



## **TINKERINE STUDIOS LTD.**

(Formerly White Bear Resources Inc.)

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the three months ended March 31, 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 May 23, 2015, provides an analysis of the operations and financial results of Tinkerine Studios Ltd. (“the Company”) for the three months ended March 31, 2015, and should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 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;
- 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, during the comparative three month period to March 31, 2014 the Company was operating as a private company with constrained resources dates. 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 initial business operations.

Highlights of the Company's activities for the three month period ended March 31, 2015 (also referred to as "Q1 2015") and subsequent period to May 23, 2015:

- Appointed four dealers internationally to sell our Ditto™ Pro product and made 49% of our sales through dealers in Q1 2015;
- Fully launched our online education platform for 3D printing, Tinkerine U;
- Release an iPad App for the education sector containing our instructional videos and training information;
- Completed a National Research Council funded research project;
- Continued the ramp up of our Vancouver assembly facility and training of production employees.

## **SUMMARY OF QUARTERLY INFORMATION**

	Quarter ended:			
	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Revenue	\$108,552	\$103,682	\$98,896	\$54,606
Net Income (Loss)	(528,624)	(\$536,804)	(\$536,382)	(\$585,551)
Net Comprehensive Income (Loss)	(475,027)	(\$531,740)	(\$531,210)	(\$1,645,526)
Basic and Diluted Loss per share	(0.01)	(0.01)	(0.01)	(\$0.04)
Number of shares outstanding (w. avg.)	42,026,505	41,966,751	41,769,005	41,660,733
	March 31, 2014			
Revenue	\$85,655			
Net Income (Loss)	8,224			
Net Comprehensive Income (Loss)	\$8,224			
Basic and Diluted Loss per share	\$0.00			
Number of shares outstanding (w. avg.)	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 \$108,552 showing a continued upward trend over earlier quarters. The last three quarters have been characterized by the introduction of the Ditto Pro, the ramp up of our assembly facility, training of our production employees and appointment of initial dealers. 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 and 49% in Q1 2015. This transition to a dealer model has been in accordance to our business plan and will accelerate in coming quarters.

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. Starting in Q3 2014 we began the transition to focus on our Ditto Pro model and that transition has been substantially completed in the last two quarter.

The Company's net loss in each of the past four quarters has been similar. However the composition of expenses showed some variation. While Stock based compensation, non-cash expense (as calculated using the Black Scholes option pricing model and set out in the notes to the financial statements), went from Q2 2014: \$261,000 to Q3:

\$147,000 to Q4: \$89,000 to Q1 2015 of \$62,380 because of recognizing this expense as vested with the grading method, all other expenses in total went from approximately Q2 2014: \$368,000, Q3: \$435,000 to Q4: \$490,000 and Q1 2015: \$490,000. This build in cash expenses has leveled off in the current quarter as we have the organizational components in place to execute the expansion of our business. Moving forward we expect total cash expenses to increase by modest increments.

### ***Analysis of Operating Results***

**Note: Information is presented for the three months ended March 31, 2015 and the corresponding comparative period in 2014 where the information provides comparative insight. In many reporting areas, particularly expenses, comparison to Q4 2014 provides more meaningful insight and is therefore provided.**

#### **1. Revenue**

Revenue was \$108,542 for the three months ended March 31, 2015 versus \$86,655 for the comparative period 2014 and \$103,682 in Q4 2014. Production continued to be constrained in Q1 2015 due to start up and training of production employees.

For Q1 2015 revenue was represented by 88% hardware sales, 10% filament and 2% services/miscellaneous. These percentage revenue mix are similar to prior periods.

Hardware revenue for Q1 2015 was represented by the sale of 54 3D printers, versus 56 in Q4 2014, 50 in Q3 2014, 34 in Q2 2014 and 43 in Q1 2014. Q3 2014 marks the change in product focus to the Ditto Pro. Average selling price per unit has increased a small amount due a higher portion of sales going to the United States and the Company realizing a higher per unit price denominated in Canadian dollars as the Canadian dollar exchange rate has weakened compared to prior quarters. This trend will be counteracted as we sell more through dealers and therefore sacrifice some of the margin to dealers. From Q3 2014 to Q1 2015 production procedures have been refined and production staff trained, constraining effective production capacity. During this same time period we have transitioned to a dealer sales model and appointed several dealers for our Ditto Pro model. Q4 2014 and Q1 2015 sales through dealers still represent their initial orders, with more regular order activity expected to commence by late Q2 2015 and certainly into Q3 2015. By the fall of 2015 we expect to have a substantial dealer network in place.

#### **2. Gross Profit Margins**

Gross profit for the three months ended March 31, 2015 was \$61,027 or 56% versus \$66,742 or 78% for the three months ended March 31 2014. In Q1 2014 limited wages were paid to the founders including those in production roles. 2014. The Q1 2015 gross profit percent of 56% is non-GAAP due to being normalized for one time production training and start-up expenses. After deducting such training and start-up costs Q1 2015 gross margin is \$23,351 or 21.5%. We project our margins to settle to approximately 50% once our training is completed and our dealer network fully implemented.

