



**TINKERINE STUDIOS LTD.**

**Management Discussion and Analysis Report**

**For the nine months ended September 30, 2018**

**(prepared by management)**



*Ditto™ Pro 3D Printer & Tinkerine U online 3D content*



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**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR**  
**Tinkerine Studios Ltd. (“the Company”)**

**President’s Message**

Hi Shareowners,

We often hear that the 3D printing industry has faded, that it is has come and gone with the consumer push around 2012, or that it lacks that one killer application. I often ask whether that is true or not, and every time, my conclusion has always been that we are focusing on the wrong area for the space to see proper growth. It is never just about the technology, but what the technology can help us achieve, that drives adoption. In order for us to get there, we need people who understand its strengths.

I believe that the 3D printing space is evolving towards practical application and leveraging the technology to provide advancements in traditional industries as opposed to consumer adoption. We’re now seeing unibody rockets, houses built over a course of a single day for under \$5000, bridges, custom car rims, and complex generative designs for creating organic shapes we could not do before. The key here is there is less of a focus on the technology itself, but the necessary knowledge that companies, individuals, and industry specialists need to bring the bold visions of their products to life.

All these advancements and applications require individuals in their respective fields to obtain the necessary skills and training on the technology platform that is best able to bring their ideas to reality. Our focus to develop 3D printing education and a technology is a long-term strategy. The execution of this strategy takes time as they go through the education system. It is this understanding of the strategy that guides us to develop our relationships with post-secondary institutions who provide technical skills development and redevelopment for professionals. Knowledge transfer to industry professionals is the key that is going to be important for our business. As we move forward, Tinkerine’s Education initiatives are going to become a key pillar to set forth a movement to build the necessary business analytics skills to professionals that can bring value to businesses they join. With this in mind, we will continue to build a generation of workers fluent in the workflow of 3D printing technology from the grass roots level.

This strategy is not one without risk. It is paramount that we execute with focus. The team here at Tinkerine is impressive; the challenges that they overcome and the dedication they have is astounding. To the shareowners, I want to thank you all for the support. Last is to our customers, the feedback, the insight, and the continued support has been great and transformative.

## Third Quarter 2018 Financial Highlights

	Nine Months Ended Sept 30th 2018	Nine Months Ended Sept 30th 2017	Q3 Ended Sept 30 2018	Q3 Ended Sept 30 2017	Q2 Ended June 30 2018	Q2 Ended June 30 2017	Q1 Ended March 31 2018	Q1 Ended March 31 2017
Revenue	\$ 401,152	\$ 636,612	\$ 88,991	\$ 203,489	\$ 158,320	\$ 266,276	\$ 153,841	\$ 166,847
Cost of Goods Sold	220,241	383,723	47,157	128,431	78,089	148,285	94,995	107,007
Gross Margin	180,911	252,889	41,834	75,058	80,231	117,991	58,846	59,840
EBITDA	(260,225)	(198,380)	(97,335)	(78,346)	(6,151)	(28,803)	(101,319)	(90,786)
Net Income (Loss)	(297,153)	(183,009)	(104,420)	(31,159)	(77,876)	(35,137)	(114,857)	(116,712)
Net Comprehensive Income (Loss)	(297,153)	(183,009)	(104,420)	(31,159)	(77,876)	(35,137)	(114,857)	(116,712)
Basic and Diluted income(loss) per sh:	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Weighted average number of common shares								
Basic and Diluted	49,238,349	49,238,349	49,238,349	49,238,349	49,238,349	48,238,349	49,238,349	49,238,349

# Management's Discussion and Analysis of the Financial Position and Results of Operations

November 28, 2018

The following discussion and analysis regarding the financial position and results of operations provides information of the operations and financial results of Tinkerine Studios Ltd. ("the Company") that the management believes is relevant for the review, assessment and understanding the Company's unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2018. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited consolidated interim financial statements. Readers may want to refer to the December 31, 2017 audited financial statements and the accompanying notes which are available at [www.sedar.com](http://www.sedar.com).

## Background and Description of the Business

Tinkerine Studios Ltd is one of Canada's largest designer, producer and distributor of 3D printers, with its innovative software and through TinkerineU supports the growing demand for online educational course content and the design market.

Tinkerine designs, manufactures and distributes 3D printers in Canada, USA and to the APAC region. The Company's product offering is the Ditto and Ditto Pro which are well priced in each segment of the market, where it's developing a reputation for quality 3D printers and innovative and high quality educational support for educators and professionals.

