenue was derived from its service business, of which 16% related to fixed price projects and 84% related to time and materials contracts. Management expects further revenue growth in 2019 and beyond. 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 57% (2018 – 78%) of the Company's revenue for the period relates to transactions entered into with one client.

Direct costs for the nine months ended September 30, 2019 increased \$1,609,304 from \$9,322,440 to \$10,931,744, an increase of 17% from the nine months ended September 30, 2018. Direct costs consist primarily 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 \$1,465,906 from \$2,933,243 to \$4,399,149, an increase of 50% from the nine months ended September 30, 2018. Margins are expected to remain constant or increase slightly in the short-term.

Income before income tax for the nine months ended September 30, 2019 increased \$291,253 from \$258,630 to \$549,883, an increase of 113% from the nine months ended September 30, 2018. The net and comprehensive income for the nine months ended September 30, 2019 increased \$218,279 from \$174,177 to \$392,456, an increase of 125% from the nine months ended September 30, 2018.

Net income per share, basic and diluted, was \$0.00 for the nine months ended September 30, 2019 compared to \$0.00 for the nine months ended September 30, 2018.

Summary of Expenses

	Nine months ended September 30 2019 \$	Nine months ended September 30 2018 \$
Expenses		
Advertising and promotion	42,813	40,325
Compensation	2,282,322	1,406,624
Computer	87,785	90,887
Depreciation	146,690	18,104
Finance costs	21,316	4,998
Office and general	239,520	113,762
Professional fees	203,966	145,630
Research and development	756,724	769,853
Share-based compensation	14,160	47,937
Telecommunications	12,046	7,229
Travel	41,924	29,264
	<hr/> 3,849,266	<hr/> 2,674,613

Total expenses for the nine months ended September 30, 2019 increased \$1,174,653 year over year from \$2,674,613 to \$3,849,266.

Advertising and promotion expenses for the nine months ended September 30, 2019 increased \$2,488 year over year from \$40,325 to \$42,813. The overall cost is expected to increase in connection with increased sales.

Compensation for the nine months ended September 30, 2019 increased \$875,698 year over year from \$1,406,624 to \$2,282,322. The increase relates primarily to higher sales and administrative staff costs and increased incentive compensation during the period. The overall cost is expected to increase as the Company grows.

Computer expenses for the nine months ended September 30, 2019 decreased \$3,102 year over year from \$90,887 to \$87,785. The overall cost is expected to increase as additional projects are developed and new staff are hired.

Depreciation for the nine months ended September 30, 2019 increased \$128,586 year over year from \$18,104 to \$146,690. The increase is a result of the Company's adoption of IFRS 16 "Leases". The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company applied the modified retrospective approach, to remaining lease payments as at January 1, 2019, without restatement of comparative figures presented for 2018 as previously reported under IAS 17. The lease asset relating to the Company's office space is depreciated using the straight-line method. In addition, the expense will increase as additional property and equipment is acquired.

Finance costs for the nine months ended September 30, 2019 increased \$16,318 year over year from \$4,998 to \$21,316. The increase was due to the adoption of IFRS 16 as noted above. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rates. Future interest cost will decline as the lease liability is repaid.

Office and general expenses for the nine months ended September 30, 2019 increased \$125,758 year over year from \$113,762 to \$239,520. In October, 2018, the Company acquired additional office space to accommodate new staff. The increase year over year relates primarily to the non-lease components of the agreement. The overall cost is expected to increase as the Company grows.

Professional fees for the nine months ended September 30, 2019 increased \$58,336 year over year from \$145,630 to \$203,966, partly due to a one-time expense in the third quarter of 2019. In the short-term, professional fees are expected to vary based on M&A activities.

Research and development expenses for the nine months ended September 30, 2019 decreased \$13,129 year over year from \$769,853 to \$756,724. Future increases or decreases will vary based on the status of projects in development.

Share-based compensation for the nine months ended September 30, 2019 decreased \$33,777 from \$47,937 to \$14,160. On April 1, 2018, officers of the Company were granted 590,000 incentive stock options. Of the total, 345,000 options vested in 12 equal monthly instalments over 12 months beginning on April 30, 2018, each exercisable into one common share at a price of \$0.175 per share for a period of two years from each vesting date. An additional 245,000 incentive stock options vested on March 31, 2019 each exercisable into one common share at a price of \$0.175 per share until March 31, 2021. On September 6, 2019, the Company granted 240,000 incentive stock options for investor relations services. The options vest in equal amounts over four quarters commencing on December 10, 2019 and are exercisable at a price of \$0.185 per share until September 6, 2022.

