



## **TINKERINE STUDIOS LTD.**

(Formerly White Bear Resources Inc.)

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the six months ended June 30, 2015



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

**Form 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR**  
**Tinkerine Studios Ltd. (“the Company”)**  
**(Formerly White Bear Resources Inc.)**

This management discussion and analysis of financial position and results of operations (“MD&A”), prepared as of August 14, 2015, provides an analysis of the operations and financial results of Tinkerine Studios Ltd. (“the Company”) for the six months ended June 30, 2015, and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2015. Readers may want to refer to the December 31, 2014 audited financial statements and the accompanying notes which are available on [www.sedar.com](http://www.sedar.com).

The Company’s primary business is the design and distribution of 3D printers, software and related online educational content.

The financial information in this MD&A is derived from the Company’s unaudited condensed consolidated interim financial statements which have been prepared in Canadian dollars, in accordance with International Financial Reporting Standard (“IFRS”).

This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

**CAUTION REGARDING FORWARD-LOOKING INFORMATION**

This 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 plans 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 MD&A. 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. In particular, up to April 4, 2014 the Company was operating as a private company with constrained resources and such period forms approximately half of the comparative six-month period to June 30, 2014. Accordingly, drawing trends from the Company's limited operating history is difficult.

## OVERALL PERFORMANCE

The Company's principal business is the design and distribution of 3D printers, software and related online educational content. The Company is still in the phase of rolling out and ramping up its operations.

Highlights of the Company's activities for the six month period ended June 30, 2015:

- Tripled revenue in Q2 2015 to \$345,000 from \$108,000 in Q1 2015 ;
- Continued to expand and strengthen the dealer network for our Ditto™ Pro product and made 60% of our sales through dealers in Q2 2015 up from 49% in Q1 2015;
- Tinkerine's Ditto Pro was recognized at CES Asia 2015 as the best 3D printer product at the show, held in Shanghai in early June 2015; and,
- Completed the integration of our 3D printing software into Adobe's Photoshop Creative Cloud 2015 release.

## SUMMARY OF QUARTERLY INFORMATION

	Quarter ended:			
	"Q2 2015" June 30, 2015	"Q1 2015" March 31, 2015	"Q4 2014" December 31, 2014	"Q3 2014" September 30, 2014
Revenue	\$344,986	\$108,552	\$103,682	\$98,896
Net Income (Loss)	(340,076)	(528,624)	(\$512,791)	(\$536,382)
Net Comprehensive Income (Loss)	(338,665)	(475,027)	(\$507,727)	(\$531,210)
Basic and Diluted Loss per share	(0.01)	(0.01)	(0.01)	(0.01)
Number of shares outstanding (w. avg.)	42,026,505	42,026,505	41,966,751	41,769,005
	"Q2 2014" June 30, 2014	"Q1 2014" March 31, 2014		
Revenue	\$54,603	\$85,655		
Net Income (Loss)	(\$609,564)	8,224		
Net Comprehensive Income (Loss)	(\$1,669,539)	\$8,224		
Basic and Diluted Loss per share	(\$0.04)	\$0.00		
Number of shares outstanding (w. avg.)	41,660,733	12,000,000		

**Note:** The Company has not presented quarterly information for its past eight quarters as it has not prepared quarterly financial statements for such quarters as a private company in 2013.

## RESULTS OF OPERATIONS

### *Summary and Discussion of Quarter to Quarter results*

Revenue was \$344,986 in Q2 2015 showing threefold increase over the previous quarter and continued upward trend. In the current quarter our effective production capacity was materially expanded with our initial group of employees having substantially completed training and our initial dealer network appointments in place. In Q3 2014 a very small percentage of sales were made through dealers but by Q4 2014 approximately 40% of our sales were made through dealers, 49% in Q1 2015 and 60% in Q2 2015. This transition to a dealer model has been in accordance to our business plan and should show continued expansion in the second half of 2015.

