



# PRODIGY

V E N T U R E S

**PRODIGY VENTURES INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED  
DECEMBER 31, 2018**

**April 3, 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 financial statements and related notes for the years ended December 31, 2018 and 2017, 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 April 3, 2019, 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 consolidated financial statements for year ended December 31, 2018 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**

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Prodigy is comprised of two main business units: Prodigy Labs and our Venture Builder.

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 venture builder business platforms. It provides these technology services to the aforementioned clients. Prodigy Labs’ technology consulting services currently represent 100% of Prodigy’s revenue.

The Venture Builder is creating or intends to create new business platforms and applications in many of the highest growth technology segments: mobile, video, secure identity, voice, blockchain, payments, augmented reality and artificial intelligence. 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. If and when 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, it is anticipated that some ventures will succeed while others 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.

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, as well as the unique capabilities of the other Prodigy businesses. Enterprise prospects are keenly interested in mobile, secure identity, payments, voice, augmented reality, artificial intelligence, and blockchain 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. During the year we added new clients, reducing our dependency on our largest client from approximately 92% to 74% of revenue.

Many Prodigy personnel are dedicated sub-contractors. The Company is now hiring more full-time employees. This shift will 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 co-located on the premises of its clients.

### **Venture Builder Business**

Prodigy is currently in the process of building new apps and platforms in its venture builder division, which are described below:

#### ID Verifact

ID Verifact is Prodigy's new digital identity platform and related services offering. It is focused on accelerating the market adoption of secure digital identity solutions for banking, payments, insurance, retail, charitable donations and other uses.

ID Verifact is developing services for a number of initiatives, including new account creation and digital signature, account maintenance and recovery, and eligibility checks, including age verification, delivered online, over telephone channels or at brick-and-mortar locations.

The ID Verifact platform will also enable the rapid onboarding and adoption of Verified.Me, an offering of SecureKey Technologies. Verified.Me is being adopted by many Canadian banks and others (digital asset providers) to enable secure, permission-based digital asset transfers to businesses requesting personal digital assets when such requests are authorized by a consumer. Verified.Me is built on the IBM blockchain. Prodigy is a SecureKey Partner.

#### Prodigy Vox

Prodigy Vox is a new voice systems platform and related services, under development to enable the creation and management of new apps for Amazon's Alexa devices and Google's Home devices. Other voice devices will be added in future, including Apple's HomePod and others.

Prodigy Vox provides services to assist businesses implementing custom voice applications for customers in the banking, insurance, auto, retail and services sectors. Prodigy Vox is integrated with ID Verifact to facilitate convenient and secure account linking within voice applications.

#### **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 assigned to Prodigy all rights such person or entity may have in the work completed on behalf of Prodigy.

#### **SELECTED FINANCIAL INFORMATION**

	Year Ended December 31 2018 \$	Year Ended December 31 2017 \$	Year Ended December 31 2016 \$
Revenue	16,943,045	12,140,692	11,020,658
Direct costs	12,892,061	8,540,912	7,332,164
Expenses	3,782,792	3,093,319	2,425,773
Provision for income tax	92,597	158,933	365,932
Net and comprehensive income for the period	175,595	347,528	896,789
Earnings per share – basic and diluted	0.00	0.00	0.01
Total assets	5,084,927	3,977,973	3,938,074
Non-current financial liabilities	-	-	62,471

#### **OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018**

Operating results for the year ended December 31, 2018 compared to the year ended December 31, 2017 are discussed below.

Total revenue for the year ended December 31, 2018 increased \$4,802,353 from \$12,140,692 to \$16,943,045, an increase of 40% from year ended December 31, 2017. 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 30% related to fixed price projects and 70% 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 74% (2017 – 92%) of the Company's revenue for the period relates to transactions entered into with one client.

Direct costs for the year ended December 31, 2018 increased \$4,351,149 from \$8,540,912 to \$12,892,061, an increase of 51% from the year ended December, 2017. 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 \$451,204 from \$3,599,780 to \$4,050,984, an increase of 13% from the year ended December 31, 2017. Margins are expected to remain constant or increase slightly in the short-term.