The financial information in this MD&A is based on the Company's unaudited consolidated interim financial statements which have been prepared in Canadian dollars by management, in accordance with International Financial Reporting Standards ("IFRS").

## Non-IFRS Measures

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) in Canadian dollars. Certain supplementary information and measures not recognized under IFRS are also provided in this MD&A where management believes they assist the reader in understanding Tinkerine's results. These measures are calculated by Tinkerine on a consistent basis unless otherwise specifically explained. These measures are further explained as follows:

*EBITDA* – means net earnings or losses before interest, taxes, depreciation, amortization, foreign exchange gains and losses and stock-based compensation. EBITDA is a metric used to assess the financial performance of an entity. Management believes that this metric assists in determining the ability of the Corporation to generate cash from operations.

*Cash flow from operations* – means cash flow from operations before changes in non-cash operating working capital. This measure is not intended to be an alternative to cash provided by operating activities as provided in the consolidated statements of cash flows, comprehensive income or other measures of financial performance calculated in accordance with IFRS. Cash flow from operations assists management and investors in analyzing operating performance and leverage.

## Q3 2018 Overview and Highlights

The Company's principal business is the design, manufacture and distribution of 3D printers, software and related online educational content. It is also the exclusive supplier of the filament that is used in the printer

- Q3 2018 revenue of \$88,991 was 56% lower than the Q3 2017 revenue of \$203,489.
- Revenue for the 9 months ended September 30, 2018 of \$401,152 down 37% to a year ago from \$636,612. In analyzing the revenue, the lower sales are attributed to a lower demand by the schools due to budget constraints particularly in British Columbia.
- Tinkerine's sales strategy to grow the revenue, has been to focus on building partnerships with educational organizations that offer 3D printing as part of their curriculum and support these organizations through TinkerineU. While we will continue to focus on this segment of the market, we have broadened the scope of our plans and will roll out new initiatives to build this market.

- In the first 9 months of 2018 revenue of \$401,152, was derived by geographic segment as follows: Canada – \$207,267, United States – \$185,042 and Other - \$8,843 versus 2017 revenue of \$636,612, geographic segmented sales in the first 9 months in 2017 of Canada – \$424,819, United States – \$181,418 and Other – \$30,375. While the US market increase by 2%, the Canadian market decreased year over year by 51% whereas the Other market generated a reduction of 71%.

Q3 earnings before interest, taxes, depreciation, amortization, foreign exchange gains and losses and stock-based compensation (EBITDA) decreased to a loss of \$97,335 from a loss of \$78,945 in Q3 2017.

The Company's net loss for Q3 2018 was \$104,420 compared to the net loss of \$31,159 in Q3 2017, an increase in net losses of \$73,261. This increase in loss is attributable partly to the decrease in sales, as well as the increase in our costs. Our controllable expenses and our total cash expenses were \$141,751 in Q3 2018 from \$162,631 in Q3 2017, a decrease of \$20,880

### Summary of Quarterly Information

	Quarter ended:			
	"Q3 2018" September 30 2018	"Q2 2018" June 30 2018	"Q1 2018" March 31 2018	"Q4 2017" December 31 2017
Revenue	\$88,991	\$158,320	\$153,841	\$168,022
Net Income (Loss)	(\$104,420)	(\$77,876)	(\$114,857)	(\$176,677)
Net Comprehensive Income (Loss)	(\$104,420)	(\$77,876)	(\$114,857)	(\$176,677)
Basic and Diluted Loss per share	(\$0)	(\$0)	(\$0)	(\$0)
Number of shares outstanding (w. avg.)	49,238,349	49,238,349	49,238,349	49,238,349
	Quarter ended:			
	"Q3 2017" September 30, 2017	"Q2 2017" June 30 2017	"Q1 2017" March 31 2017	"Q4 2016" December 31 2016
Revenue	\$203,489	\$266,276	\$166,847	\$232,860
Net Income (Loss)	(\$31,159)	(\$35,137)	(\$116,712)	(\$138,881)
Net Comprehensive Income (Loss)	(\$31,159)	(\$35,137)	(\$116,712)	(\$162,126)
Basic and Diluted Loss per share	(\$0)	(\$0)	(\$0)	(\$0)
Number of shares outstanding (w. avg.)	49,238,349	49,238,349	49,238,349	48,738,349

