EIGHT SOLUTIONS INC. (formerly GENER8 MEDIA CORP.)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2014

GENERAL

This Management's Discussion and Analysis has been prepared by management as of April 27, 2015 and should be read in conjunction with the audited consolidated financial statements of Eight Solutions Inc. (the "Company", formerly Gener8 Media Corp.) as at and for the year ended December 31, 2014 and with the audited financial statements for the year ended December 31, 2013 prepared in accordance with International Financial Reporting Standards ("IFRS").

During the year ended December 31, 2014, the Company's significant accounting policies have remained substantially unchanged, with the exception of the accounting policies adopted as a result of the acquisition of Reelhouse Media Ltd ("Reelhouse"). All amounts are expressed in Canadian dollars unless noted otherwise.

DISCLAIMER FOR FORWARD LOOKING STATEMENTS

The following Management's Discussion and Analysis contains statements which, to the extent that they are not recitations of historical fact, may constitute forward-looking information under applicable Canadian securities legislation. Such forward-looking statements or information includes financial and other projections as well as statements regarding the Company's future plans, objectives, performance, revenues, growth, profits, operating expenses or the Company's underlying assumptions. The words "may", "would", "could", "will", "likely", "expect", "anticipate", "intend", "plan", "forecast", "project", "estimate" and "believe" or other similar words and phrases may identify forward-looking statements or information. Persons reading this Management's Discussion and Analysis are cautioned that such statements or information are only predictions, and that the Company's actual future results or performance may be materially different. Factors that could cause actual events or results to differ materially from those suggested by these forward-looking statements include, but are not limited to: the possibility of development or deployment difficulties or delays; the dependence on its customers' satisfaction; the timing of entering into significant contracts; the risks involved in developing integrated software solutions and integrating them with third-party products and services; the performance of the global economy and growth in the data analytics industry sales; implementation and development of the Company's Cumul8 and Reelhouse technologies; customer and industry analyst perception of the Company and its technology vision and future prospects; the success of certain business combinations engaged in by the Company or by its competitors; possible disruptive effects of organizational or personnel changes; technological change, new products and standards; risks related to acquisitions and international expansion; reliance on large customers; dependence upon key personnel and hiring; reliance on a limited number of suppliers; risks related to the Company's competition; the Company not adequately protecting its intellectual property; currency exchange rate risk; and including, but not limited to, other factors described in the Company's reports filed on SEDAR, including its financial statements for the year ended December 31, 2014, and those referred to under the heading "Risk Factors". In drawing a conclusion or making a forecast or projection set out in the forward-looking information, the Company takes into account the following material factors and assumptions in addition to the above factors: the Company's ability to execute on its business plan; the acceptance of the Company's products and services by its customers; the timing of execution of outstanding or potential customer contracts by the Company; the sales opportunities available to the Company; the Company's subjective assessment of the likelihood of success of a sales lead or opportunity; the Company's historic ability to generate sales leads or opportunities; and that sales will be completed at or above the Company's estimated margins. This list is not exhaustive of the factors that may affect the Company's forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. All forward-looking statements made in this Management's Discussion and Analysis are qualified by this cautionary statement and there can be no assurance that actual results or developments anticipated by the Company will be realized. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2014

OVERVIEW

Eight Solutions Inc., originally known as "Delon Resources Corp.", was incorporated on January 24, 2011 pursuant to the provisions of the *Business Corporations Act* (British Columbia). The Company was initially engaged in the business of evaluating, acquiring and exploring natural resource properties.

On April 24, 2013, the Company acquired all the issued and outstanding common shares of Gener8 Digital Media Corp. ("GDMC") and changed its name to "Gener8 Media Corp." under the *Business Corporation Act* (British Columbia) on April 22, 2013. GDMC, incorporated under the laws of British Columbia, is now a wholly owned subsidiary of the Company. The Company's common shares commenced trading on the Canadian Securities Exchange ("CSE") on April 30, 2013 under the stock symbol of "GNR" and prior to that under the stock symbol "DLN" from February 1, 2012 to April 29, 2013. The Company's head office is located at Suite 100, 138 East 7th Avenue, Vancouver, British Columbia, V5T 1M6, Canada. On February 2, 2015, the Company changed its name from Gener8 Media Corp. to Eight Solutions Inc. and commenced trading on the CSE under the stock symbol "ES". On March 23, 2015, as a result of the sale of certain assets relating the 3D conversion business, the Company's operating subsidiary, GDMC changed its name to Eight Technologies Inc. ("ETI"). The Company is now in the business of developing 3D conversion software, and cloud-based data management and analytic software.

The following discussion of the Company's financial performance is based on the audited consolidated financial statements for the year ended December 31, 2014 and 2013. All discussion and comparatives to prior years are with ETI's financial statements as the continuing business, post amalgamation, and are that of ETI's 3D business.

OVERALL PERFORMANCE

During the year ended December 31, 2014, the Company reported a net loss of $2,236,867 ($0.05 basic and diluted loss per share) compared to a net loss of $10,473,529 ($0.27 basic and diluted loss per share) during the year ended December 31, 2013.

The Company's revenue was $13,797,506 for the year ended December 31, 2014 compared to $8,888,032 the year ended December 31, 2013, an increase of 55%. This has been the highest annual revenues the Company has achieved to date.

The Company's net loss decreased by over $8,000,000 for the year ended December 31, 2014 compared to the year ended December 31, 2013, a decrease of over 75%. During the year ended December 31, 2014, the Company recorded a re-measurement to fair value of the Company's 48% interest in Reelhouse resulting in a gain of $5,373,333 and a $1,008,460 gain from the non-refundable advance from Tianjin Fu Feng Da Movie & Television Technology Investment and Development Co. Ltd ("FFD"). Excluding these one-time gains, the Company had a net loss of $8,618,660 for a year ended December 31, 2014, a decrease of 15% compared to the year ended December 31, 2013.

The Company had $572,164 (December 31, 2013 - $1,683,993) of cash and cash equivalents and total current assets of $1,586,292 (December 31, 2013 - $1,824,872).

Current liabilities at December 31, 2014 total $8,487,993 (December 31, 2013 - $5,747,839). Shareholders' equity is comprised of share capital of $17,268,579 (December 31, 2013 - $12,397,815), contributed surplus of $3,005,930 (December 31, 2013 - $1,937,445), accumulated deficit of $22,306,009 (December 31, 2013 - $20,136,735) and non-controlling interest of $3,243,679 (December 31, 2013 – nil) for a net equity of $1,212,179 (December 31, 2013 – deficiency of $5,765,475).

Working capital deficiency, which is comprised of current assets less current liabilities, was $6,901,701 at December 31, 2014, $3,288,308 of which relates to bridge loan from FFD, compared to $3,922,967 at December 31, 2013.

BUSINESS HIGHLIGHTS

During the year, the Company completed the 3D conversion of four Hollywood feature films, Maleficent, Godzilla, Jupiter's Ascending and the Grandmaster and was working on a fifth film, Insurgent, at the end of 2014. This has been the greatest number of movies the Company has worked on in a given year. The 3D conversion of one film, The Grandmaster, marked the first project the Company has worked on specifically for the China market, for which the Company has garnered high acclaim and has received subsequent requests from other China filmmakers to bid on 3D conversion work.