Income before income tax for the year ended December 31, 2018 decreased \$238,269 from \$506,461 to \$268,192, a decrease of 47% from the year ended December 31, 2017. The net and comprehensive income for the year ended December 31, 2018 decreased \$171,933 from \$347,528 to \$175,595, a decrease of 49% from the year ended December 31, 2017. Of the \$175,595 in net income, profit of \$1,091,475 was attributable to the service business and a loss of \$915,880 was attributable to the venture builder business.

Net income per share, basic and diluted, was \$0.00 for the year ended December 31, 2018 compared to \$0.00 for the year ended December 31, 2017.

<i>Summary of Expenses</i>	<b>Year ended December 31 2018 \$</b>	<b>Year ended December 31 2017 \$</b>
<b>Expenses</b>		
Advertising and promotion	55,261	56,159
Compensation	2,057,982	1,282,505
Computer	121,224	119,806
Depreciation	24,849	20,223
Finance costs	5,988	34,910
Loss on sale of property and equipment	-	983
Office and general	34,633	11,919
Professional fees	168,119	354,553
Rent and occupancy costs	186,692	98,646
Research and development	1,017,945	988,571
Share-based compensation	60,950	58,560
Telecommunications	11,308	10,843
Travel	37,841	55,641
	<u>3,782,792</u>	<u>3,093,319</u>

Total expenses for the year ended December 31, 2018 increased \$689,473 year over year from \$3,093,319 to \$3,782,792.

Advertising and promotion expenses for the year ended December 31, 2018 decreased \$898 year over year from \$56,159 to \$55,261. Of the total, \$51,597 (2017 – \$40,176) was allocated to Prodigy Labs and \$3,664 (2017 - \$15,983) was allocated to the Venture Builder. The overall cost is expected to increase in connection with increased sales and new ventures promotion.

Compensation for the year ended December 31, 2018 increased \$775,477 year over year from \$1,282,505 to \$2,057,982. Of the total, \$1,927,316 (2017 – \$1,156,083) was allocated to Prodigy Labs and \$130,666 (2017 - \$126,422) was allocated to the Venture Builder. The increase relates primarily to higher administrative and sales

staff costs and increased incentive compensation during the period. The overall cost is expected to increase as the Company grows.

Computer expenses for the year ended December 31, 2018 increased \$1,418 year over year from \$119,806 to \$121,224. Of the total, \$80,837 (2017 – \$52,306) was allocated to Prodigy Labs and \$40,387 (2017 - \$67,500) was allocated to the Venture Builder. The overall cost is expected to increase as additional projects are developed and new staff are hired.

Depreciation for the year ended December 31, 2018 increased \$4,626 year over year from \$20,223 to \$24,849. Of the total, \$23,210 (2017 – \$18,200) was allocated to Prodigy Labs and \$1,639 (2017 - \$2,023) was allocated to the Venture Builder. The expense will increase as additional property and equipment is acquired.

Finance costs for the year ended December 31, 2018 decreased \$28,922 year over year from \$34,910 to \$5,988. The decrease was due to prepayment charges in connection with the full repayment of the Company's remaining long-term debt as well as other non-recurring interest charges in the prior year. Of the total, \$5,661 (2017 – \$31,449) was allocated to Prodigy Labs and \$327 (2017 - \$3,461) was allocated to the Venture Builder. The Company did not have any active debt in the period. Future interest cost is expected to be minimal.

The Company recorded a loss of \$Nil for the year ended December 31, 2018 as compared to a loss of \$983 in 2017 in connection with the sale of property and equipment.

Office and general expenses for the year ended December 31, 2018 increased \$22,714 year over year from \$11,919 to \$34,633. Of the total, \$32,676 (2017 – \$9,004) was allocated to Prodigy Labs and \$1,957 (2017 - \$2,915) was allocated to the Venture Builder. The overall cost is expected to increase as the Company grows.

Professional fees for the year ended December 31, 2018 decreased \$186,434 year over year from \$354,553 to \$168,119. Of the total, \$156,678 (2017 – \$317,258) was allocated to Prodigy Labs and \$11,441 (2017 - \$37,295) was allocated to the Venture Builder. The decrease is a result of expired external advisory engagements active in 2017. In the short-term, professional fees are expected to vary based on M&A activities.