### Q3 2018 Financial Highlights

- **56% decrease in sales revenue to a year ago.**
- **38% increase in expenses.**
- **23% decrease in EBITDA in Q3 2018 to loss of \$97,335 from a loss of \$78,946 in Q3 2017.**
- **Working capital decreased in Q3 2018 to deficit of \$118,122 from \$194,854 in Q3 2017**
- **An increase of 182% in the quarterly net deficit provided from operating activities to a loss of \$144,262 in Q3 2018 versus net cash flow of \$176,637 in Q3 2017.**

### ***Detailed Discussion and Analysis of Operating Results for the Periods Ended September 30, 2018 and September 30, 2017***

#### 1. Revenue

Revenue for Q3 2018 was \$88,991 for the three months ended September 30, 2018 versus \$203,489 for the comparative period Q3 2017, a decrease in revenue of 56%. For the nine month period ended September 30 2018, the revenue was \$401,152 versus \$636,612 in 2017, a year over year decrease of 37%

For Q3 2018, revenue was represented by 25% hardware printer sales, 5% filament and 71% services/miscellaneous/parts. In comparison for Q3 2017, revenue was represented by 86% hardware sales, 10% filament and 4% services/miscellaneous. We saw a significant difference in the year over year proportion of sales attributable to the different product categories. A combination of lower printer sales together with an increase in parts sales and services contributed to the changes in the sales product categories

The number of 3D printers sold in Q3 2018 was represented by the sale of 13 3D printers sold compared to 99 3D printers sold in the third quarter of 2017. For the first nine months of 2018 3D printers sold was 128 printers compared to 303 printers in nine months ending September 30, 2017, a decrease of 58%.

Filament revenue for Q3 2018 was \$4,352 compared to \$19,698 in Q3 2017. For the first nine months ending September 30 2018 filament sales were \$80,842 compared to \$56,240 in the nine months ended September 30, 2017, an increase in filament sales of 44%

## 2. Gross Profit Margins

Gross profit decreased by 44% for the three months ended September 30, 2018 to \$41,834 down from \$75,057 for the three month ended September 30, 2017. Gross profit for the nine months ended September 30, 2018 decreased by 28% to \$180,911 down from \$252,888 in 2017. The gross profit percentage for Q3 2018 is 47% versus 37% for Q3 2017, an increase of 10% in the gross margin percentage. The gross profit percentage for the nine months ended September 30, 2018 is 45% versus 40% for the nine months in 2017.

## 3. Expenses

In Q3 2018 the Company incurred \$146,255 of total expenses compared to \$106,216 in Q3 2017, an increase of \$40,038 or 38% in total expenses. For the nine months ended September 30, 2018 total expenses were \$478,065 versus \$435,897 for the nine months ended September 30, 2017, an increase of \$42,167 or 10%. The Company's controllable expenses and total cash expenses is \$141,751 in Q3 2018 versus \$162,631 in Q3 2017. For the nine months ended September 30, 2018 total cash expenses were \$436,165 versus \$465,225 for the nine months ended September 30, 2017. We continue to review departmental budgets and corporate spending in all areas and these are further discussed below.

Highlighted quarterly expenses include the following:

- Remuneration and benefits were \$71,060 for Q3 2018 versus \$72,196 for Q3 2016, reflecting a decrease for the third quarter in this expense of \$1,136. For the nine months ended September 30, 2018 remuneration and benefits trended lower at \$212,166 versus \$212,272 for the nine months ended September 30, 2017, a difference of \$106. Staffing levels continue to be reviewed in all functional areas, including the adjustment in sales, marketing and research and development.
- Stock based compensation was \$955 in Q3 2018 versus a credit of \$72,281 in Q3 2017. This is a non-cash expense and represents the fair value of stock options granted and outstanding using the Black Scholes calculation. Under IFRS, the expense is recognized as the options vest each quarter with a larger proportion of the expense recognized in earlier quarters. For the nine months ended September 30, 2018 stock-based compensation was \$6,845 versus a credit of \$77,564 for the nine months ended September 30, 2017.
- Professional and consulting fees were \$30,454 for Q3 2018 versus \$42,061 in Q3 2017. For the nine months ended September 30, 2018 professional and consulting fees was \$120,069 versus \$98,974 for the nine months ended September 30, 2017. The increase in this expense is related to sales and marketing consulting services provided by a director of the company.
- Product promotion, trade shows and travel were \$476 for Q3 2018 versus \$1,498 in Q3 2017. For the nine months ended September 30, 2018 product promotion, trade shows and travel were \$1,469 versus \$3,426 for the nine months ended September 30, 2017. We continue to review our sales and marketing strategy and focused on selective trade shows where we have identified key metrics that include education centric leads and attendance as opposed to only size of attendance and expense. These costs predominantly relate to marketing, branding, advertising and attending trade shows and while we strive to maintain meaningful marketing activities each quarter such costs are not incurred evenly from period to period but are based on the timing of the trade show and activity.