Despite the significant increased volume of 3D conversion services undertaken by the Company during the year, the Company has been pursuing efforts to separate its 3D conversion services business from its other technology divisions, being Cumul8 and Reelhouse, in order to enhance the success of all three respective businesses and maximize shareholder value over the long term. The services side of the 3D conversion business carried significant risk due to the lack of control by the Company over the timing of completion of such work with delays resulting in significant cost overruns not otherwise anticipated. As a result, the services component of the 3D conversion business posed significant risk to the Company and its other activities that are focused on technology and software development.

In its efforts to separate the 3D conversion business from its other divisions, the Company entered into an asset purchase agreement with FFD on March 18, 2014 ("APA") that would result in the Company selling 100% of its 3D conversion business, including the respective 3D conversion technology to FFD in exchange for $15 million cash as Closing and a 40% interest in a new entity that would own the 3D business. There is no assurance the transaction with FFD will close and indeed the transaction was terminated by the Company in 2015 as explained in the Recent Events section below.

On January 29, 2014, the Company converted a promissory note of $1,125,000 into 18,750,000 Reelhouse common shares providing it a 48% interest in Reelhouse. On February 25, 2014, the Company acquired an additional 7,000,000 Reelhouse common shares in consideration of 1,300,000 common shares issued by the Company, resulting in an increase in equity interest in Reelhouse from 48% to 66%. Headquartered in Vancouver, British Columbia, Reelhouse is an open video sharing platform dedicated specifically for quality entertainment content. On April 24, 2014, the Company acquired additional of Reelhouse common shares for consideration comprising of 269,286 common shares issued by the Company, resulting in an increased interest in Reelhouse from 66% to 70%.

RECENT EVENTS AND OUTLOOK

One January 23, 2015, the Company delivered payment of $1,250,000 to FFD pursuant to the amended Loan Agreement dated December 12, 2014 and terminated the APA with FFD. FFD rejected the Loan repayment and has made demands that are a breach of the amended Loan Agreement. On March 6, 2015, the Company brought an action in British Columbia Supreme Court against FFD, its principle Yong Liu, FFD's Beijing Law firm and others, seeking damages for misrepresentation and breach of the amended Loan Agreement, a declaration that the Company's indebtedness to FFD has been extinguished, and damages for defamation, wrongful interference with economic relations and other relief.

On January 27, 2015, the Company signed an agreement with Prime Focus Ltd. ("Prime Focus") to sell certain assets of the Company related to its 3D studio conversion business for cash consideration of $6,500,000 less certain adjustments to closing. The Company also entered into a five-year worldwide exclusive software licensing agreement ("SLA") to license its proprietary 3D conversion technology to Prime Focus for use throughout the entertainment industry. In accordance with the SLA, the Company will receive a $1,000,000 license fee each year plus a royalty fee on 3D conversion revenue of up to $1,000,000 per annum. As well, a two-year Technology Support Agreement ("TSA") was entered into for the Company to provide technical services and support to Prime Focus for approximately $1,000,000 per year. If the TSA is terminated or not renewed, Prime Focus will no longer have exclusive rights under the SLA. On February 25, 2015, the Company received shareholder approval for the transaction with Prime Focus which closed on March 23, 2015. The Company anticipates it will recognize a gain in excess of $6,000,000 in the first quarter of 2015, with a nil tax effect due to available loss carryforwards from previous years. Going forward, the Company will focus on the continued development and commercialization of its Cumul8 and Reelhouse technologies in conjunction with its 3D licensing arrangement with Prime Focus.

Cumul8 is an interactive data management and analytics solution that enables users to visualize complex data in real-time at any level of an organization, driven by how the user would like to view it. While initial sales efforts are focused on the film and entertainment sector, prospective customers in manufacturing and other industry sectors have already expressed interest. The Company is actively selling and marketing its executive and coordinator level Cumul8 products, while it continues development of a SaaS product that will ultimately reach a much broader user base. Industry agnostic in nature and capable of operating with virtually any ERP system or other software applications, the Company is careful to focus its sales and marketing efforts on industries and uses that present the greatest opportunity. Initial Cumul8 applications have been widely accepted within media & entertainment and manufacturing, which the Company intends to further penetrate. By 2015 year end, the Company plans to have at least 1000 users of its coordinator level and seven to ten customers for its executive level Cumul8 products.

Reelhouse is a direct-to-consumer film platform in the highly disruptive entertainment distribution space. The traditional film distribution model and industry are undergoing a radical shift, and Reelhouse is positioned as a studio-agnostic industry leader. Reelhouse allows filmmakers and major studios to customize, merchandise, and showcase engaging digital viewing experiences of their content. Reelhouse partners include Sundance Film Festival, Warner Bros., and a myriad of independent film producers Reelhouse currently has over 100,000 users per month and hosts over 2,500 films on its website, 300 of which have been added in 2015. The latest new feature to be added to the website is LIVE, which allows publishers to host online live screenings with embedded chat functions. More than just streaming video, LIVE engages the film community through event-based experiences, where fans can connect from anywhere on any device.

SELECTED ANNUAL FINANCIAL INFORMATION

	2014	2013	2012
Revenue	$ 13,797,506	$ 8,888,032	$ 2,567,143
Net loss	2,369,867	10,473,529	6,599,633
Basic and diluted loss per share	0.05	0. 27	0.21
Total assets	15,127,447	2,660,810	2,009,520
Total non-current financial liabilities	5,427,275	2,678,446	3,020,716

The financial data for the 2014, 2013 and 2012 fiscal years are prepared in accordance with IFRS.

FINANCIAL RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2014

Revenue

	Year ended December 31	
	2014	2013
3D conversion/VFX revenue	$ 13,577,346	$ 8,662,607
Other	220,160	225,425
Total	$ 13,797,506	$ 8,888,032

During the year ended December 31, 2014, the Company reported revenue of $13,797,506, an increase of $4,909,474, or 55%. This is the highest revenue recognized in the Company's history. The Company completed the 3D conversion of four feature films: Maleficent, Godzilla, The Grandmaster and Jupiter's Ascending. Comparatively, during the year ended December 31, 2013, the majority of the Company's revenue was attributed to the 3D conversion of one feature film.

Operating Expenses

	Year ended December 31	
	2014	2013
Employee expenses	$ 13,738,505	$ 9,900,592
Contracted services	3,635,928	2,086,877
Supplies and materials	2,844,166	1,883,383
Amortization	2,574,006	547,258
Stock based compensation	714,854	867,402
Listing cost	-	3,170,665
Total	$ 23,507,459	$ 18,456,177

Operating expenses for the year ended December 31, 2014 increased by $5,051,282 compared to the year ended December 31, 2013. Excluding the listing cost in 2013, operating expenses for the year ended December 31, 2014 increased by $8,221,947 compared to the year ended December 31, 2013. This increase was primarily attributed to higher employee and outsourcing expenses as the Company completed the 3D conversion of four feature films during the year ended December 31, 2014 compared to one feature film during the year ended December 31, 2013.

