



**PRODIGY**  
V E N T U R E S

**PRODIGY VENTURES INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED  
DECEMBER 31, 2016**

**April 6, 2017**

## **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 audited financial statements and related notes for the year ended December 31, 2016 and the nine months ended December 31, 2015, 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 6, 2017, 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.

In connection with the reverse acquisition described below, the Company changed its fiscal year-end to December 31 from its previous fiscal year-end of March 31, resulting in a nine-month fiscal period in 2015. As a result of the change in year end, the results of the previous fiscal year end are not directly comparable.

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 the year ended December 31, 2016 as well as assumptions regarding the foregoing. Forward-looking statements speak only as of the date on which they are made. In particular, statements relating to future performance are forward-looking information. Prodigy disclaims any intention or obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. Readers are cautioned not to place undue reliance on this forward-looking information.

## **REVERSE TAKEOVER**

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

As part of the Qualifying Transaction, 71 Capital consolidated its common shares on the basis of 2 to 1. TCB recapitalized its share capital via the issuance of 20,024,724 common shares and 88,051,416 restricted voting shares and the cancellation of the common, Series I Class A and Series II Class A shares that were outstanding prior to the Amalgamation. TCB amalgamated with a wholly-owned subsidiary of 71 Capital (the “Amalgamation”), pursuant to which all shares of TCB, including those issued in connection with the Amalgamation, were exchanged

for shares of Prodigy. Following completion of the Qualifying Transaction, the Company had an aggregate of 25,688,232 common shares outstanding, comprising 20,024,724 common shares issued to former holders of TCB common shares, 1,183,080 common shares issued to investors who acquired subscription receipts in a private placement which closed on August 31, 2015, 2,274,793 common shares issued for financial advisory services in connection with the transaction and 2,205,635 common shares issued to former holders of 71 Capital common shares. The Company also had 88,051,416 restricted voting shares outstanding.

Upon closing of the Qualifying Transaction, the shareholders of TCB owned approximately 95.02% of the common and restricted shares of the Company and as a result, the transaction is considered a reverse acquisition of 71 Capital by TCB. For accounting purposes, TCB is considered the acquirer and 71 Capital the acquiree. Accordingly, the consolidated financial statements are in the name of Prodigy Ventures Inc. (formerly 71 Capital), however they are a continuation of the financial statements of TCB which has adopted 71 Capital's financial year end of December 31.

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

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

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

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

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

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<b>Listing expense</b>	<b>\$ 89,917</b>
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The Amalgamation with 71 Capital allowed TCB, a private company, to obtain a listing on the TSXV without having to go through an initial public offering process. As the acquisition was not considered a business combination, a total of \$89,917, being the excess of fair value of the consideration paid to obtain the listing over the net assets (liabilities) received (assumed), has been included in listing expense on the closing date in the consolidated statement of operations and comprehensive income for the fiscal year ended December 31, 2015.

**OVERVIEW**

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

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

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 over 99% of Prodigy's revenue.

Prodigy is also a "venture builder". This unit, Prodigy Ventures, is creating or intends to create new business platforms and applications in many of the highest growth technology segments: mobile video, wearables, proximity marketing, mobile payments, augmented reality, 3D 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. During 2014, most of Prodigy's revenue was generated through time and material contracts. However, beginning in 2015 revenue has been successfully shifted to emphasize fixed price contracts, and Prodigy plans to extend that trend in its mix of services business to deepen client relationships and improve margins.

Prodigy's technology consulting services currently represent over 99% of its revenue. Prodigy Labs has begun the transition from the organic growth of its first two years to a more aggressive business development strategy. The business has started to invest in staff for sales and marketing, has targeted specific vertical markets, is implementing a contact and sales plan, and has defined a services offering that builds upon its successful experience with Canadian banks, as well as the unique capabilities of the other Prodigy businesses. Enterprise prospects are keenly interested in mobile video, wearables, proximity marketing, mobile payments, augmented reality, 3D and artificial intelligence platforms and applications, and need expert assistance to apply them to their businesses. Management of Prodigy believes that this will result in significant growth for Prodigy Labs.

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

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

Competition for the services business of Prodigy Labs comes from a broad range of technology companies, from large international players like IBM and CGI, to smaller local participants, like BNotions, Pivotal Labs, and others. Prodigy Labs' sales efforts are based upon specific targeting of prospects in sectors of interest, dictated largely by the technology development work in Prodigy's businesses. For example, Prodigy Labs is targeting large retailers to sell services based upon its proximity marketing work. It is also targeting the banks and other financial institutions to sell services based upon its work in mobile video and augmented reality. Sales efforts are on a one-to-one personal level to senior executives in these enterprises. Prodigy currently has an Executive Vice President responsible for sales growth, a Senior Sales Director and two support staff, and plans to grow the account sales and service team to a staff of up to ten people within two years.