#### 4. Other Income and Expenses

There was no other income and expenses for the Third Quarter 2018.

#### **LIQUIDITY**

As at September 30, 2018, the Company had negative working capital of \$118,122 compared to net working capital of \$194,854 at September 30, 2017 (December 31, 2017 – \$137,132). Our cash position was \$62,995 at the end of Q3 2018 compared to \$214,511 at September 30, 2017 (December 31, 2017 – \$207,257). In aggregate we consumed approximately \$99,917 of working capital in our operation over this quarter versus \$88,000 in the third quarter of 2017,

At the end of the third quarter of 2018 the Company's investment in inventory was \$214,644 compared to \$313,409 at September 30, 2017 (December 31, 2017 - \$283,560) with inventory of finished goods being \$53,803 and raw materials of \$160,841 at September 30, 2018 compared to finished goods of \$123,569 and raw materials of \$189,840 at September 30, 2017 (December 31, 2017 – Finished goods \$103,214, raw materials \$180,346). The prepaid and deposits were \$22,810 at September 30, 2018 versus \$23,369 at September 30, 2017 (December 31, 2017 - \$15,167). These payments are pre-payments and deposits to overseas supplier for parts purchases.

At the time of release of this MD&A, management believes the Company is presently operating with inadequate working capital to continue a steady expansion of its business over the coming months. While our cash position is somewhat tight we believe we can manage our existing operations with the existing working capital for the next few months. However, any unforeseen downturn in sales or, alternatively, pursuit of a more aggressive growth strategy would necessitate further equity investment.

#### **CAPITAL RESOURCES**

As at September 30, 2018, the Company's share capital was \$4,329,369 representing 49,238,349 issued and outstanding common shares without par value. There was no issue of shares in Q3 2018 or the nine months ended September 30, 2018. Reserves, representing the fair value of stock options outstanding and vested, is recorded at \$316,124. As at December 31, 2017 the balance of the Reserves was \$322,454 and the net change of \$6,330 in reserves during the first nine months of 2018 is for the calculated charge for stock-based compensation of \$6,845 and the reallocation of \$13,175 to the deficit for share options that were cancelled during the quarter.

As at September 30, 2018 the Company has 3,535,000 stock options outstanding with a weighted average exercise price of \$0.075 and an average remaining term of 2.082 years. Warrants, totaling 6,600,000 expired in March 2018.

The Company has no debt facilities and no off-balance sheet arrangements.

#### **OUTSTANDING SHARE INFORMATION**

The Company's authorized capital is unlimited common shares without par value. As at November 21, 2018, the following common shares, options and share purchase warrants were outstanding:

	<b>Number of issued and outstanding</b>
<b>As as September 30, 2018</b>	
Common Shares	49,238,349
Stock Options	3,535,000
Warrants	-
Total Shares - Fully diluted	52,773,349

#### **TRANSACTIONS WITH RELATED PARTIES**

Balances due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Included in trade payables at September 30, 2018 is \$18,178 (December 31, 2017 - \$4,842) due to officers and directors. These amounts were for company expenses and/or services provided by the directors and officers

### ***Key management personnel compensation***

During the nine months ended September 30, 2018, the officers of the Company were paid salaries as follows: Eugene Suyu, CEO, \$45,000 (2017 -\$45,000); Justin Sy, CFO, \$33,750 (2017 - \$33,750).

### ***Officers and directors***

The following individuals were elected directors at the June 28, 2018 AGM and continue to the date of this MD&A. There were no board changes in the current year.

- Eugene Suyu -- Chief Executive Officer, President and Director
- Justin Sy – Director and CFO
- Todd Blatt -- Director
- Bob Longo – Director
- Daniel Cugnet – Director

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements as at September 30, 2018 and to the date of this MD&A.

### **CHANGES IN ACCOUNTING POLICIES**

The preparation of the condensed interim financial statements and related MD&A have been prepared in conformity with IFRS requires estimates and assumptions that affect the amounts reported in these financial statements. Accounting policies for these condensed financial statements have been prepared consistent with those applied and disclosed in the Company's annual audited financial statements.