Employee Expenses

	Year ended December 31	
	2014	2013
Production	$ 9,023,992	$ 6,317,530
Research and development	2,114,035	1,425,483
General and administrative	2,600,478	2,157,579
Total	$ 13,738,505	$ 9,900,592

Total employee expenses for the year ended December 31, 2014 increased by $3,837,913 compared to the year ended December 31, 2013, as the Company increased the number of staff in order to complete the 3D conversion of four feature films in the year ended December 31, 2014 compared to the year ended December 31, 2013.

Contracted Services

	Year ended December 31	
	2014	2013
Outsourcing	$ 2,561,184	$ 979,820
Professional fees	883,758	1,014,001
Other	190,986	93,056
Total	$ 3,635,928	$ 2,086,877

Contracted services for the year ended December 31, 2014 increased $1,549,051 compared to year ended December 31, 2013 as the Company's increased production to complete the 3D conversion of four feature films for the year ended December 31, 2014 compared to the year ended December 31, 2013 and an increased requirement for outsourced labour services.

Other Operating Expenses

	Year ended December 31	
	2014	2013
Supplies and materials	$ 2,844,166	$ 1,883,383
Amortization	2,574,006	547,258
Stock based compensation	714,854	867,402
Listing Cost	-	3,170,665
Total	$ 6,133,026	$ 6,502,970

Excluding the listing cost of $3,170,665 incurred in 2013, other operating expenses for the year ended December 31, 2014 increased by $2,800,721 compared to the year ended December 31, 2013. The increase in supplies and materials of $960,783 was related to a new offsite datacenter and equipment and hardware purchases relating to the increase in staff needs. The increase of $2,026,748 in amortization is related to the amortization the Reelhouse intangible asset acquired in 2014.

Other Income (Expense)

	Year ended December 31	
	2014	2013
Foreign exchange gain	$ 45,502	$ 24,471
Finance expense	(474,866)	(237,875)
Loss on disposal	-	(100,301)
Patent expense	-	(591,302)
Gain on investment	5,373,333	-
Gain on non-refundable loan	1,008,460	-
Deferred income tax recovery	569,662	(377)
Total	$ 6,522,091	$ (905,384)

Other income increased by $7,427,475 due to the gain from the re-measurement to fair value of the Company's 48% interest in Reelhouse and due to the non-refundable advance from FFD, both of which were recognized in the year ended December 31, 2014.

Net Loss (income)

	Year ended December 31	
	2014	2013
Net loss attributable to the Shareholders of the Company	$ 2,369,867	$ 10,473,529
Net loss per share (basic)	0.05	0.27
Net loss per share (diluted)	0.05	0.27

Net loss for the year ended December 31, 2014 decreased by $8,103,662 compared to year ended December 31, 2013. Excluding the one-time gain on investment of $5,373,333 and the non-refundable advance of $1,008,460, the Company had a net loss of $8,751,660 during the year ended December 31, 2014, a decrease of $1,721,869 compared to the year ended December 31, 2013.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents select unaudited consolidated financial information for each of the last eight quarters:

	31-Dec 2014	30-Sep 2014	30-Jun 2014	31-Mar 2014	31-Dec 2013	30-Sep 2013	30-Jun 2013	31-Mar 2013
Revenue	$ 955,627	$ 2,364,533	$ 5,968,416	$ 4,127,609	$ 445,809	$ 3,836,982	$ 3,384,243	$ 1,208,276
Net income (loss)	(4,055,103)	(1,869,599)	(197,005)	2,912,875	(4,535,534)	213,060	(4,451,338)	(1,171,395)
Basic income (loss) per share	(0.09)	(0.04)	0.00	0.07	(0.12)	0.01	(0.11)	(0.05)
Total assets	15,127,447	14,238,078	16,838,327	16,750,937	2,660,810	2,070,574	2,709,350	2,217,634
Working capital (deficiency)	(6,901,701)	(3,274,953)	(4,233,857)	(5,236,464)	(3,922,967)	(1,239,302)	(1,426,837)	(4,261,543)

The financial data for the 2014 and 2013 fiscal quarters are prepared in accordance with IFRS.

FINANCIAL RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2014

Revenue

	Three Months Ended		
	December 31, 2014	September 30, 2014	December 31, 2013
3D conversion/VFX revenue	$ 784,306	$ 2,315,694	$ 400,856
Other	171,321	48,839	44,953
Total	$ 955,627	$ 2,364,533	$ 445,809

During the three months ended December 31, 2014, the Company reported revenue of $955,627, a decrease of 60% compared to the three months ended September 30, 2014 but an increase of over 110% compared to the three months ended December 31, 2013. During the three months ended December 31, 2014, the Company was working on the 3D conversion of Insurgent which is due to be completed in the first quarter of 2015. The Company was scheduled to be working on two other movies but due to client delays, the work and revenue associated with these movies will be delayed into 2015. Comparatively, during the three months ended September 30, 2014, the Company was in production of converting a film, which the Company completed during the third quarter. For the three months ended December 31, 2013, the majority of the Company's revenue was attributed to the 3D conversion of Maleficent.

Operating Expenses

	Three Months Ended		
	December 31, 2014	September 30, 2014	December 31, 2013
Employee expenses	$ 3,200,942	$ 2,528,592	$ 2,321,974
Contracted services	862,268	627,700	572,450
Supplies and materials	629,050	541,798	525,401
Amortization	704,282	711,620	139,196
Stock based compensation	(58,297)	148,001	777,080
Patent expense	-	-	591,302
Total	$ 5,338,245	$ 4,550,711	$ 4,927,403

Total operating expenses increased by $787,534 for the three months ended December 31, 2014 compared to the three months ended September 30, 2014 and increased by $410,842 compared to the three months ended December 31, 2013.

The increase in operating expenses compared to both the three months ended September 30, 2014 and December 31, 2013 was primarily attributed to higher employee expenses and contracted services as the Company employed more staff and required more outsourcing in preparation to work on three 3D conversion projects, two of which were delayed by the clients until the first quarter of 2015.

Employee Expenses

	Three Months Ended		
	December 31, 2014	September 30, 2014	December 31, 2013
Production	$ 1,942,727	$ 1,364,906	$ 1,302,080
Research and development	615,822	489,725	460,219
General and administrative	642,393	673,961	559,675
Total	$ 3,200,942	$ 2,528,592	$ 2,321,974

Total employee expenses increased compared to the three months ended September 30, 2014 due to the increased headcount required to work on three conversion projects starting in 2015. As well, the movie that the Company was working on during the three months ended September 30, 2014 provided for the Company to claim the production services tax credit, while on the movie that the Company was working on during the three months ended December 31, 2014 the client claimed the tax credit, and therefore, overall employee expenses were higher for the three months ended December 31, 2014. Total headcount at December 31, 2014 was 209 staff compared to 130 staff at September 30, 2014 and 151 staff at December 31, 2013.