In Q2 2014 and earlier, essentially all our sales were conducted through our on line store and were predominantly composed of our wooden framed models, the Ditto+ and Litto. In Q1 2014, the Company's sales benefited because industry publication, "Make Magazine" did a favorable product review on the Ditto+ in the November 2013 magazine. Between Q3 2014 and Q1 2015 we transitioned to focus on our Ditto Pro model. Q2 2015 showed the positive effects of this transition.

The Company's net loss for Q2 2015 dropped to \$340,076 having been higher in each of the earlier four quarters. This was caused by our threefold increase in sales in Q2 2015. However the composition of expenses showed some

variation. Total cash expenses were \$470,000 in Q2 2015: modestly down from \$490,000 in Q1 2015. Near the end of Q2 2015 we implemented measures to decrease cash expenses and our total cash expenses should show further moderation in each quarter in the latter half of 2015.

### **Analysis of Operating Results**

**Note: Information is presented for the three and six months ended June 30, 2015 and the corresponding comparative periods in 2014 where the information provides comparative insight. Up to April 4, 2014 the Company was operating as a private company with constrained resources and such period forms approximately half of the comparative six month period to June 30, 2014. Accordingly, drawing trends from comparison of current period operating results to comparative period is difficult.**

#### 1. Revenue

Revenue was \$453,528 for the six months ended June 30, 2015 versus \$140,261 for the comparative period 2014. Q2 2015 revenue of \$344,986 was over three times higher than any previous quarter and much higher than Q2 2014 of \$54,603 during which period we started or transition to focus on the Ditto Pro product. Effective production capacity increased in Q2 2015 as our initial production employees became fully trained. We also brought on additional dealers in Q2 2015 and expanded our sales channels. Dealer appointments will continue in Q3 2015 and beyond.

For Q2 2015, revenue was represented by 82% hardware sales, 11% filament and 7% services/miscellaneous. There was a 5% advance in service revenue in the quarter compared to previous quarters related to our activities with new dealers. The proportion of sales between hardware and filament remained similar, with filament sales (the consumable) growing in dollar terms as our 3D printer user base expands.

Hardware revenue for Q2 2015 was represented by the sale of 175 3D printers, compared to 54 in Q1 2015, 34 in Q2 2014 and 43 in Q1 2014.

#### 2. Gross Profit Margins

Gross profit for the three months ended June 30, 2015 was \$209,489 or 61% versus \$43,586 or 80% for the three months ended June 30 2014. For the six months ended June 30, 2015 gross profit was \$270,515 or 60% versus \$111,527 or 80% for the six months ended June 30 2014. Up to April 2014 limited wages were paid to the founders including those in production roles so comparative margins are skewed higher in each of Q2 2014 and the first half of 2014. The three and six month 2015 gross profit percent of 61% and 60% are non-GAAP due to being normalized for one time production training and start-up expenses of \$38,608 (three months) and \$76,284 (six months). After deducting such training and start-up costs Q2 2015 gross margin is \$170,881 or 49.5%. The Q2 2015 non-GAAP margin of 61% benefited from the higher proportion of sales made up from service activity as discussed in the revenue section. In the current quarter we substantially completed training of our production employees and this is the final quarter for which we will separate such costs. We project our gross margins to settle to approximately 50% once our dealer network is fully implemented.

#### 3. Expenses

In Q2 2015 the Company incurred \$510,957 of total expenses compared to \$653,150 in Q2 2014. For the six months ended June 30, 2015 total expenses were \$1,062,932 versus \$711,668 for the six months ended June 30, 2014. The Company's RTO occurred in April 2014 and expenditures prior to that time were more limited. In aggregate our business expansion and rate of expanding expenses has leveled off and in fact declined in certain areas.

Highlighted quarterly expenses include the following:

- Remuneration and benefits of \$183,166 for Q2 2015 versus \$91,339 for Q2 2014 and versus \$204,917 for Q1 2015. Staff additions were substantially completed by early in Q1 2015 and reached a steady state in Q2 2015.
- Stock based compensation was \$34,525 in Q2 2015 versus approximately \$262,000 in Q2 2014. This is a non-cash expense and represents the fair value of stock options granted and outstanding using a Black Scholes calculation. Under IFRS, the expense is recognizes as the options vest each quarter with a larger proportion of the expense recognized in earlier quarters. The majority of stock options to employees, directors

and consultants were granted by in Q2 2014, therefore the expense recognition of this initial issuance declines over the ensuing four quarters.