Telecommunications expenses for the nine months ended September 30, 2019 increased \$4,817 year over year from \$7,229 to \$12,046. The overall cost is expected to increase as the Company grows.

Travel expenses for the nine months ended September 30, 2019 increased \$12,660 year over year from \$29,264 to \$41,924. The overall cost is expected to increase as the Company grows.

OPERATING RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019

Operating results for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 are discussed below.

Total revenue for the three months ended September 30, 2019 increased \$561,683 from \$4,600,786 to \$5,162,469, an increase of 12% from the three months ended September 30, 2018. The increase in revenue was due to a number of new service contracts entered into by the Company during the period. 100% of the Company's revenue was derived from its service business, of which 17% related to fixed price projects and 83% related to time and materials contracts. Management expects further revenue growth in 2019 and beyond. 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 54% (2018 – 72%) of the Company's revenue for the period relates to transactions entered into with one client.

Direct costs for the three months ended September 30, 2019 increased \$87,299 from \$3,585,288 to \$3,672,587, an increase of 2% from the three months ended September 30, 2018. Direct costs consist primarily 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 \$474,384 from \$1,015,498 to \$1,489,882, an increase of 47% from the three months ended September 30, 2018. Margins are expected to remain constant or increase slightly in the short-term.

Income before income tax for the three months ended September 30, 2019 increased \$120,202 from \$90,508 to \$210,710, an increase of 133% from the three months ended September 30, 2018. The net and comprehensive income for the three months ended September 30, 2019 increased \$90,408 from \$60,525 to \$150,933, an increase of 149% from the three months ended September 30, 2018.

Net income per share, basic and diluted, was \$0.00 for the three months ended September 30, 2019 compared to \$0.00 for the three months ended September 30, 2018.

Summary of Expenses

	Three months ended September 30 2019 \$	Three months ended September 30 2018 \$
Expenses		
Advertising and promotion	15,460	11,046
Compensation	742,861	540,613
Computer	35,592	34,057
Depreciation	49,498	6,461
Finance costs	6,831	1,866
Office and general	90,106	48,011
Professional fees	88,794	45,269
Research and development	223,871	207,671
Share-based compensation	4,862	18,227
Telecommunications	4,857	2,499
Travel	16,440	9,270
	<hr/> 1,279,172	<hr/> 924,990

Total expenses for the three months ended September 30, 2019 increased \$354,182 year over year from \$924,990 to \$1,279,172.

Advertising and promotion expenses for the three months ended September 30, 2019 increased \$4,414 year over year from \$11,046 to \$15,460. The overall cost is expected to increase in connection with increased sales.

Compensation for the three months ended September 30, 2019 increased \$202,248 year over year from \$540,613 to \$742,861. The increase relates primarily to higher sales and administrative staff costs during the period. The overall cost is expected to increase as the Company grows.

Computer expenses for the three months ended September 30, 2019 increased \$1,535 year over year from \$34,057 to \$35,592. The overall cost is expected to increase as additional projects are developed and new staff are hired.

Depreciation for the three months ended September 30, 2019 increased \$43,037 year over year from \$6,461 to \$49,498. The increase is a result of the Company's adoption of IFRS 16 "Leases". The Company has adopted IFRS 16 with an initial adoption date of January 1, 2019. The Company applied the modified retrospective approach, to remaining lease payments as at January 1, 2019, without restatement of comparative figures presented for 2018 as previously reported under IAS 17. The lease asset relating to the Company's office space is depreciated using the straight-line method. In addition, the expense will increase as additional property and equipment is acquired.

Finance costs for the three months ended September 30, 2019 increased \$4,965 year over year from \$1,866 to \$6,831. The increase was due to the adoption of IFRS 16 as noted above. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rates. Future interest cost will decline as the lease liability is repaid.

Office and general expenses for the three months ended September 30, 2019 increased \$42,095 year over year from \$48,011 to \$90,106. In October, 2018, the Company acquired additional office space to accommodate new

staff. The increase year over year relates primarily to the non-lease components of the agreement. The overall cost is expected to increase as the Company grows.

Professional fees for the three months ended September 30, 2019 increased \$43,525 year over year from \$45,269 to \$88,794, partly due to a one-time expense in the third quarter of 2019. In the short-term, professional fees are expected to vary based on M&A activities.

Research and development expenses for the three months ended September 30, 2019 increased \$16,200 year over year from \$207,671 to \$223,871. Future increases or decreases will vary based on the status of projects in development.