### **Venture Builder Business**

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

#### iVideo

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

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

iVideo has been transformed by Prodigy from a video camera app into a full social video platform and was relaunched for iPhones and iPads in November, 2015. The release offered new social capabilities alongside its split screen interface and additional unique user interface designs for a compelling new video experience. An Apple TV companion app was also launched in December, 2015 along with an Apple Watch app launched at the same time. In May 2016, Prodigy launched iVideo for Android.

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

In November, 2016, the Company launched iVideo Greetings, a new app to easily create and send professional quality, personal video e-greeting cards.

iVideo Greetings gives users 130 video themes, something for every occasion and sentiment. Users simply add their own video message to send a professional quality, themed iVideo greeting. The entire process takes only seconds from start to finish. Each original iVideo Greetings theme has been produced by talented video designers and animators. They integrate seamlessly with the user's own video, bringing their message to life, and making it special and unique.

This new app lets users avoid the time-consuming exercise of going to the store, browsing the greeting card rack and searching to find just the right card. Paper, postage stamps and physical mail are unnecessary. Delivery is immediate.

iVideo Greetings offers themes for all important occasions: birthdays, Christmas, Valentine's Day, weddings, engagements, or to say thanks, I love you, get well, cheer up and countless other special moments. The user experience is fun, quick, easy and memorable. And the cost is less than traditional greeting cards.

The greeting card industry is a multibillion-dollar industry worldwide that is just beginning to evolve into the digital world. iVideo Greetings offers a compelling experience as users worldwide make this shift.

Users can purchase iVideo Greetings for single use, a five-pack, or an auto-renewable monthly or annual subscription. The first iVideo Greeting sent is free for all registered users. All revenue flows through either Apple's App Store or the Google Play Store which process all transactions and take a 30% revenue share.

In February, 2017, the Company launched iVideo Gifts, a new app to easily create and send e-gift cards from the top retail brands along with professional quality, personal video e-greeting cards.

The gift card industry is a \$100-billion industry that is just beginning to evolve into the digital world. iVideo Gifts offers a compelling experience as users worldwide make this shift.

iVideo Gifts offers a selection of e-gift cards from over 90 top brand name retailers designed for any occasion. With more than 120 professionally designed iVideo Greeting themes, users can quickly create personal and professional video e-cards to send with their gifts.

Brands include Amazon, Banana Republic, Barnes & Noble, Bass Pro Shops, Bed Bath & Beyond, Buy Buy Baby, Delta Air Lines, Domino's, Foot Locker, Gap, Groupon, Land's End, Nike, Old Navy, Petco, Regal Cinemas, Sephora, TGI Friday's, Xbox Live and many more.

iVideo Gifts provides a convenient gift-giving option, any time, to send a unique gift. The user experience is fun, quick, easy and memorable. A free iVideo Greeting e-card is included with each gift. iVideo Gifts saves users the time and effort of going from store to store, shopping for that perfect gift. There's no need to stand endlessly at the greeting card rack, searching to find just the right card. No more paper, postage stamps or physical mail. No more delivery delays.

iVideo Gifts is initially available only for iOS devices in the US App Store. An Android version will be released soon in the Google Play Store.

It is anticipated that in 2017 iVideo will be expanded to serve the e-payments market. These new markets present multiple significant revenue opportunities to monetize the iVideo business.

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

Prodigy is also developing the following ventures:

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

## Intellectual Property

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

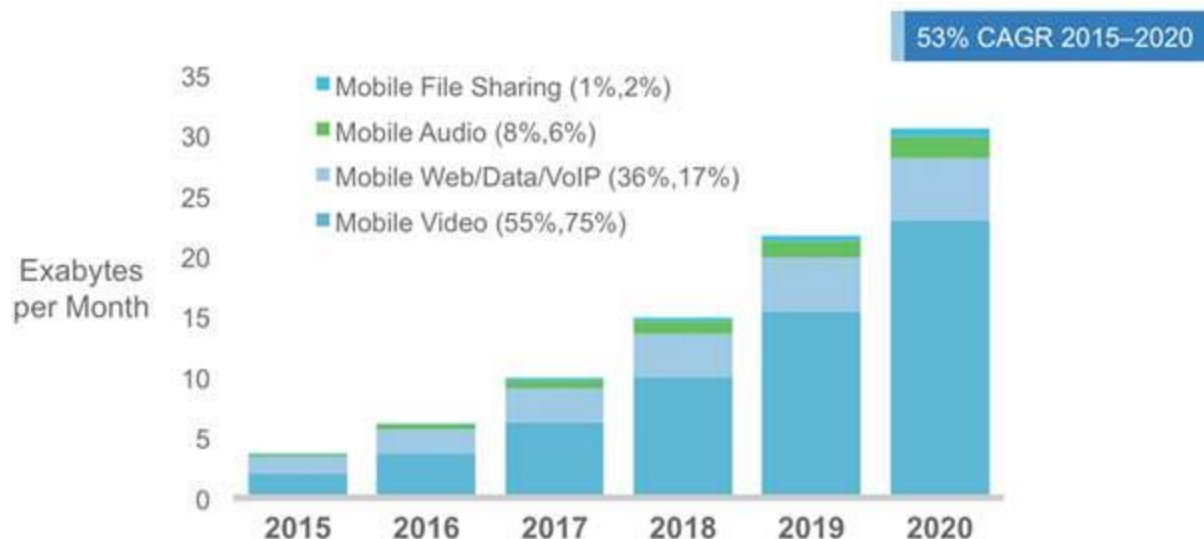
## Trends

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

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

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

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



## Proximity

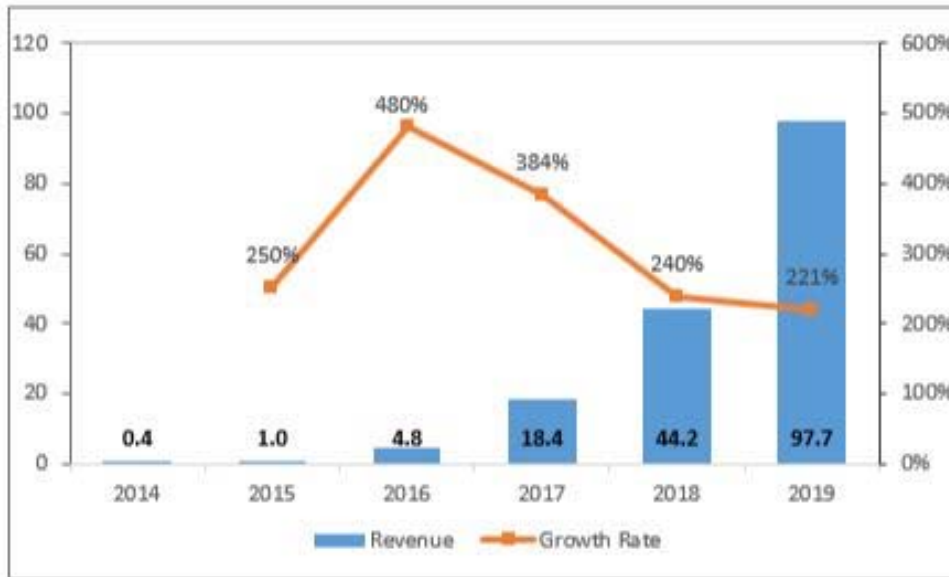
iBeacon is the name for Apple's technology standard, which allows mobile apps (running on both iOS and Android devices) to listen for signals from beacons in the physical world and react accordingly. According to publicly available information, many well-known companies are already developing technology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

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



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

Global iBeacon Market 2014-2019 (\$ millions)