Contracted Services

	Three Months Ended		
	December 31, 2014	September 30, 2014	December 31, 2013
Outsourcing	$ 453,283	$ 422,740	$ 115,715
Professional fees	281,817	184,354	431,272
Other	127,168	13,606	25,463
Total	$ 862,268	$ 620,700	$ 300,181

Total contracted services increased by $241,568 for the three months ended December 31, 2014 compared to the three months ended September 30, 2014. The increase was due to higher artist fees for Reelhouse in Other as more content was being watched on their website, and higher legal fees.

Total contracted services increased by $562,087 from the three months ended December 31, 2014, compared to the three months ended December 31, 2013. The Company outsources initial stages of their 3D conversion process to reduce hiring demands and to meet production peaks. The increase in contracted services was primarily attributed to an increased demand for outsourcing as the Company was beginning to convert three concurrent feature films during the three months ended December 31, 2014, compared to one film during three months ended December 31, 2013.

Other Operating Expenses

	Three Months Ended		
	December 31, 2014	September 30, 2014	December 31, 2013
Supplies and materials	$ 629,050	$ 541,798	$ 525,401
Amortization	704,282	711,621	139,196
Stock based compensation	(58,297)	148,001	811,342
Patent expense	-	-	591,302
Total	$ 1,275,035	$ 1,401,420	$ 2,067,241

Other operating expenses decreased by $126,385 for the three months ended December 31, 2014 compared to the three months ended September 30, 2014. The decrease was mainly attributed to a decrease in stock based compensation due to forfeitures by staff who left the Company recorded during the three months ended December 31, 2014.

Other operating expenses decreased by $792,206 compared to the three months ended December 31, 2013. The decrease was attributed to a patent expense incurred in December 31, 2013, and a decrease in stock based compensation due to forfeitures recorded during the three months ended December 31, 2014.

Other Income (Expense)

	Three Months Ended		
	December 31, 2014	September 30, 2014	December 31, 2013
Foreign exchange gain	$ 56,613	$ 15,611	$ 2,340
Finance expense	(146,035)	(118,792)	(55,903)
Deferred income tax recovery	192,329	194,885	(377)
Total	$ 102,907	$ 91,704	$ (53,940)

Other income (expense) for the three months ended December 31, 2014 increased by $11,203 compared to the three months ended September 30, 2014. The increase was attributed to a gain in foreign exchange due to the strengthening of the US dollar against the Canadian dollar.

Other income (expense) for the three months ended December 31, 2014 increased by 156,847 compared to the three months ended December 31, 2013. The increase was attributed to interest related to the FFD Loan and the deferred income tax recovery from losses incurred in Reelhouse during the three months ended December 31, 2014.

Net Loss

	Three Months Ended		
	December 31, 2014	September 30, 2014	December 31, 2013
Net loss attributable to Shareholders of the Company	$ 4,055,103	$ 1,869,599	$ 4,535,534
Net loss per share (basic)	0.09	0.04	0.12
Net loss per share (diluted)	0.09	0.04	0.12

Net loss for the three months ended December 31, 2014 increased by $2,185,504 compared to the three months ended September 30, 2014 and decreased by $480,431 compared to the three months ended December 31, 2013. The increase in net loss was due to client turnover delays which pushed revenue into 2015 which would have been otherwise earned in the current three months ended December 31, 2014.

FINANCING ACTIVITIES

(a) On February 21, 2013, the Company closed the first tranche of its $3,847,019 non-brokered private placement. The first tranche consisted of 2,675,700 subscription receipts at a price of $0.60 per subscription receipt for gross proceeds of $1,605,420. The proceeds were classified as cash held in escrow as at March 31, 2013. Each subscription receipt was converted into one unit ("Unit") at no additional cost on April 24, 2013. Each Unit consisted of one post-consolidated common share of the Company and one-half of one share purchase warrant that will entitle the holder to purchase one additional post-consolidated share at a price of $0.80 for a period of three years.

(b) On March 19, 2013, the Company closed the second tranche of its $3,847,019 non-brokered private placement. The second tranche consisted of 2,909,333 subscription receipts at a price of $0.60 per subscription receipt for gross proceeds of $1,745,600.

(c) On March 25, 2013, the Company closed the third tranche of its $3,847,019 non-brokered private placement. The third tranche consisted of 326,666 subscription receipts at a price of $0.60 per subscription receipt for gross proceeds of $196,000.

(d) On April 24, 2013 the Company issued 29,500,000 common shares on the close of the Amalgamation. In conjunction with the close of the Amalgamation, the Company issued 500,000 common shares to Navigator Capital Partners Inc. as per the Amalgamation Agreement.

(e) On September 22, 2014, the Company closed the first tranche of a private placement raising $871,125 consisting of units at a price of $0.75 per unit. The Company issued 1,161,500 common shares and 580,750 warrants with an exercise price of $1.00 expiring 18 months from closing. In connection with the closing, an aggregate fee of $60,979 was paid in cash and 19,362 common shares and 90,986 warrants were issued.

(f) On September 30, 2014, the Company closed the second tranche of a private placement raising $616,875 consisting of units at a price of $0.75 per unit. The Company issued 822,500 common shares and 411,250 warrants with an exercise price of $1.00 expiring 18 months from closing. In connection with the closing, an aggregate fee of $43,181 was paid in cash and 13,711 common shares and 64,430 warrants were issued.

(g) On November 7, 2014, the Company closed the final tranche of a private placement raising $296,250 consisting of units at a price of $0.75 per unit. The Company issued 395,000 common shares and 197,500 warrants with an exercise price of $1.00 expiring 18 months from closing. In connection the closing, an aggregate fee of $20,738 was paid in cash and 6,584 common shares and 30,942 warrants were issued

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2014, the Company's cash balance was $572,164 (December 31, 2013 – $1,683,993), and the Company had a working capital deficit of $6,901,701 (December 31, 2013 - $3,992,967).

Cash provided by (used in)	Year ended December 31 2014	2013
Operating activities	$ (5,781,664)	$ (4,423,716)
Financing activities	4,933,692	6,175,672
Investing activities	(263,857)	(608,906)
Total	$ (1,111,829)	$ 1,143,050

Cash used in operating activities for both comparable periods was primarily related to revenues earned offset by employee and other production related expenses during the respective period.

Financing activities for the year ended December 31, 2014 related to warrant and stock option exercises, a private placement during September and November 2014, stock issuances to consultants, and the $1,008,460 non-refundable advance from FFD.

Investing activities for the year ended December 31, 2014 related to purchases of computer hardware and software due to increased staff levels.

On January 23, 2015, the Company repaid the Loan of $1,250,000 to FFD pursuant to the amended loan agreement with FFD and terminated the APA.

On January 27, 2015, the Company signed an agreement with Prime Focus to sell certain assets of the Company related to its 3D studio conversion business for cash consideration of $6,500,000 less certain adjustments to closing.

The Company's future operations are dependent upon many factors, including the ability of the Company to generate sufficient profit and cash flows from operations, and the company's ability to raise capital to fund its operations. The decision to fund the Company is ultimately at the lenders' or investors' discretion, and there is no guarantee that funds will be provided at reasonable rates, or at all.