Share-based compensation for the three months ended September 30, 2019 decreased \$13,365 from \$18,227 to \$4,862. On April 1, 2018, officers of the Company were granted 590,000 incentive stock options. Of the total, 345,000 options vested in 12 equal monthly instalments over 12 months beginning on April 30, 2018, each exercisable into one common share at a price of \$0.175 per share for a period of two years from each vesting date. An additional 245,000 incentive stock options vested on March 31, 2019 each exercisable into one common share at a price of \$0.175 per share until March 31, 2021. On September 6, 2019, the Company granted 240,000 incentive stock options for investor relations services. The options vest in equal amounts over four quarters commencing on December 10, 2019 and are exercisable at a price of \$0.185 per share until September 6, 2022.

Telecommunications expenses for the three months ended September 30, 2019 increased \$2,358 year over year from \$2,499 to \$4,857. The overall cost is expected to increase as the Company grows.

Travel expenses for the three months ended September 30, 2019 increased \$7,170 year over year from \$9,270 to \$16,440. The overall cost is expected to increase as the Company grows.

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of approximately \$2,854,745 as at September 30, 2019 (December 31, 2018 – \$2,688,268). Working capital includes current assets less current liabilities on the Company's statement of financial position. Net cash from operations totalled \$1,147,160 for the nine months ended September 30, 2019 (2018 – \$211,880). Cash flows from operations fluctuate based on the timing of customer payments and other annual payments. The Company used \$66,057 in investing activities in connection with property and equipment acquired during the nine months ended September 30, 2019 (2018 – \$17,895) and used \$134,663 in financing activities (2018 – received \$15,002) relating primarily to repayments of the Company's lease liabilities. New debt and/or equity will be raised from time to time as required to meet the ongoing aggregate requirements of the Company. Management believes that it will have sufficient capital to fund its operations for the next twelve months.

COMMITMENTS AND GUARANTEES

In December, 2017, the Company established an operating line of credit for up to \$2,000,000, which carries an interest rate of prime plus 1.15%. This facility is covered by a General Security Agreement and standard operating covenants. The Company has not utilized the operating line as of September 30, 2019.

SUBSEQUENT EVENTS

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

OFF BALANCE SHEET ARRANGEMENTS

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

CAPITAL MANAGEMENT

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 September 30, 2019 and 2018. The Company is not subject to externally imposed capital requirements other than standard operating covenants associated with the line of credit.

DIVIDENDS

The Company issued a quarterly dividend of \$0.001 per share for holders of record of common shares of the Company on October 2, 2019 and payable in cash on October 15, 2019. The dividend payment is anticipated to be an ongoing quarterly payment with the dividend payment for Q3, September 30, 2019, being \$0.001 per share.

RELATED PARTY TRANSACTIONS

The Company rented office space from its Chief Executive Officer on a month-to-month lease. These transactions were in the normal course of operations and are measured at the fair value of the rented office space, which is the amount agreed to by the related parties. During the nine months ended September 30, 2019, the Company paid \$9,000 (2018 - \$9,000) in rent and occupancy costs.

Compensation to key management personnel

Compensation earned for the nine months ended September 30, 2019 and 2018 due to persons in charge of the planning, direction and control of the Company, including executive and non-executive directors is as follows:

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	\$	\$
Salaries, fees and benefits	1,215,857	1,623,993
Share-based compensation	9,298	47,937
Total	<u>1,225,155</u>	<u>1,671,930</u>

FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash, 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 approximate 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 nine months ended September 30, 2019, the Company derived 57% of its revenue from one customer (2018 – 78%). As at September 30, 2019, one customer represented 55% (December 31, 2018 – 62%) of the accounts receivable balance. Approximately 94% of the Company's revenue was received from customers currently located in Canada. As at September 30, 2019, approximately 10% (December 31, 2018 – 53%) 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:

	September 30, 2019	December 31, 2018
	\$	\$
Current	1,788,762	1,588,230
1-30 days	996,617	6,780
31-60 days	39,584	1,211,650
61-90 days	140,488	253,009
Greater than 90 days	136,233	358,522
Total	<u>3,101,684</u>	<u>3,418,191</u>

The expected credit loss was \$nil at both September 30, 2019 and December 31, 2018. 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 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 a 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.

Foreign currency risk

The Company earns a portion of its revenue in US Dollars and is therefore subject to risk from changes in foreign currency rates. The Company does not utilize any financial instruments to mitigate the risks arising from changes in foreign currency rates. For the nine months ended September 30, 2019 a 1% increase in the value of the US Dollar would have increased income by \$7,332 and a 1% decrease in the US Dollar would have the opposite effect.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. As at September 30, 2019 and December 31, 2018 the Company did not have any active debt and was therefore not subject to interest rate risk.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at November 26, 2019, the Company had outstanding 115,506,320 common shares (unlimited authorized). As at November 26, 2019, there were 1,240,000 options outstanding, of which 1,000,000 had vested.