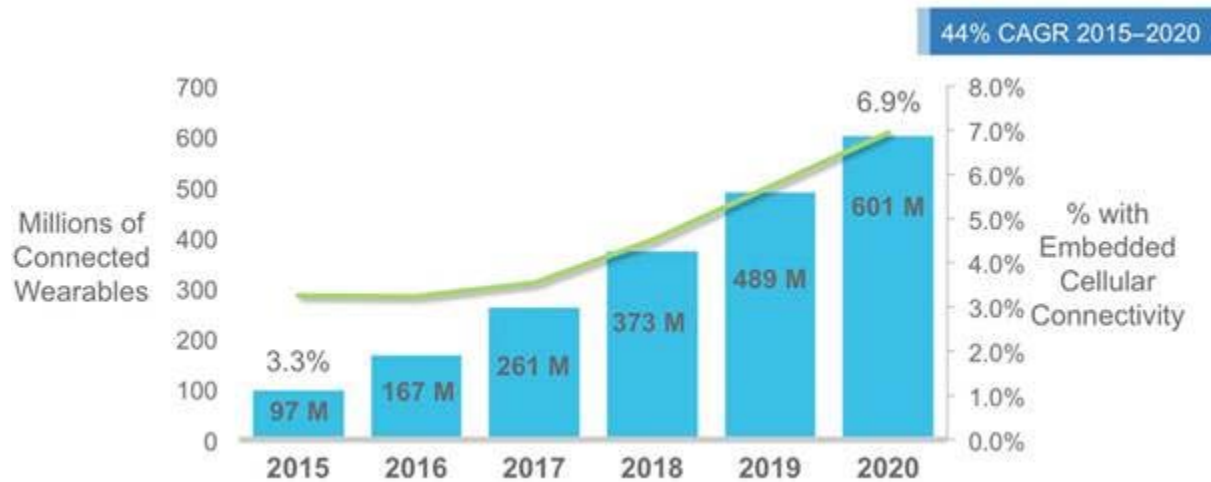


Source: Technavio Research

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

Quoting the Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2015–2020 White Paper, “Wearable devices, as the name suggests, are devices that can be worn on a person and have the capability to connect and communicate to the network either directly through embedded cellular connectivity or through another device (primarily a smartphone) using Wi-Fi, Bluetooth, or another technology. These devices come in various shapes and forms, ranging from smart watches, smart glasses, heads-up displays (HUDs), health and fitness trackers, health monitors, wearable scanners and navigation devices, smart clothing, etc. The growth in these devices has been fueled by enhancements in technology that have supported compression of computing and other electronics (making the devices light enough to be worn). These advances are being combined with fashion to match personal styles, especially in the consumer electronics segment, along with network improvements and the growth of applications, such as location-based services and augmented reality.”... “By 2020, we estimate that there will be 601 million wearable devices globally, growing fivefold from 97 million in 2015 at a CAGR of 44 percent.”

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



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

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

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

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

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

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

## SELECTED FINANCIAL INFORMATION

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	Year Ended December 31 2016 \$	Nine Months Ended December 31 2015 \$	Year Ended March 31 2015 \$
Revenue	11,020,658	6,187,766	2,730,698
Direct costs	7,332,164	3,922,298	2,164,737
Expenses	2,425,773	1,492,015	375,853
Provision for income tax	365,932	212,758	30,879
Net and comprehensive income for the period	896,789	560,695	159,229
Earnings per share – basic and diluted	0.01	0.01	0.00
Total assets	3,938,074	2,563,698	666,818
Non-current financial liabilities	62,471	183,154	141,644

The year ended March 31, 2015 was the first year of the Company operating as Prodigy, and the first year implementing its strategic plan. In connection with the reverse acquisition described below, the Company changed its fiscal year-end to December 31 from its previous fiscal year-end of March 31, resulting in a nine-month fiscal period in 2015. As a result of the change in year end, the results of fiscal year ended December 31, 2015 are not directly comparable.

## OPERATING RESULTS FOR THE YEAR ENDED DECEMBER 31, 2016

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Operating results for the year ended December 31, 2016 compared to the nine months ended December 31, 2015 are discussed below. Due to the change in fiscal year end the results from the previously audited year end are not directly comparable.

The Company evaluates operational performance based on two reportable operating segments. Prodigy's technology services provider ("Prodigy Labs") provides clients with consulting services for strategy, design, project management, application development, staff augmentation and services related to Prodigy's business platforms. Prodigy is also a venture builder. This segment ("Prodigy Ventures") is creating or intends to create new business platforms and applications in many of the highest growth technology segments: mobile video, wearables, proximity marketing, mobile payments, augmented reality, 3D 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.

Total revenue for the year ended December 31, 2016 increased \$4,832,892 from \$6,187,766 to \$11,020,658, an increase of 78% from the nine months ended December 31, 2015. In addition to the impact of the shortened reporting period of the previous fiscal year, revenue increased due to a number of new service contracts entered into by the Company in 2016. Over 99% of the Company's revenue was derived from its service business, of which 55% related to fixed price projects and 45% related to time and materials contracts. Management expects further revenue growth in 2017, including growth from its venture builder business which launched new products at the end of 2016. Prodigy's ability to renew existing contracts and enter into new contracts in turn depends to a great degree on the quality of services provided and technology developed for its customers. Approximately

82% (December 31, 2015 – 87%) of the Company's revenue for the period relates to transactions entered into with one client.

Direct costs for the year ended December 31, 2016 increased \$3,409,866 from \$3,922,298 to \$7,332,164, an increase of 87% from the nine months ended December 31, 2015. Direct costs consists 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 \$1,423,026 from \$2,265,468 to \$3,688,494, an increase of 63% from the nine months ended December 31, 2015. Margins are expected to remain constant or decrease slightly in the short term due to cost pressure associated with escalated market demand for technology talent. Income before income tax for the year ended December 31, 2016 increased \$489,268 from \$773,453 to \$1,262,721, an increase of 63% from the nine months ended December 31, 2015. The net and comprehensive income for the year ended December 31, 2016 increased \$336,094 from \$560,695 to \$896,789, an increase of 60% from the nine months ended December 31, 2015. Of the \$896,789 in net income, profit of \$1,933,049 was attributable to the service business and a loss of \$1,036,260 was attributable to the venture builder business.