Trade Payables and Accrued Liabilities

Trade payables and accrued liabilities consist of the following:

	December 31, 2014	December 31, 2013
Trade accounts payable	$ 929,014	$ 407,569
Salary and benefits payable	791,849	492,580
Accrued liabilities	105,170	206,475
Total	$ 1,826,033	$ 1,106,624

The Company has a general practice of paying outstanding accounts payables within approximately 30 days. Trade and other payables and accrued liabilities increased by $719,409 as at December 31, 2014 compared to December 31, 2013 due primarily to the increase staff levels and outsourcing labour required to work on the conversion of multiple feature films.

Bank Loan

The Company entered into a loan agreement with a commercial bank. The agreement consists of two credit facilities, including: (1) a demand reducing production facility of $854,000; and (2) demand reducing interest reserve facility of $55,000. Both facilities bear interest at the rate of the bank's prime rate plus

2.50%. The loan is secured by a general security agreement and a first ranking security interest in the tax credits receivable.

Loan Payable

The FFD loan in the amount of $3,000,000 bearing interest at a rate of 8% per annum and maturing October 31, 2014 is secured by the Company's present and after-acquired personal property and a limited guarantee of ETI.

On December 12, 2014, the Company signed an amendment to the FFD loan agreement to reduce the loan from $3,000,000 plus accrued interest to $1,250,000 million and to extend the repayment date to December 31, 2015. The APA was also extended until December 31, 2015 on a non-exclusive basis with the original loan amount of $3,000,000 and the $1,000,000 advance to be credited against the purchase price in the event the transaction pursuant to the APA was completed. Alternatively if the Company completes the sale of the business as defined in the FFD loan agreement with another party before the loan is repaid, the original Loan of $3,000,000 would be repayable upon the closing of such transaction.

As at December 31, 2014, while the Company is not in compliance with one of the financial covenants associated with this loan, the Company is not in default as the Company has not contravened the terms of the loan agreement.

One January 23, 2015, the Company delivered payment of $1,250,000 to FFD pursuant to the amended Loan Agreement dated December 12, 2014 and terminated the APA with FFD. FFD rejected the Loan repayment and has made demands that are a breach of the amended Loan Agreement. On March 6, 2015, the Company brought an action in British Columbia Supreme Court against FFD, its principle Yong Liu, FFD's Beijing Law firm and others, seeking damages for misrepresentation and breach of the amended Loan Agreement, a declaration that the Company's indebtedness to FFD has been extinguished, and damages for defamation, wrongful interference with economic relations and other relief.

Purchase Obligations

The Company has an agreement with a third party vendor to design, rack, finance, monitor, and host an off-site production datacenter. The term of the agreement is for 36 months.

Operating Lease

The Company has an operating lease commitment for its office facilities. The lease expires in 2018 with an option to renew.

Finance Lease

The Company was the lessee in a finance lease arrangement for various items of property and equipment and intangible assets with a Canadian commercial bank. Future minimum lease payments for obligations under capital leases were as follows:

	December 31, 2014	December 31, 2013
2013	$ -	$ -
2014	-	180,806
	-	180,806
Less:		
Interest	-	(3,095)
Current portion of principal payments	-	(177,711)
	-	(180,806)
Long-term portion	$ -	$ -

At December 31, 2014, the Company has fulfilled its lease obligation.

Due to Shareholder

Refer to Transactions with Related Parties (b) below.

OFF BALANCE SHEET ARRANGEMENTS

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

TRANSACTIONS WITH RELATED PARTIES

Below is a list of transactions that occurred during the period between the Company and a related party.

(a) Convertible promissory note

As at December 31, 2014, ETI held a $333,034 convertible promissory note in Reelhouse. The carrying value of the convertible promissory note was recorded at fair value but is eliminated upon consolidation. ETI has the option to convert the notes into common shares of Reelhouse at a price of $0.15 per share.

The CEO of the Company holds a $270,000 convertible promissory note and 50,000 common shares of Reelhouse, which were received in exchange for the significant shareholder settling certain amounts owing to the Company for software development services provided to Reelhouse by the Company in 2012. The CEO reimbursed the Company for the cost of the services provided by way of a reduction of $320,000 of the amount otherwise due to the shareholder. This promissory note is non-interest bearing and can be converted into common shares of Reelhouse at any time at the option of the holder at $0.06 per common share. Although the note is due on demand, the holder has confirmed in writing that the note will not be demanded for repayment before April 1, 2015.

(b) Due to Shareholder

The CEO of the Company has provided an unsecured loan for $2,930,362 at an interest rate of 7.5% per annum. The loan has no specified repayment terms. The CEO has confirmed in writing that the remainder of the loan will not be demanded for repayment before January 1, 2016.

(c) Gener8 Investments Ltd. amalgamation

On April 11, 2014, the Company completed the amalgamation of a wholly owned subsidiary of the Company with Gener8 Investments Ltd. ("GIL"), a company controlled by the CEO of the Company. Under the terms of the agreement, 5,689,271 shares of GIL were exchanged for Gener8 shares on a one-for-one basis, and the 5,689,271 shares otherwise held by GIL in Gener8 were cancelled. There was no change in the number of Gener8 shares issued and outstanding as a result of this transaction.

SIGNIFICANT ACCOUNTING POLICIES

All significant accounting policies are fully disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2014.

FINANCIAL INSTRUMENTS

Fair value

The Company's financial instruments include cash and cash equivalents, loan receivable, short-term investment, convertible promissory notes and accounts payable and accrued liabilities.

Fair value hierarchy

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

- Level 1 – applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – applies to assets or liabilities for which there are unobservable market data.

The carrying amounts for cash, trade and other receivables, tax credits receivable, trade and other payables and accrued liabilities, loan payable and financial lease liabilities approximate their fair value because of the limited term of the instruments. It is not possible to determine the fair value of the shareholder loans as there is no comparable market value for such loans.

The fair value of financial instruments at December 31, 2014 and December 31, 2013 are summarized in the following table.

	December 31, 2014 Carrying Value ($)	December 31, 2014 Fair Value ($)	December 31, 2013 Carrying Value ($)	December 31, 2013 Fair Value ($)
Financial assets				
Cash and cash equivalents	$ 572,164	$ 572,164	$ 1,683,993	$ 1,683,993
Trade receivables	22,002	22,002	65,786	65,786
Tax credit receivable	960,781	960,781	-	-
Financial liabilities				
Trade payables and accrued liabilities	1,826,033	1,826,033	1,106,624	1,106,624
Bank loan	868,479	868,479	-	-
Finance lease liability	-	-	177,711	177,711
Convertible promissory note	322,286	322,286	-	-
Loan payable	3,288,308	3,288,308	3,036,297	3,306,297

Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Liquidity Risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The following are the contractual maturities of financial liabilities:

		Payment Due by Period			
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Trade payables and accrued liabilities	$ 1,826,033	$ 1,826,033	$ -	$ -	$ -
Purchase obligations	555,499	296,087	259,412	-	-
Operating lease	965,453	304,880	660,573	-	-
Bank loan	868,479	868,479	-	-	-
Convertible promissory note	322,286	52,286	270,000	-	-
Loan payable	3,288,308	3,288,308	-	-	-
Due to shareholder	2,930,362	-	2,930,362	-	-
	$10,756,420	$ 6,636,073	$4,120,347	$ -	$ -

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

Foreign Currency Risk

The Company's exposure to foreign currency risk is as follows based on notional amounts:

	December 31, 2014
Accounts payable	$ 118,411

A strengthening of the Canadian dollar, as indicated below, against the US dollar at December 31, 2014 would have decreased revenue and comprehensive by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Revenue	Profit or loss
USD (10% strengthening of Canadian Dollar)	$ (1,023,067)	$ (1,023,067)

A weakening of the Canadian dollar against the US dollar at December 31, 2014 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

Interest Rate Risk

At December 31, 2014, the interest rate profile of the Company's interest-bearing financial instruments was:

	Carrying amount
Fixed rate instruments:	
Financial liabilities	$ 7,409,435

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss; therefore, a change in interest rates at the reporting date would not affect profit or loss.