CHANGE IN ACCOUNTING POLICIES

Recently adopted accounting policy changes

Effective January 1, 2019, the Company has adopted the following standard:

IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. The standard is effective for annual periods beginning on or after January 1, 2019 and the Company is required to apply IFRS 16 to all contracts that are not complete on the date of initial application. The Company applied the modified retrospective approach, to remaining lease payments as at January 1, 2019, without restatement of comparative figures presented for 2018 as previously reported under IAS 17. Upon the initial application as of January 1, 2019, right-of-use assets and lease liabilities were recorded, with no net impact on retained earnings. For leases previously classified as operating leases under IAS 17, the lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as at the date of initial application. Additionally, the right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized in the statement of financial position immediately before the date of initial application. For leases previously classified as finance leases under IAS 17, the lease liability and the right-of-use asset has been measured as the carrying amount of the lease asset and lease liability immediately before the date of initial application. The following table summarizes the impact of initial application on the consolidated statement of financial position:

	Balance at December 31, 2018	IFRS 16 Initial Application	Balance at January 1, 2019
	\$	\$	\$
Assets			
Long-term prepaid expenses	33,490	(14,303)	19,187
Right of use assets	-	480,484	480,484
Liabilities			
Lease liabilities	-	466,181	466,181

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company has elected to account for all short-term leases and all leases for which the underlying asset is of low value as expenses on either a straight-line basis over the lease term or another systematic basis, and thus not recognize a lease liability and a right-of-use asset at the date of initial application. Short-term leases are leases with a lease term of twelve months or less.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rates depending on the lease terms and other factors as at January 1, 2019. The weighted average rate applied is 5.1%.

The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	\$	500,573
Discounted using incremental borrowing rates		<u>(34,392)</u>
Lease liabilities recognized at January 1, 2019	\$	466,181

CRITICAL ACCOUNTING ESTIMATES

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:

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgement thresholds have been introduced which may affect the timing of revenue recognized.

The Company records revenue from contracts with customers in accordance with the five steps in IFRS 15 as follows:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price among the performance obligations in the contract based on their relative fair values; and
5. Recognize revenue when the relevant criteria are met for each unit (at a point in time or over time).

The Company derives its revenues from software and related professional service contracts. Revenue comprises the fair value of consideration received or receivable from the provision of services in the ordinary course of business.

Revenue from contracts with customers is recognized for each performance obligation as control is transferred to the customer over time as progress towards completion of the performance obligation. The transaction price is generally the amount stated in the contract.

The Company recognizes professional services revenues based on time and material incurred, or for fixed price professional service contracts, based on the percentage of completion of the performance obligation, which is assessed based on actual labour cost and budgeted cost required to complete the performance obligation. If a loss on a contract is considered probable, the loss is recognized when it is determinable.

Amounts are generally billable on reaching certain performance milestones, as defined by individual contracts. Revenue earned in excess of contract billings is recorded as contract asset. Cash proceeds received in advance of performance under contracts are recorded as contract liability. Contract liability is classified as long-term if it relates to performance obligations that are expected to be fulfilled after 12 months from period end.

Contract costs, such as commissions or incremental costs of obtaining a contract with a customer, are recognized as an asset if we expect the period of benefit for those costs to be longer than one year and those costs are expected to be recoverable under the expected term of the contract. As all contracts are for a period of less than one year, no contract costs have been recorded.

Expected Credit loss:

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 customer.

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.

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

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 has a limited operating history and may not maintain profitability

Prodigy is 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'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. 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 and may require additional debt or equity financing.

Economic dependence on a limited number of customers

Prodigy's revenue is obtained almost exclusively from its services business. During the nine months ended September 30, 2019, the Company derived 57% of its revenue from one customer (2018 – 78%). As at September 30, 2019, one customer represented 55% (December 31, 2018 – 62%) 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.

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's ability to continue operations will be largely reliant on its continued attractiveness to equity investors and profit from its services business. 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.

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.

Internal Controls and Procedures

Management of the Company has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the financial statements of the Company do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented thereby, and (ii) the financial statements of the Company fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented. However, as a venture issuer, the certifying officers of the Company filing such financial statements do not make any representations relating to the establishment and maintenance of:

- controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's accounting principles.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis disclosure controls and procedures, and internal controls over financial reporting, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Lack of Trading

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

Volatility of Share Price

Market prices for shares of TSXV companies are often volatile. Factors such as announcements of financial results, and other factors could have a significant effect on the price of the Company's shares.

Additional Information

Additional information about the Company can be found on the Sedar website at www.sedar.com.