Net income per share, basic and diluted, was \$0.01 for the year ended December 31, 2016 compared to \$0.01 for the nine months ended December 31, 2015.

<i>Summary of Expenses</i>	<b>Year ended December 31 2016 \$</b>	<b>Nine months ended December 31 2015 \$</b>
<b>Expenses</b>		
Advertising and promotion	79,629	81,959
Computer	66,649	25,655
Compensation	980,435	447,630
Depreciation	10,235	2,509
Finance costs	17,364	20,035
Listing expense	-	89,917
Office and general	12,041	5,742
Professional fees	145,769	391,035
Rent and occupancy costs	33,545	17,027
Research and development	972,071	368,972
Share-based compensation	72,303	14,805
Telecommunications	4,458	2,661
Travel	31,274	24,068
	2,425,773	1,492,015

Total expenses for the year ended December 31, 2016 increased \$933,758 year over year from \$1,492,015 to \$2,425,773. Due to the change in fiscal year end the results from the previously audited year end are not directly comparable.

Advertising and promotion expenses for the year ended December 31, 2016 decreased \$2,330 year over year from \$81,959 to \$79,629. Of the total, \$30,684 (December 31, 2015 – \$40,763) relates to Prodigy Labs and \$48,945 (December 31, 2015 - \$41,196) relates to Prodigy Ventures. The majority of the costs relate to the promotion of iVideo during the period. The overall cost is expected to increase in connection with increased sales and new ventures promotion.

Compensation for the year ended December 31, 2016 increased \$532,805 year over year from \$447,630 to \$980,435. The increase relates primarily to the hiring of additional staff, as well as an increase in management salaries and accrued bonuses during the period. The overall cost is expected to increase as the Company grows.

Computer expenses for the year ended December 31, 2016 increased \$40,994 from \$25,655 to \$66,649. Of the total, \$46,124 (December 31, 2015 – \$25,655) relates to Prodigy Labs and \$20,525 (December 31, 2015 - \$Nil) relates to Prodigy Ventures. The overall cost is expected to increase as additional projects are developed and new staff are hired.

Depreciation for the year ended December 31, 2016 increased \$7,726 year over year from \$2,509 to \$10,235. The expense will increase as additional property and equipment is acquired.

Finance costs for the year ended December 31, 2016 decreased \$2,671 from \$20,035 to \$17,364 as a result of loan repayments and prepayments in 2016. As the loans are repaid the interest cost will be reduced.

Listing expense was \$Nil for the year ended December 31, 2016 (2015 - \$89,917). Listing expense was the excess of fair value of the share consideration paid to obtain the listing over the net assets received. This non-cash item paid in connection with the Company's Qualifying Transaction was non-recurring.

Office and general expenses for the year ended December 31, 2016 increased \$6,299 year over year from \$5,742 to \$12,041. The overall cost is expected to increase as the Company grows.

Professional fees for the year ended December 31, 2016 decreased \$245,266 year over year from \$391,035 to \$145,769. The decrease relates primarily to professional fees incurred in connection with the Company's Qualifying Transaction in 2015 that were not also incurred in 2016. In the short-term professional fees are expected to be consistent with the current period.

Rent and occupancy costs for the year ended December 31, 2016 increased \$16,518 year over year from \$17,027 to \$33,545. The Company acquired additional space in 2016 to accommodate new staff. These costs are expected to increase as the Company grows.

Research and development expenses for the year ended December 31, 2016 increased \$603,099 year over year from \$368,972 to \$972,071, as a result of increased spending on the Company's new ventures. 100% of the research and development expenses related to Prodigy Ventures. Future increases or decreases will vary based on the status of projects in development.

Share-based compensation for the year ended December 31, 2016 increased \$57,498 from \$14,805 to \$72,303. The Company issued 1,375,000 options to officers, directors, consultants and employees in October, 2015 and an additional 910,000 options in December, 2016. The fair value of the share-based compensation is expensed over the vesting period, which concluded on December 31, 2016 for the October, 2015 options and concludes on December 31, 2017 for the options issued in December, 2016.

Telecommunications expenses for the year ended December 31, 2016 increased \$1,797 year over year from \$2,661 to \$4,458. The overall cost is expected to increase as the Company grows.