#### **3. Expenses**

In Q1 2015 the Company incurred \$551,975 of total expenses compared to \$579,000 in Q4 2014 (Q1 2015 is not comparative at \$58,000; the RTO having not occurred until Q2 2014 and therefore the Company having available funds to expand its business materially). In aggregate our business expansion and rate of expanding expenses has leveled off. Some quarter-to-quarter changes are as follows:

Highlighted expenses include the following:

- Remuneration and benefits of \$204,917 for Q1 2015 versus \$199,462 for Q4 2014 are similar due staff additions being substantially completed by early in Q1 2015.
- Stock based compensation was \$62,380 in Q1 2015 versus approximately \$89,000 in Q4 2014. This is a non-cash expense and represents the fair value of stock options granted using a 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. The majority of stock options to employees, directors and consultants were granted by mid-2014, therefore expense recognition is declining over time.

- Professional and consulting fees of \$86,999 for Q1 2015 versus \$78,029 in Q4 2014, show similar levels with the increase caused by year end audit fees getting settled after year end.
- Product promotion, trade shows and travel \$67,399 in Q1 2015 versus \$36,217 in Q4 2014. These costs predominantly relate to marketing, branding, advertising and attending trade shows and Q1 2015 was up due to attendance at several trade shows and also advertising in industry periodicals.
- Shareholder communications, filing and transfer agency fees were \$51,228 in Q1 2015 versus \$62,588 in Q4 2014. These costs reflect the cost of being publicly listed and disseminating news and shareholder information. They will remain at these levels and possibly higher in Q2 2015 due to AGM and related mailing costs.

#### 4. Other Income

During the quarter 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. This project has not yet been incorporated into a commercial project. Note that R&D in our financial statements only record fees paid to external consultants and supplies, whereas we have certain personnel that regularly participate in R&D efforts for which the expense goes to Remuneration and Benefits, which costs formed part of those for which we received funding.

#### **LIQUIDITY**

As at March 31, 2015, the Company had working capital of \$1.2 million (December 31, 2014 – \$1.58 million) and a cash position of \$967,249 (Dec. 31, 2014 – \$1,471,072).

Importantly the Company has expanded finished goods inventory at March 31, 2015 to approximately \$103,000 and now has reasonable inventory levels to manage dealer orders in a timely manner. This is the first time we have been in this position. Total inventory stands at approximately \$300,000 and we expect to expand inventory over the coming quarters to closer to \$400,000 as we complete our production capability expansion and maintain adequate inventory levels for our dealer network which is still being expanded.

During the Q1 2015 the Company incurred \$18,098 to develop digital content for our education initiative "Tinkerine U" which is recorded as an intangible asset. In March 2015 opened our Tinkerine U content and peer-to-peer ecosystem on the internet. Intangible asset carrying costs of \$155,871 has been assessed to not have any impairment, nor has the Company begun to amortize the intangible as the underlying asset has yet to be placed into revenue producing activities.

During the second or third quarter 2015 the Company expects to raise further equity and therefore the working capital required to continue the expansion of its business, either through the exercise of warrants and/or through additional equity placements.

#### **CAPITAL RESOURCES**

As at March 31, 2015, the Company's share capital was \$3,995,662 representing 42,448,349 issued and outstanding common shares without par value. The only increase in Q1 2015 was caused by the exercise of 463,000 warrants for proceeds of \$46,300. Reserves, representing the fair value of stock options issued and vested and warrants issued, is recorded at \$639,710. The net increase of approximately \$40,000 in Reserves during Q1 2015 is for the calculated charge for Stock-based Compensation less transfers to Deficit to account for stock options cancelled.

The Company has 4,178,000 stock options outstanding with a weighted average exercise price of \$0.23 and an average remaining term of 3.5 years. Warrants outstanding include 6,206,175 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 limited operating cash flow. 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 device, 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 ("US") 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 May 23, 2015 the following common shares, options and share purchase warrants were outstanding:

<b>As at May 23, 2015</b>	<b>Number issued and outstanding</b>
Common Shares	42,548,349
Stock Options	3,933,000
Warrants	13,096,675
Fully Diluted	<u>59,578,024</u>

In Q1 2015 463,000 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 March 31, 2015 is \$22,909 (December 31, 2014 - \$23,045) due to officers in the normal course of business.

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

During the three months ended March 31, 2015, the officers of the Company were paid salaries or independent contractor fees as follows: Eugene Suyu, CEO, \$15,000 (Q1 2014 - \$2,184); Martin Burian, CFO, \$27,000 (Q1 2014 - NIL) and Todd Blatt, VP Market Direction, \$10,543 (Q1 2014 - NIL). John Veltheer was paid independent contractor fees of \$5,000 (Q1 2014 - NIL) in his capacity as a director and member of the audit committee.

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

The following individuals have been directors and officers since the 2014 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 March 31, 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 May 23, 2015.

**ADDITIONAL INFORMATION**

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

**REGISTERED OFFICE**

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**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 May \_\_\_\_, 2015)

Shares Issued: 42,448,349

**TRANSFER AGENT**

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