### **APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this MD&A on November 21, 2018

### **ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com).

### **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

The MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable Canadian and US securities legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statements of historical fact are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. These forward looking statements include, but are not limited to, statements concerning:

- the Company's strategies and objectives, both generally and in respect of its existing business and planned business operations;
- the Company's plan to grow sales and expand its distribution network;
- the Company's future cash requirements;
- general business and economic conditions;
- the Company's ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations; and,

- the timing, pricing, completion, regulatory approval of proposed financings if applicable.

Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties beyond the Company's ability to predict or control, including, but not limited to, risks related to the Company's ability to raise the necessary capital or to be fully able to implement its business strategies, and other risks identified herein under "Risk Factors". The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results are likely to differ, and may differ materially, from those expressed or implied by forward looking statements contained in this report. Such statements are based on a number of assumptions, which may prove incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- conditions in the financial markets generally, and with respect to the prospects for small capitalization commercial/technology companies specifically;
- the Company's ability to roll out its business plan which includes new product launches and associated planning in production, sales, distribution and marketing;
- the Company's ability to secure and retain employees and contractors to carry out its business plans;

These forward-looking statements are made as of the date hereof and the Company does not intend and does not assume any obligation, to update these forward-looking statements, except as required by applicable law. For the reasons set forth above, investors should not attribute undue certainty to or place undue reliance on forward-looking statements.

Historical results of operations and trends that may be inferred from the following discussion and analysis may not necessarily indicate future results from operations.

## **BUSINESS RISK FACTORS**

Each of the following factors could have a material adverse effect on the Company's financial condition and results of operations.

***3D Printing Industry:*** The Company operates in the desktop market (alternatively described as the consumer segment) of the 3D printing industry. The desktop market has existed since 2008. Although projected to grow at a high rate, this segment can be viewed as being an early adopter stage market. The ability for the Company to successfully negotiate this market represents a substantial risk.

***Dependence upon key personnel:*** The success of the Company's operations will also depend upon its ability to attract and retain talented and qualified personnel. The Company currently has a small management team, several of which can be considered key to expanding the Company's business operation, the loss of which would likely be detrimental to the Company.

***Competition:*** The desktop market of the 3D printing industry is competitive with several direct competitors having much greater financial resources than the Company and operating experience. Furthermore, the desktop market is undergoing a period of rapid innovation with many of the participants striving to improve the technology and the flexibility of the products. These factors combine to make the competitive environment a substantial risk.

***Financing risks:*** The Company's existing financial resources have come from the issue of equity and, may be viewed as limited. Further the Company has negative operating cash flow and a cash balance of \$62,995 as at September 30, 2018. Therefore, without growth in operating cash flow the Company will require further equity capital injection(s) to sustain itself. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable.

***Dilution to the Company's existing shareholders:*** Any future equity issues may be dilutive to present and prospective holders of common shares.

***Regulatory requirements:*** The activities of the Company are subject to regulations governing various matters, including but not limited to standards and certifications for electronic devices, employment standards for employees engaged in manufacturing and assembly, export and import regulations and duties, and sales and goods and service tax compliance. While the Company endeavours to remain compliant in all such aspect, the inability to do so could have an adverse effect on its ability to continue to operate.

**Foreign currency risk:** The Company's functional and reporting currency is the Canadian dollar. The Company incurs foreign currency risk on purchases that are denominated in a currency other than the functional currency of the Company, which will have an impact on the profitability of the Company and may also affect the value of the Company's assets, liabilities and the amount of equity. The Company's main risks are associated with fluctuations in the US dollar as a substantial portion of its parts and materials purchases are denominated in US dollars and a portion of its sales are denominated in US dollars. The Company does not enter into any foreign exchange hedging contracts.

**REGISTERED OFFICE**

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**HEAD OFFICE and OPERATIONS**

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**OFFICERS & DIRECTORS**

Eugene Suyu  
*Director and CEO*

Justin Sy  
*Director and CFO*

Todd Blatt  
*Director*

*Bob Longo*  
*Director*

Daniel Cugnet  
*Director*

**LISTINGS**

TSX Venture Exchange: TTD.V  
OTC Pink: TKSTF  
FSE: WB6B

**CAPITALIZATION**

(as at September 30th, 2018)

Shares Issued: 49,238,349

**TRANSFER AGENT**

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