Travel expenses for the year ended December 31, 2016 increased \$7,206 year over year from \$24,068 to \$31,274. 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 <sup>(i)</sup>	Dec 31/16 \$	Sep 30/16 \$	Jun 30/16 \$	Mar 31/16 \$
Total revenue	2,799,337	2,816,743	2,707,311	2,697,267
Net income for the period	140,083	167,550	216,853	372,303
Net income per share – basic and diluted <sup>(i)</sup>	0.00	0.00	0.00	0.00

For the quarters ended <sup>(i)</sup>	Dec 31/15 \$	Sep 30/15 \$	Jun 30/15 \$	Mar 31/15 \$
Total revenue	2,576,342	2,335,971	1,275,453	881,948
Net income for the period	267,547	204,153	88,997	34,294
Net income per share – basic and diluted	0.00	0.00	0.00	0.00

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

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. To date there has been a general trend of rising revenues. In 2016, Prodigy saw reduced margins on revenue due to cost pressure associated with escalated market demand for technology talent. Margins are expected to remain constant or decrease slightly in the short term. As sales shift more toward fixed price contracts, management expects margins to increase.

In 2016, The Company increased its investment in management and sales staff and plans to grow the account sales and service team to a staff of up to ten people within two years. The Company also increased its expenditures in research and development in connection with the launch of iVideo Gifts and iVideo Greetings as detailed above. These research and development expenditures have been fully expensed. The increased R&D expenses contributed to the reduced profit in the latter part of 2016 but is expected to lead to increased revenue in 2017 and beyond.

## OPERATING RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2016

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

Total revenue for the three months ended December 31, 2016 increased \$222,995 from \$2,576,342 to \$2,799,337, an increase of 9% from the three months ended December 31, 2015. The increase in revenue was due to a number of new service contracts entered into by the Company. Over 99% of the Company's revenue was derived from its service business, of which 58% related to fixed price projects and 42% related to time and materials contracts. Management expects further revenue growth in 2017, including growth from its venture builder business which launched new products at the end of 2016. Prodigy's ability to renew existing contracts and enter into new contracts in turn depends to a great degree on the quality of services provided and technology developed for its customers. Approximately 83% 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, 2016 increased \$311,531 from \$1,553,533 to \$1,865,064, an increase of 20% from the three months ended December 31, 2015. Direct costs consists of fees and salaries

paid to developers working directly for clients in the Company's service business. Direct costs will increase in relation to changes in revenue. Gross profit decreased \$88,537 from \$1,022,809 to \$934,272, a decrease of 9% from the three months ended December 31, 2015. Margins are expected to remain constant or decrease slightly in the short term due to cost pressure associated with escalated market demand for technology talent. Income before income tax for the three months ended December 31, 2016 decreased \$174,419 from \$385,413 to \$210,994, a decrease of 45% from the three months ended December 31, 2015. The net and comprehensive income for the three months ended December 31, 2016 decreased \$127,464 from \$267,547 to \$140,083, a decrease of 48% from the three months ended December 31, 2015. The decrease relates primarily to reduced margins year over year as well as an increase in compensation costs, as further detailed below. Of the \$140,083 in net income, profit of \$601,806 was attributable to the service business and a loss of \$461,723 was attributable to the venture builder business.

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

Total expenses for the three months ended December 31, 2016 increased \$85,882 year over year from \$637,396 to \$723,278.

Advertising and promotion expenses for the three months ended December 31, 2016 decreased \$20,185 year over year from \$56,324 to \$36,139. Of the total, \$10,360 (December 31, 2015 – \$15,561) relates to Prodigy Labs and \$25,779 (December 31, 2015 - \$41,196) relates to Prodigy Ventures. The overall cost is expected to increase in connection with increased sales and new ventures promotion.

Compensation for the three months ended December 31, 2016 increased \$54,788 year over year from \$306,662 to \$361,450. The increase relates primarily to the hiring of additional staff, as well as an increase in accrued bonuses during the period. The overall cost is expected to increase as the Company grows.

Computer expenses for the three months ended December 31, 2016 increased \$23,458 from \$12,780 to \$36,238. The increase is partly due to hosting costs associated with iVideo. 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, 2016 increased \$2,202 year over year from \$1,130 to \$3,332. The expense will increase as additional property is acquired.

Finance costs for the three months ended December 31, 2016 decreased \$4,518 from \$6,261 to \$1,743 as a result of the reduced loan balance in the period. As the loans are repaid the interest cost will be reduced.

Office and general expenses for the three months ended December 31, 2016 increased \$4,096 year over year from \$160 to \$4,256. The overall cost is expected to increase as the Company grows.

Professional fees for the three months ended December 31, 2016 decreased \$1,030 year over year from \$33,882 to \$32,852. In the short-term professional fees are expected to be consistent with the current period.

Rent and occupancy costs for the three months ended December 31, 2016 increased \$4,048 year over year from \$7,880 to \$11,928. The Company acquired additional space in 2016 to accommodate new staff. These costs are expected to increase as the Company grows.

Research and development expenses for the three months ended December 31, 2016 increased \$6,472 year over year from \$198,199 to \$204,671. 100% of the research and development expenses related to Prodigy Ventures. Future increases or decreases will vary based on the status of projects in development.