- Professional and consulting fees were \$73,571 for Q2 2015 versus \$132,425 in Q2 2014. For the six months ended June 30, 2015 they were \$160,570 versus \$136,109 in the comparative six month period in 2014. In Q2 2014 professional fees were high due to completion of the RTO. We expect somewhat lower consulting fees in the latter quarters of 2015 compared to the level in Q2 2015 due to cost cutting measures.
- Product promotion, trade shows and travel were \$58,352 for Q2 2015 versus \$61,770 in Q2 2014 and \$125,751 for the six months ended June 30, 2015 versus \$97,289 in the comparative six months of 2014. These costs predominantly relate to marketing, branding, advertising and attending trade shows and we strive to maintain meaningful marketing activities each quarter but such costs not incurred completed evenly from period to period.
- Shareholder communications, filing and transfer agency fees were \$80,051 in Q2 2015 versus \$52,325 in Q2 2014. These costs reflect the cost of being publicly listed and disseminating news and shareholder information. During Q2 2015 we had our AGM and related preparation costs, therefore costs were higher in this quarter and we also conducted increased investor relations activities. We expect these expenses to be somewhat lower in the latter quarters of 2015 compared to the level in Q2 2015 due to the AGM seasonality and cost cutting measures.

#### 4. Other Income and Expenses

During Q1 2015 the Company completed a research and development project that was partially funded by the National Research Council of Canada for which we recognized grant income of \$50,000 in the six months ended June 30, 2015.

In Q2 2014 the Company completed its RTO and the calculated transaction costs, a non-cash item, was \$1,061,174, which was recognized in the six months ended June 30, 2014.

#### **LIQUIDITY**

As at June 30, 2015, the Company had working capital of \$903,502 (December 31, 2014 – \$1.58 million) and a cash position of \$460,262 (Dec. 31, 2014 – \$1,471,072).

During the first six months of 2015 the Company increased its investment in inventory by approximately \$81,000 to \$316,883 and also increased Prepaids and Deposits by \$139,000 due substantially to deposits on overseas parts purchases. Accounts Receivable increased by \$136,000 due to our substantial increase in sales in Q2 2015. These three items are uses of cash and form part of our working capital balance.

During the six months ended June 30, 2015 the Company consumed approximately \$704,000 in funds for operations, before the change in working capital item described above. Q1 2015 cash consumption from operations was \$405,000 and \$299,000 during Q2 2015. If the Company is successful in achieving its objective of continuing to increase sales over the coming quarters, the cash consumed in future quarters should decrease.

The Company expects it will need to raise further equity to continue the expansion of its business, either through the exercise of warrants and/or through additional equity placements.

#### **CAPITAL RESOURCES**

As at June 30, 2015, the Company's share capital was \$4,005,662 representing 42,548,349 issued and outstanding common shares without par value. During the first six months of 2015 563,000 warrants were exercised into common shares for proceeds of \$56,300. Reserves, representing the fair value of stock options outstanding and vested and warrants issued, is recorded at \$589,331. The net decrease of approximately \$12,000 in Reserves during the first half of 2015 is for the calculated charge for Stock-based Compensation of \$96,905 less transfers to Deficit of \$107,852 to account for stock options cancelled.

As at June 30, 2015 the Company has 4,014,000 stock options outstanding with a weighted average exercise price of \$0.23 and an average remaining term of 3.3 years. Warrants outstanding include 6,106,175 at \$0.10 and a further 6,990,500 warrants exercisable at \$0.40 all of which will expire in the fourth quarter of 2015.

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

## **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 within desktop segment (sometimes referred to as the consumer segment) of the 3D printing industry. The desktop segment has really only existed since 2008. Although fast growing, the whole segment can be viewed as being an early adopter stage market. The ability for the Company to successfully negotiate this market setting comprises a substantial risk.