OTHER

Disclosure of Outstanding Share Data

The Company's issued and outstanding share capital as at the date of this report is as follows:

1) Authorized: Unlimited common shares without par value.

2) As at the date of this Management Discussion & Analysis, the Company has 49,120,881 common shares, 6,036,703 warrants, and 3,595,127 options issued and outstanding.

ACCOUNTING STANDARDS AND INTERPRETATIONS

The financial information for the year ended December 31, 2014 reflects the same accounting policies and methods of application as the Company's consolidated financial statements for the year ended December 31, 2013, with the exception of the following new accounting policies adopted:

Business combinations:

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. NCI's are recognized at their fair values at the acquisition date and including both ordinary NCI and other NCI in accordance with IFRS 3. Changes to the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Goodwill:

Goodwill is recognized as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the fair value of the net identifiable assets acquired and liabilities assumed, as of the acquisition date. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

Intellectual property:

Intellectual property was acquired as part of the Reelhouse acquisition. The intellectual property acquired has a finite life and is amortized on a straight line basis over its useful life, which is currently estimated to be five years. Intellectual property is measured at cost less accumulated amortization and accumulated impairment losses.

The following standards have been adopted by the Company commencing January 1, 2014:

IAS 32 - Offsetting Financial Assets and Liabilities:

In December 2011, the IASB issued Offsetting Financial Assets and Liabilities, an amendment to IAS 32, Financial Instruments: Presentation. The objective of this amendment to IAS 32 was to clarify when an entity has a right to offset financial assets and liabilities. The effective date of this standard was January 1, 2014. These amendments are to be applied retrospectively. There was no impact on these audited consolidated financial statements as a result of the adoption of this standard.

New accounting standards issued but not yet effective:

IFRS 9 - Financial Instruments:

In July 2014, the IASB issued IFRS 9 - Financial Instruments, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers, which supersedes IAS 18 - Revenue, IAS 11 - Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted. The Company is currently evaluating the impact of IFRS 15 on its financial statements.

CRITICAL JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of these audited consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the audited consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These audited consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the audited consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

(ii) Management estimates the fair values of share-based payment arrangements using the Black-Scholes option pricing model. Details of these can be found in Note 20 of the audited consolidated financial statements for the year ended December 31, 2014.

(iii) Tax credits receivable are refundable tax credits receivable from the government as an incentive for film and television production in British Columbia. The Company records tax credits when there is reasonable assurance that they will be received. Tax credits are recognized in profit or loss as tax credits recovery on a systematic basis in the same periods in which the expenses are recognized.

The amounts receivable are management's best estimate based on its interpretation of current legislation. However, the Canada Revenue Agency has not yet undertaken a full review of these claims and therefore the amounts receivable could be different than the amounts recorded. Any adjustment to these amounts receivable would be recorded in the period that a reassessment was received.

(iv) Determining the useful lives of property, equipment and intangible assets requires estimates and assumptions as to future events and circumstances

(v) Determining the value of the business acquisition of Reelhouse, specifically intellectual property, goodwill and non-controlling interest

RISKS AND UNCERTAINTIES

The Company is a relatively new company with a limited operating history and history of business, revenue generation or production history

During the period from January 1, 2014 to December 31, 2014, the Company had a net loss of $2,369,867 and as at December 31, 2014 had a deficit of $20,306,009. As a result the Company's auditors have included a going concern note in the December 31, 2014 audit report of the Company. These conditions raise significant doubt about the Company's ability to continue as a going concern. The Company's future operations are dependent upon many factors, including the ability of the Company to generate sufficient profit and cash flows from operations and obtain additional funding.

The Company's future operations are dependent upon many factors, including the ability of the Company to generate sufficient profit and cash flows from operations and obtain additional funding. Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The ability to continue as a going concern is dependent on completing equity or debt financings or generating profitable operations in the future in order to meet liabilities as they come due and enable the Company to continue operations. The ability to continue as a going concern may also be adversely impacted by the loss of customers and falling sales per customer.

Operating results may fluctuate significantly, which may cause the value of the our Shares to decrease significantly

Operating results may fluctuate as a result of a number of factors, many of which will be outside of the Company's control. As a result of these fluctuations, financial planning and forecasting may be more difficult and comparisons of operating results on a period-to-period basis may not necessarily be meaningful. The Company's business will be seasonal in nature, reflecting overall economic conditions as well as client budgeting and buying patterns in the entertainment industries. This may result in the fluctuation of operating results. Further, the cyclicality and seasonality of the Company's business could become more pronounced and may cause operating results to fluctuate more widely.

Each of the risk factors described in this section, and the following factors, may affect the Company's operating results:

- ability to continue to attract clients for the Company's services;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of the businesses, operations and infrastructure;
- focus on long-term goals over short-term results;
- general economic conditions and those economic conditions specific to the Company's industries;
- changes in business cycles that affect the markets in which the Company will sell its products and services;
- ability to hire, integrate, train and retain skilled talent, including members of our direct sales force and software engineers;
- ability to maintain and expand our business, including our operations and infrastructure to support our growth, both domestically and internationally;

- competition with other companies, custom development efforts and open source initiatives that are currently in, or may in the future enter, the market for our software;
- expansion of our customer base, both domestically and internationally;
- improve the performance and capabilities of our software;
- increase market awareness of our products and enhance our brand; and
- maintain compliance with applicable governmental regulations and other legal obligations, including those related to intellectual property.

In response to these fluctuations, the share value could decrease significantly in spite of the Company's operating performance.

The Company's success depends on certain key personnel. If the Company is unable to continue to attract and retain qualified personnel that will adversely affect its businesses

The Company's performance to date has been and will continue to be largely dependent on the talents, efforts and performance of its senior management and key technical personnel. The Company's executive officers and top technical personnel have entered into employment and noncompetition agreements. However, while it is customary in the entertainment industry to use employment agreements as a method of retaining the services of key personnel, these agreements will not guarantee the Company the continued services of such employees. In addition, the Company may be unable to enter into employment agreements with most of its key creative, technical and engineering personnel. The loss of executive officers or other key personnel, particularly with little or no notice, could cause delays on projects and could have an adverse impact on client and industry relationships, business, operating results or financial condition.