Rent and occupancy costs for the year ended December 31, 2018 increased \$88,046 year over year from \$98,646 to \$186,692. Of the total, \$90,839 (2017 – \$24,660) was allocated to Prodigy Labs and \$95,853 (2017 - \$73,986) was allocated to the Venture Builder. In October, 2018 the Company acquired additional office space to accommodate new staff. In the short-term, expenses are expected to be consistent with the fourth quarter of 2018.

Research and development expenses for the year ended December 31, 2018 increased \$29,374 year over year from \$988,571 to \$1,017,945. 100% of the research and development expenses are related to the Venture Builder. Future increases or decreases will vary based on the status of projects in development.

Share-based compensation for the year ended December 31, 2018 increased \$2,390 from \$58,560 to \$60,950. Of the total, \$57,726 (2017 – \$44,364) was allocated to Prodigy Labs and \$3,224 (2017 - \$14,196) was allocated to the Venture Builder. The Company issued 910,000 options to officers, directors, consultants and employees in December, 2016. The fair value of the share-based compensation was expensed over the vesting period, which concluded on December 31, 2017. In January 2017, the Company issued 100,000 options for investor relations services, which were to vest in equal amounts each month over 12 months commencing on January 16, 2017 and were exercisable at a price of \$0.175 per share for a period of one year from each individual vesting date. On April 30, 2017, the Company granted 183,823 incentive stock options for advisory services relating to prospective combination transactions (each a "Transaction"). Each option entitled the holder to acquire one common share of Prodigy at a price of \$0.35 at any time after the successful completion of a Transaction until the 24-month anniversary of the successful completion of a Transaction. Upon termination of these engagements, the options are no longer outstanding. 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.

Telecommunications expenses for the year ended December 31, 2018 increased \$465 year over year from \$10,843 to \$11,308. Of the total, \$10,076 (2017 – \$7,486) was allocated to Prodigy Labs and \$1,232 (2017 - \$3,357) was allocated to the Venture Builder. The overall cost is expected to increase as the Company grows.

Travel expenses for the year ended December 31, 2018 decreased \$17,800 year over year from \$55,641 to \$37,841. Of the total, \$35,356 (2017 – \$43,548) was allocated to Prodigy Labs and \$2,485 (2017 - \$12,093) was allocated to the Venture Builder. 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, presented in Canadian dollars:

For the quarters ended	Dec 31/18 \$	Sep 30/18 \$	Jun 30/18 \$	Mar 31/18 \$
Total revenue	4,687,362	4,600,786	4,086,275	3,568,622
Net income for the period	1,418	60,525	89,280	24,372
Net income per share – basic and diluted	0.00	0.00	0.00	0.00

For the quarters ended	Dec 31/17 \$	Sep 30/17 \$	Jun 30/17 \$	Mar 31/17 \$
Total revenue	3,007,244	2,962,484	3,107,656	3,063,308
Net income for the period	5,310	56,534	116,515	169,169
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. In recent quarters, Prodigy has seen reduced margins on revenue due to cost pressure associated with escalated market demand for technology talent. Margins are expected increase slightly in the short term.

In 2018, the Company continued to increase its investment in management and sales staff. The Company also incurred expenditures in research and development in connection with its venture builder business as detailed above. These research and development expenditures have been fully expensed. The R&D expenses and sales staff costs contributed to the reduced profit but have led to an increase in revenue, including revenue from new clients.

### OPERATING RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2018

Operating results for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 are discussed below.

Total revenue for the three months ended December 31, 2018 increased \$1,680,117 from \$3,007,244 to \$4,687,362, an increase of 56% from the three months ended December 31, 2017. 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 14% related to fixed price projects and 86% 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 62% (2017 – 89%) of the Company's revenue for the period relates to transactions entered into with one client.

Direct costs for the three months ended December 31, 2018 increased \$1,359,625 from \$2,209,997 to \$3,569,622, an increase of 62% from the three months ended December 31, 2017. 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 \$320,493 from \$797,247 to

\$1,117,740, an increase of 40% from the three months ended December 31, 2017. Margins are expected to remain constant or increase slightly in the short-term.

Income before income tax for the three months ended December 31, 2018 decreased \$9,547 from \$19,108 to \$9,561, a decrease of 50% from the three months ended December 31, 2017. The net and comprehensive income for the three months ended December 31, 2018 decreased \$3,892 from \$5,310 to \$1,418, a decrease of 73% from the three months ended December 31, 2017.