**New Product Launch:** The Company has launched three generations of products since its inception in May 2012. It is currently putting considerable resources into its third generation product, the Ditto Pro. Additionally, the Company is investing in software development and the development of online courses and curriculum for the education sector. The ability to manage such product launches in a timely and cost effective manner, and achieve the desired results in terms of market penetration, comprises a substantial risk.

**Young Company and its stage of development:** The Company has only operated since May 2012 and most of the time since then has been in the start-up and product development phase. Management's ability to manage a fast growth enterprise and put sufficient operating procedures and controls in place comprises 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 segment of the 3D printing industry is already competitive with several direct competitors having much greater financial resources than the Company and also greater length of operating experience. Furthermore, the desktop segment is going through a period of rapid innovation with many participants striving to drive down the price at which they can offer products. These factors combine to make the competitive environment a substantial risk.

**Financing risks:** The Company existing financial resources have come from the issue of new equity and, in an international setting, can be viewed as limited. Further the Company has negative operating cash flow and a cash balance of \$460,262. 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 permissions 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 while its US dollar sales are a lesser proportion. The Company does not enter into any foreign exchange hedging contracts.

## **OUTSTANDING SHARE DATA**

The Company's authorized capital is unlimited common shares without par value. As at August 14, 2015 the following common shares, options and share purchase warrants were outstanding:

<b>As at August 14, 2015</b>	<b>Number issued and outstanding</b>
Common Shares	42,548,349
Stock Options	3,905,000
Warrants	13,096,675
Fully Diluted	<u>59,550,024</u>

In the first half of 2015 563,000 warrants with an exercise price of \$0.10 were exercised into common shares.

## **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 June 30, 2015 is \$22,909 (December 31, 2014 - \$23,045) due to officers in the normal course of business.

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

During the six months ended June 30, 2015, the officers of the Company were paid salaries or independent contractor fees as follows: Eugene Suyu, CEO, \$30,000 (six months ended June 30, 2014 - \$7,260); Martin Burian, CFO, \$54,000 (comparative period 2014 - \$27,000) and Todd Blatt, VP Market Direction, \$20,773 (comparative period 2014 - \$9,150). John Veltheer was paid independent contractor fees of \$10,000 in the six months ended June 30, 2015 (comparative period 2014 - \$5,000) in his capacity as a director and member of the audit committee. In aggregate Stock-based compensation of \$25,349 was attributable to options held by directors and officers in the six months ended June 30, 2015 (comparative period 2014 - \$88,959).

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

The following individuals were re-elected director at the June 15, 2015 AGM and continue to the date of this MD&A:

- Desmond Liew -- Chairman and Director
- Eugene Suyu -- Chief Executive Officer and Director
- Martin Burian -- Executive Vice-President, Chief Financial Officer, Secretary and Director
- Todd Blatt -- Director and Vice-President of Market Direction
- John Veltheer -- Director

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements as at June 30, 2015 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 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 August 14, 2015.

**ADDITIONAL INFORMATION**

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

**REGISTERED OFFICE**

800 – 885 West Georgia Street  
Vancouver, British Columbia, Canada  
V6C 3H1

**HEAD OFFICE and OPERATIONS****Tinkerine Studios Ltd.**

341 W 6<sup>th</sup> Avenue  
Vancouver, British Columbia, Canada  
V5Y 1L1

**OFFICERS & DIRECTORS**

Eugene Suyu  
*Director and CEO*

Martin Burian, CA, CBV  
*Director, Secretary and CFO*

Todd Blatt  
*Director and VP Market Direction*

Desmond Liew  
*Chairman of the Board*

John Veltheer, PhD  
*Director*

**LISTINGS**

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

**CAPITALIZATION**

(as at August 14 2015)

Shares Issued: 42,548,349

**TRANSFER AGENT**

Computershare  
3<sup>rd</sup> Floor, 510 Burrard Street  
Vancouver, British Columbia  
V6C 3B9

**AUDITOR**

Dale Matheson Carr-Hilton LaBonte LLP  
1500 – 1140 West Pender Street  
Vancouver, British Columbia  
V6E 4G1

**LEGAL COUNSEL**

Clark Wilson LLP  
800 – 885 West Georgia Street  
Vancouver, British Columbia  
V6C 3H1