The Company's success depends to a significant extent on its ability to identify, attract, hire, train and retain qualified creative, technical and managerial personnel. It is expected that competition for personnel with the specialized creative and technical skills needed to create the Company's products and provide its services will continue to intensify as film studios build or expand in-house visual effects and animation capabilities. If the Company has difficulty identifying, attracting, hiring, training and retaining qualified personnel, or must incur significant costs in order to do so, its business and financial results could be negatively impacted.

Acquisitions the Company pursues in its industry and related industries could result in operating difficulties, dilution to shareholders and other consequences harmful to its business

As part of the Company's growth strategy, it may selectively pursue strategic acquisitions in its industry and related industries. The Company may not be able to consummate such acquisitions, which could adversely impact the Company's growth. If the Company does consummate acquisitions, integrating an acquired company, business or technology may result in unforeseen operating difficulties and expenditures, including:

- increased expenses due to transaction and integration costs;
- potential liabilities of the acquired businesses;
- commencement of litigation or adverse results in litigation;
- potential adverse tax and accounting effects of the acquisitions;
- diversion of capital and other resources from the Company's existing businesses;

- diversion of management’s attention during the acquisition process and any transition periods;
- loss of key employees of the acquired businesses following the acquisition; and
- inaccurate budgets and projected financial statements due to inaccurate valuation assessments of the acquired businesses.

Foreign acquisitions also involve unique risks related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. Evaluations of potential acquisitions may not accurately assess the value or prospects of acquisition candidates and the anticipated benefits from future acquisitions may not materialize. In addition, future acquisitions or dispositions could result in potentially dilutive issuances of the Company’s equity securities, including the Company Shares, the incurrence of debt, contingent liabilities or amortization expenses, or write-offs of goodwill, any of which could harm its financial condition.

Legal and regulatory proceedings including our proceedings against FFD could have an adverse impact on our results of operations.

On March 6, 2015, the Company brought an action in British Columbia Supreme Court against FFD, its principle Yong Liu, FFD’s Beijing Law firm and others, seeking damages for misrepresentation and breach of the amended Loan Agreement, a declaration that the Company’s indebtedness to FFD has been extinguished, and damages for defamation, wrongful interference with economic relations and other relief. Regardless of the outcome, legal and regulatory proceedings may require that we devote substantial time of our management and expense to our dispute with FFD. Unfavourable rulings including the denial of the relief requested in our action against FFD could result in a material adverse impact on our business, financial condition or results of operations.

Film production incentives and subsidies offered by foreign countries, states and provinces where the Company will have operations, or its failure to continue to enjoy such incentives and subsidies offered by foreign countries and states where it does have operations, could affect its ability to secure work on post-production visual effects projects

Production incentives and subsidies for feature film production are widely used throughout the industry and are important in helping film studios and post-production companies to offset production costs. British Columbia provides significant tax credits for Film Production and Digital Imaging and Visual Effects. These tax credits have had a positive impact on financial performance. If the provincial government changes the tax credit programs there will be a direct impact on the Company’s financial performance. Many countries, states and provinces have programs designed to attract feature film post-production and visual effects. Incentives and subsidies are used to reduce feature film production costs and such incentives and subsidies take different forms, including direct government rebates, sale and leaseback transactions or transferable tax credits. As a result, film studios and production companies may send their visual effects and animation work to companies in foreign countries and states where the Company does not have operations in order to take advantage of the incentives and subsidies offered in such places. In addition, the Company may enjoy film post-production incentives and subsidies offered by foreign countries or states where the Company has operations which may not be available in the future. Any diminution in the Company’s ability to secure work on visual effects and animation projects due to such incentives and subsidies could have a material adverse effect on its business, operating results or financial condition.

Revenue may be adversely affected if the Company fails to protect its proprietary technology or fails to enhance or develop new technology

The Company will depend on its proprietary technology to provide certain of its services. With respect to its proprietary technology, the Company will have filed current applications for trademarks, and plans to file additional applications in the future. The Company will also rely on a combination of copyright, trade secret protection, patents, and non-disclosure agreements to establish and protect its proprietary rights. These efforts to protect proprietary rights may not be sufficient or effective. Any significant impairment of the Company's intellectual property rights could harm its business or ability to compete.

The Company will generally enter into non-disclosure or license agreements with its employees, consultants and vendors, and generally control access to and distribution of its software, technology and other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's software, technology and other proprietary information, without authorization, or to develop similar or superior technology independently. The steps taken may not prevent misappropriation of the Company's technology, and its non-disclosure and license agreements may not be enforceable.

In addition, the Company may be required to litigate in the future to enforce its intellectual property rights, to protect trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and diversion of resources and could have an adverse effect on its business, operating results or both.

Risks associated with the Company's transaction with Prime Focus

Pursuant to the Company's transaction agreements with Prime Focus and its affiliate 1023182 B.C. Ltd, the parties agreed to royalty payment dates in the license agreement to provide that the annual license royalty of $1,000,000 will be payable on March 23 of each of the five years following closing subject to any set-off for indemnities and the additional revenue royalty payable by Prime to the Vendor will be paid on or before June 15th of each of the five years following closing subject to any set-off for indemnities. To the extent there is a need to satisfy claims from any holdback amounts or royalties, or to the extent that Prime Focus and its affiliates are not able to meet the revenue targets set out in the transaction agreements, the net proceeds of the Prime Focus transaction to the Company will be reduced. In the event of the aforesaid reductions the reduced net proceeds to the Company will also ultimately reduce cash available to the business of the Company following the closing.

Third-party technology licenses may not continue to be available to the Company in the future

The Company will also rely on certain technology that it licenses from third parties, including software that is integrated and used with internally developed software. These third-party technology licenses may not in the future be available to the Company on commercially reasonable terms, or at all. The loss of any of these technology licenses could result in delays in performance of work until the Company identifies, licenses and integrates equivalent technology, and it may not be able to identify, license or integrate any such equivalent technology in a timely manner or at all. Any resulting delays in performance could damage the Company's reputation and result in a decrease in its revenues during the period of delay, either of which could materially adversely affect its business, operating results or financial condition.

Others may assert intellectual property infringement claims against the Company

Infringement or misappropriation claims (or claims for indemnification resulting from such claims) against the Company may be asserted or prosecuted, regardless of their merit, and any such assertions or prosecutions may adversely affect its business and/or operating results. Irrespective of the validity or the successful assertion of such claims, the Company would incur significant costs and diversion of resources relating to the defense of such claims, which could have an adverse effect on its business, operating results or both.

If any claims or actions are asserted against the Company, it may seek to obtain a license of a third-party's intellectual property rights; however, under such circumstances such a license may not be available on reasonable terms or at all. Any such litigation could result in a material adverse effect on the business, prospects and financial results of the Company.

Inability to successfully manage the growth of the Company's business may have an adverse effect on its operating results

The Company expects to experience growth in the number of employees and the scope of its operations. Such growth will result in increased responsibilities for its management. If its management is unable to successfully manage expenses in a manner that allows it both to improve operations and at the same time pursue potential market opportunities, the growth of its business could be adversely impacted, which may, in turn, negatively affect its operating results or financial condition. In addition, a critical contributor to the Company's continued success will be its creative culture. As the Company attempts to grow and alter its business to focus increasingly on the creation, production and marketing of visual imagery, it may find it difficult to maintain important aspects of its corporate culture, which could negatively affect its future success.