Net income per share, basic and diluted, was \$0.00 for the three months ended December 31, 2018 compared to \$0.00 for the three months ended December 31, 2017.

*Summary of Expenses*

	<b>Three months ended December 31 2018 \$</b>	<b>Three months ended December 31 2017 \$</b>
<b>Expenses</b>		
Advertising and promotion	14,936	17,751
Compensation	651,358	391,651
Computer	30,337	33,805
Depreciation	6,745	5,551
Finance costs	988	10,239
Office and general	10,995	960
Professional fees	22,490	59,214
Rent and occupancy costs	96,569	30,163
Research and development	248,092	204,475
Share-based compensation	13,012	11,885
Telecommunications	4,079	3,344
Travel	8,578	9,101
	1,108,179	778,139

Total expenses for the three months ended December 31, 2018 increased \$330,040 year over year from \$778,139 to \$1,108,179.

Advertising and promotion expenses for the three months ended December 31, 2018 decreased \$2,815 year over year from \$17,751 to \$14,936. The overall cost is expected to increase in connection with increased sales and new ventures promotion.

Compensation for the three months ended December 31, 2018 increased \$259,707 year over year from \$391,651 to \$651,358. The increase relates primarily to higher administrative and sales staff costs and increased incentive compensation during the period. The overall cost is expected to increase as the Company grows.

Computer expenses for the three months ended December 31, 2018 decreased \$3,468 year over year from \$33,805 to \$30,337. The overall cost is expected to increase as additional projects are developed and new staff are hired.

Depreciation for the three months ended December 31, 2018 increased \$1,194 year over year from \$5,551 to \$6,745. The expense will increase as additional property and equipment is acquired.

Finance costs for the three months ended December 31, 2018 decreased \$9,251 year over year from \$10,239 to \$988. The decrease was due to costs associated with setting up the Company's operating line in the prior year. The Company did not have any active debt in the period. Future interest cost is expected to be minimal.

Office and general expenses for the three months ended December 31, 2018 increased \$10,035 year over year from \$960 to \$10,995. The increase was primarily due to costs associated with the Company's move to a new head office in October, 2018. The overall cost is expected to increase as the Company grows.

Professional fees for the three months ended December 31, 2018 decreased \$36,724 year over year from \$59,214 to \$22,490. The decrease is a result of expired external advisory engagements active in 2017 and reduced legal fees. In the short-term, professional fees are expected to vary based on M&A activities.

Rent and occupancy costs for the three months ended December 31, 2018 increased \$66,406 year over year from \$30,163 to \$96,569. In October, 2018 the Company acquired additional office space to accommodate new staff. In the short-term, expenses are expected to be consistent with the fourth quarter of 2018.

Research and development expenses for the three months ended December 31, 2018 increased \$43,617 year over year from \$204,475 to \$248,092. Future increases or decreases will vary based on the status of projects in development.

Share-based compensation for the three months ended December 31, 2018 increased \$1,127 from \$11,885 to \$13,012. The Company issued 910,000 options to officers, directors, consultants and employees in December, 2016. The fair value of the share-based compensation was expensed over the vesting period, which concluded on December 31, 2017. 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.

Telecommunications expenses for the three months ended December 31, 2018 increased \$735 year over year from \$3,344 to \$4,079. The overall cost is expected to increase as the Company grows.

Travel expenses for the three months ended December 31, 2018 decreased \$523 year over year from \$9,101 to \$8,578. The overall cost is expected to increase as the Company grows.

## LIQUIDITY AND CAPITAL RESOURCES

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The Company had working capital of approximately \$2,688,268 as at December 31, 2018 (December 31, 2017 – \$2,292,644). Working capital includes current assets less current liabilities on the Company's statement of financial position. Cash flows used in operations totalled \$44,898 for the year ended December 31, 2018 (2017 – \$622,329). Cash flows from operations fluctuate based on the timing of customer payments and other annual payments. The Company used \$25,468 in investing activities in connection with property and equipment acquired or disposed of during the year ended December 31, 2018 (2017 – \$43,772) and received \$116,512 in financing activities (2017 – used \$127,521) relating primarily to the exercise of stock options and repayments of the Company's loans outstanding during the period where applicable. New debt and/or equity will be raised from time to time as required to meet the ongoing aggregate requirements of all ventures. If and when 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.