Share-based compensation for the three months ended December 31, 2016 increased \$4,816 from \$14,805 to \$19,621. The Company issued 1,375,000 options to officers, directors, consultants and employees in October, 2015 and an additional 910,000 options in December, 2016. The fair value of the share-based compensation is expensed over the vesting period, which concluded on December 31, 2016 for the October, 2015 options and concludes on December 31, 2017 for the options issued in December, 2016.

Telecommunications expenses for the three months ended December 31, 2016 increased \$932 year over year from \$840 to \$1,772. The overall cost is expected to increase as the Company grows.

Travel expenses for the three months ended December 31, 2016 decreased \$5,329 year over year from \$14,607 to \$9,278. 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 \$1,952,165 as at December 31, 2016 (December 31, 2015 – \$1,135,010). Working capital includes current assets less current liabilities on the Company's statement of financial position. Cash flows from operations totalled \$1,353,462 for the year ended December 31, 2016 (nine months ended December 31, 2015 - \$317,283). Cash flows from operations fluctuate based on the timing of customer payments. The Company used \$40,714 in investing activities in connection with property and equipment acquired during the year ended December 31, 2016 (nine months ended December 31, 2015 – received \$30,906, including \$54,124 in cash acquired in reverse acquisition) and \$138,047 in financing activities (nine months ended December 31, 2015 – net advances of \$146,186) relating primarily to the Company's loans outstanding. New debt and/or equity will be raised from time to time as required to meet the ongoing aggregate requirements of all ventures. 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.

## **SUBSEQUENT EVENTS**

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On January 16, 2017 the Company announced it has retained Virtus Advisory Group Inc. ("Virtus") to develop and implement a strategic corporate communications program to increase the Company's exposure among industry stakeholders and investors across Canada. In connection with the engagement, Virtus has been awarded a consulting contract that includes a monthly fee of \$6,500 and a grant of incentive stock options, which will vest in equal amounts each month over 12 months commencing on January 16, 2017, to acquire 100,000 common shares of the Company, exercisable at a price of \$0.175 per share for a period of one year from each individual vesting date. The agreement is for an initial term of six months and will automatically renew for an additional six-month period unless terminated by Prodigy.

The Company also announced that it has retained Trapeze Capital Corp. ("Trapeze") to provide market-making services in accordance with TSX Venture Exchange policies. Under the terms of the agreement dated January 15, 2017, Trapeze will receive compensation of \$5,500 per month for an initial term of six months. Prodigy and Trapeze are unrelated and unaffiliated entities. Trapeze is a member of the Investment Industry Regulatory Organization of Canada, a participating organization of the Toronto Stock Exchange and a member of the TSX Venture Exchange. The capital and securities required for any trade undertaken by Trapeze as principal will be provided by Trapeze. The agreement is for an initial term of six months and will automatically renew for an additional six-month period unless terminated by Prodigy.

## **COMMITMENTS AND GUARANTEES**

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The Company's long-term debt comprises three credit facilities with the Business Development Bank of Canada ("BDC"). Each facility is guaranteed personally by the Chief Executive Officer of the Company up to 75% of the amount of the loan and bears interest at BDC's floating base interest rate plus 1% per annum, payable monthly. The first facility was negotiated effective May 27, 2014 with an original maturity date of July 22, 2018 to a maximum of \$200,000. The second facility was negotiated effective December 11, 2014 with an original maturity date of December 22, 2018 to a maximum of \$50,000. The third facility was negotiated effective June 2, 2015 with an original maturity date of November 22, 2019 to a maximum amount of \$100,000. As a result of prepayments during the year ended December 31, 2016, the maturity dates of the credit facilities were amended to April 22, 2018, September 22, 2018 and May 22, 2019, respectively. There are no financial performance



covenants in connection with the credit facilities. Loan repayments are due on a monthly basis over the term of the respective loans. On the date of maturity, the balance of each facility in principal and interest and all other amounts owing on the loan are due and payable. The Company made repayments of \$120,683 during the year ended December 31, 2016 (\$71,050 during the nine months ended December 31, 2015), resulting in a balance of \$149,903 outstanding as at December 31, 2016 (December 31, 2015 - \$270,586).

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
	\$	\$	\$
2017	87,432	6,260	93,692
2018	52,543	1,878	54,421
2019	9,928	137	10,065
	149,903	8,275	158,178
	149,903	8,275	158,178

The Company has entered into a six month lease agreement effective November, 2016. The future minimum annual base rent on office premises under the existing operating lease is:

2017	\$ 14,920
Total	\$ 14,920

## **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, 2016 and 2015. The Company is not subject to externally imposed capital requirements.

## **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 their transaction amount, which is the amount agreed to by the related parties. During the year ended December 31, 2016, the Company paid \$12,000 (nine months ended December 31, 2015 - \$8,097) in rent and occupancy costs.