Additional funds for the continuation of the Company's planned operations may be required

To expand the studio organically or through mergers and acquisitions, the Company may need substantial funding as a supplement to its cash flow. No assurances can be given that the Company will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from operations. Revenues, taxes, travel costs, capital expenditures and operating expenses are all factors which will have an impact on the amount of additional capital that may be required. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be dilutive to shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion and pursue only those development plans that can be funded through cash flows generated from its existing operations.

Risks related to the Industry

The Company may face intense competition, and may not be able to compete effectively, which could reduce demand for products and adversely affect business, growth, revenues and market share.

The market for the Company's products is intensely and increasingly competitive and subject to rapidly changing technology and evolving standards. In addition, many companies in the target market are offering, or may soon offer, products and services that may compete with the products the Company is offering.

Many of the Company's competitors, particularly the large software companies, have longer operating histories, significantly greater financial, technical, marketing, distribution, professional services or other resources and greater name recognition than we do. In addition, many of the Company's competitors have strong relationships with current and potential customers and extensive knowledge of the business analytics industry. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements. Moreover, many of these competitors are bundling their analytics products into larger deals or maintenance renewals, often at significant discounts. Increased competition may lead to price cuts, alternative pricing structures or the introduction of products available for free or a nominal price, fewer customer orders, reduced gross margins, longer sales cycles and loss of market share. The Company may not be able to compete successfully against current and future competitors, and the business, results of operations and financial condition will be harmed if the Company fails to meet these competitive pressures.

The Company's ability to compete successfully in the market depends on a number of factors, both within and outside of the Company's control. Some of these factors include ease and speed of product deployment and use, discovery and visualization capabilities, analytical and statistical capabilities, performance and scalability, the quality and reliability of customer service and support, total cost of ownership, return on investment and brand recognition. Any failure to compete successfully in any one of these or other areas may reduce the demand for the Company's products, as well as adversely affect business, results of operations and financial condition.

Moreover, current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others. By doing so, these competitors may increase their ability to meet the needs of the Company's customers or potential customers. In addition, the current or prospective indirect sales channel partners may establish cooperative relationships with the Company's current or future competitors. These relationships may limit the Company's ability to sell or certify products through specific distributors, technology providers, database companies and distribution channels and allow our competitors to rapidly gain significant market share. These developments could limit the Company's ability to obtain revenues from existing and new customers and to maintain maintenance and support revenues from existing and new customers. If the Company is unable to compete successfully against current and future competitors, the business, results of operations and financial condition would be harmed.

Success is highly dependent on the Company's ability to penetrate the existing market for business analytics software as well as the growth and expansion of that market.

Although the overall market for business analytics software is well-established, the market for business analytics software is relatively new, rapidly evolving and unproven. The future success will depend in large part on the Company's ability to penetrate the existing market for business analytics software, as well as the continued growth and expansion of what the Company believes to be an emerging market for analytics solutions that are faster, easier to adopt, easier to use and more focused on self-service capabilities. It is difficult to predict customer adoption and renewal rates, customer demand for the Company's products, the size, growth rate and expansion of these markets, the entry of competitive products or the success of existing competitive products. The Company's ability to penetrate the existing market and any expansion of the emerging market depends on a number of factors, including the cost, performance and perceived value associated with the Company's products, as well as customers' willingness to adopt a different approach to data analysis. Furthermore, many potential customers have made significant investments in legacy business analytics software systems and may be unwilling to invest in new software. If the Company is unable to penetrate the existing market for business analytics software, the emerging market for self-service analytics solutions fails to grow or expand, or either of these markets decreases in size, the business, results of operations and financial condition would be adversely affected.

Adverse economic conditions may have an adverse effect on the business and financial results of the Company

Adverse economic conditions, like the recent worldwide credit crisis make it difficult for motion picture producers and television programmers to maintain prior levels of production activity. Demand for the Company's services will be driven in large part by the volume of motion picture and television content being created and distributed. A substantial decrease in such production activities would have an adverse effect on its business and financial results.

The popularity of 3D motion pictures may decline

A part of the Company's revenue will rely upon the success and popularity of motion picture entertainment containing 3D imagery. If other forms of entertainment with which 3D motion pictures compete for consumers' leisure time and disposable income, such as conventional motion pictures, television, concerts, amusement parks and sporting events, become more popular than 3D motion pictures, the Company's royalty revenue from the SLA with Prime Focus could be adversely effected.

The Company cannot predict the effect that rapid technological change may have on its business or industry

The film and media conversion industry is characterized by technological change, evolving customer needs and emerging technical standards. Digital technology poses additional risks including increased capital costs, increased maintenance costs, and changing requirements for digital hardware. The Company's inability to adapt to changing technologies may limit the competitiveness and demand for its services.

The entertainment industry in general, and the visual effects and animation segments thereof in particular, are rapidly evolving, primarily due to technological developments. The rapid growth of technology and shifting consumer tastes may prevent the Company from being able to accurately predict the overall effect that technological growth may have on its potential revenue and profitability. Furthermore, because the Company is required to provide advanced digital imagery conversion products to continue to win business, it must ensure that production environment integrates the latest tools and techniques developed in the industry. This will require the Company to either develop these capabilities by upgrading its own proprietary software, which can result in substantial research and development costs and substantial capital expenditures for new equipment, or to purchase third-party licenses, which can result in significant expenditures. In the event the Company seeks to obtain third-party licenses, it cannot guarantee that they will be available or, once obtained, will continue to be available on commercially reasonable terms, or at all. If the Company is unable to develop and effectively market new technologies that adequately or competitively address the needs of these changing industries, it could have an adverse effect on business and growth prospects.

Changes in U.S., regional or global economic conditions could adversely affect the Company's profitability

A decline in economic conditions in the United States or in other regions of the world could lead to a decrease in discretionary consumer spending, which in turn could adversely affect demand for feature films and box office revenue. In addition, an increase in price levels generally, or in price levels in a particular sector such as the energy sector, could result in a shift in consumer demand away from entertainment products such as feature films. Such events could cause a decrease in the demand for both the visual effects and animation services the Company offers as well as for the feature films it proposes to produce, either of which would have an adverse effect on profitability and operating results.

Risks Related to the Company Shares

The value of the Company's shares will be affected by a number of factors, some of which are beyond the Company's control, including those described above and the following:

- significant contracts, productions, acquisitions or capital commitments entered into by the Company or its competition;
- variations in quarterly operating results;
- general economic conditions;
- litigation involving the Company or investigations or audits by regulators into the operations of the Company or its competitors;
- future sales of the Company's common shares; and
- investor perception of the Company and the industries in which it operates.

These broad market and industry factors may materially reduce the value of the Company's common shares, regardless of its operating performance.

ADDITIONAL INFORMATION

Additional information about the Company is available for viewing on SEDAR at www.sedar.com.