## COMMITMENTS AND GUARANTEES

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The Company has entered into a thirty-eight month lease agreement effective October, 2018. As at December 31, 2018, the future minimum annual base rent on office premises under existing operating leases is:

2019	\$ 171,625
2020	171,625
2021	157,323
Total	<u>\$ 500,573</u>

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 December 31, 2018.

## **SUBSEQUENT EVENTS**

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

## **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 December 31, 2018 and 2017. The Company is not subject to externally imposed capital requirements other than standard operating covenants associated with the line of credit.

## **RELATED PARTY TRANSACTIONS**

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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 year ended December 31, 2018, the Company paid \$12,000 (2017 - \$12,000) in rent and occupancy costs.

### **Compensation to key management personnel**

Compensation earned for the year ended December 31, 2018 and 2017 due to persons in charge of the planning, direction and control of the Company, including executive and non-executive directors is as follows:

	<b>Year ended December 31, 2018 \$</b>	<b>Year ended December 31, 2017 \$</b>
Salaries, fees and benefits	2,307,194	1,843,048
Share-based compensation	60,950	39,636
Total	<u>2,368,144</u>	<u>1,882,684</u>

## FINANCIAL INSTRUMENTS

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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 year ended December 31, 2018, the Company derived 74% of its revenue from one customer (2017 – 92%). As at December 31, 2018, one customer represented 62% (December 31, 2017 – 89%) of the accounts receivable balance. Over 99% of the Company's revenue was received from customers currently located in Canada. As at December 31, 2018, approximately 53% (December 31, 2017 – 51%) 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:

	December 31, 2018	December 31, 2017
	\$	\$
Current	1,588,230	1,078,268
1-30 days	6,780	51,658
31-60 days	1,211,650	799,529
61-90 days	253,009	278,947
Greater than 90 days	358,522	93,191
Total	<u>3,418,191</u>	<u>2,301,593</u>

The expected credit loss was \$nil at both December 31, 2018 and December 31, 2017. 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.

#### 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 December 31, 2018 and December 31, 2017 the Company did not have any active debt and was therefore not subject to interest rate risk.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

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As at December 31, 2018 and April 3, 2019, the Company had outstanding 27,454,902 common shares (unlimited authorized) and 88,051,416 restricted shares (unlimited authorized). As at April 3, 2019, there were 1,050,000 options outstanding, all of which had vested.

## **CHANGE IN ACCOUNTING POLICIES**

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### **Recently adopted accounting policy changes**

Effective January 1, 2018, the Company has adopted the following standards and amendments which did not have a material impact on the consolidated financial statements.

IFRS 2 - Classification and Measurement of Share-based Payment Transactions ("IFRS 2") - On June 20, 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payments with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

IFRS 9 - Financial Instruments ("IFRS 9") - IFRS 9 replaces International Accounting Standard ("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 allow more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

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. Under IFRS 15, the revenue recognition model has changed from one based on the transfer of risks and rewards of ownership to the transfer of control. The vast majority of the Company's contracts with customers include one performance obligation. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, upon delivery, the timing and amount of revenue recognized from this principal revenue stream has not changed as a result of the adoption of this new standard.

### **Future accounting policy changes**

At the date of the authorization of these consolidated financial statements, the IASB has issued the following new and revised standards and amendments which are not yet effective for the relevant periods.

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. Based on the information available as at April 3, 2019, as a result of the initial application of IFRS 16 as at December 31, 2018, management anticipates recognizing approximately \$1,150,000 of right-of-use assets and \$1,110,000 of lease liabilities, on its consolidated statement of financial position.

## **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:*

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 has elected to adopt IFRS 15 using the cumulative effect method as of the date of initial application on January 1, 2018, with no restatement of comparative period amounts. As the effect of adopting IFRS 15 did not have a material impact on the financial statements, there was no adjustment made to the opening balance of equity at the date of initial application.

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**

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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 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 year ended December 31, 2018, the Company derived 74% of its revenue from one customer (2017 – 92%). As at December 31, 2018, one customer represented 62% (December 31, 2017 – 89%) 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, voice, augmented reality, artificial intelligence, blockchain and secure identity. 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 earned minimal revenue to date from its venture builder business. Its ability to continue operations will be largely reliant on its continued attractiveness to equity investors and profit from its services business. 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.

### *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](http://www.sedar.com).