## Compensation to key management personnel

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

	Year ended December 31, 2016 \$	Nine months ended December 31, 2015 \$
Salaries, fees and benefits	1,779,090	977,658
Share-based compensation	61,547	12,651
Total	1,840,637	990,309

## 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, 2016, the Company derived 82% of its revenue from one customer (nine months ended December 31, 2015 – 87%). As at December 31, 2016, one customer represented 91% (December 31, 2015 – 95%) of the accounts receivable balance. Over 99% of the Company's revenue was received from customers currently located in Canada. As at December 31, 2016, approximately 45% (December 31, 2015 – 26%) of the Company's accounts receivable are greater than 30 days past due. As at the following dates, the aging of gross trade and other receivables were as follows:

	December 31, 2016 \$	December 31, 2015 \$
Current	935,477	791,452
1-30 days	11,865	283,494
31-60 days	601,715	341,554
61-90 days	168,144	26,408
Greater than 90 days	-	-
Total	1,717,201	1,442,908

The allowance for doubtful accounts was \$Nil at both December 31, 2016 and 2015. 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. A maturity analysis of the payments required under long-term debt is presented above.

#### Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company is exposed to variable market interest rates on its long-term debt. As at December 31, 2016, based on a 1% change in interest rates, the estimated sensitivity of the Company's net income to changes in interest rates was (\$1,499) (December 31, 2015 – (\$2,706)), based on an increase and \$1,499 (December 31, 2015 - \$2,706) based on a decrease.

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

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As at December 31, 2016 and April 6, 2017 the Company had outstanding 25,688,232 common shares (unlimited authorized) and 88,051,416 restricted shares (unlimited authorized). As at April 6, 2017, 9,549,264 common shares and 39,623,137 restricted shares bear a restrictive legend whereby 3,183,088 common shares and 13,207,712 restricted shares, (an amount equal to 15% of the original total number of escrowed shares) are released from the restrictions in accordance with a defined schedule. This release schedule commenced with the release of 2,122,059 common shares and 8,805,142 restricted shares in September, 2015, with additional amounts being released at six month intervals through until September, 2018, at which time all restrictions will have expired.

As at April 6, 2017 there were 2,385,000 options outstanding of which 1,400,002 had vested. The Company issued 1,375,000 options exercisable at \$0.10 per share to officers, directors, consultants and employees in October, 2015 and an additional 910,000 options exercisable at \$0.10 per share in December, 2016. Subsequent

to year end, the Company granted 100,000 options to Virtus for investor relations services exercisable at \$0.175 per share.

## **CHANGE IN ACCOUNTING POLICIES**

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### **Future and recently adopted 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 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. Adoption of IFRS 2 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

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 provide 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. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

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

IFRS 16 – Leases ("IFRS 16") - In January 2016, the IASB issued the final publication of the IFRS 16 standard, which will supersede the current IAS 17, Leases ("IAS 17") standard. Under IFRS 16, a lease will exist when a customer controls the right to use an identified asset as demonstrated by the customer having exclusive use of the asset for a period of time. IFRS 16 introduces a single accounting model for lessees and all leases will require an asset and liability to be recognized on the statement of financial position at inception. The accounting treatment for lessors will remain largely the same as under IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted, but only if the entity is also applying IFRS 15. The extent of the impact of adoption of the standard has not yet been determined.

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

Significant estimates made by management include the following:

*Revenue recognition for professional service:*

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

*Allowance for doubtful accounts:*

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

*Deferred tax assets and liabilities:*

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

*Property and equipment:*

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

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

## **RISKS AND UNCERTAINTIES**

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The Company's operations involve certain risks and uncertainties that are inherent to the Company's industry and rapidly changing environment that could impact its business, financial condition or results of operations. Additional risks and uncertainties of which the Company is unaware, or that it currently deems to be immaterial, may also become important factors that affect the Company. The following is a description of the principal risk factors that will impact the Company:

*Prodigy 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, 2016, the Company derived 82% of its revenue from one customer (nine months ended December 31, 2015 – 87%). As at December 31, 2016, one customer represented 91% (December 31, 2015 – 95%) of the accounts receivable balance. Prodigy's contracts with these customers are limited in duration, typically with terms of 6-12 months. Prodigy's ability to continue to generate revenue from its services business depends on its ability to regularly renew these contracts and enter into contracts with new customers. Prodigy's ability to renew existing contracts and enter into new contracts in turn depends to a great degree on the quality of services provided and technology developed for its customers.

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

#### *Future growth dependent upon success of venture business*

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

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

#### *Need for ongoing innovation*

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

#### *Ongoing need for financing*

Prodigy has 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).