



TINKERINE STUDIOS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended June 30, 2016



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

MANAGEMENT DISCUSSION AND ANALYSIS

FOR

Tinkerine Studios Ltd. (“the Company”)

President’s Message

At Tinkerine Studios, we have our eyes set on achieving what we believe will truly be revolutionary. This is reinforced by past achievements of the world’s most user friendly and award winning hardware, as well as Tinkerine U, our education STEAM based platform.

The 3D Printing space is evolving at an incredible pace; the acceleration will only get faster. With growth of the industry comes a need for power tools that are simple to use. More importantly, it comes with a necessity for skill sets, ease of use, knowledge, and utmost care in customer service. These are the foundations of what will continue to move us alongside our customers, as a company that will bring them true value in how they use our product and services. Our expansion strategy requires a dedicated focus and is not without risk of the long term. For us, execution is everything. A well thought out execution plan and our ability to act, will determine how well we mitigate the risks of this strategy.

Our mission is our core

To simplify the tools, to expand the human mind, and to allow for new creations to emerge is not only how we bring forth new products. Our executional strategy is based on this core foundation, and our measurement of success pulls from metrics that we believe will be indicative of a market leadership in what 3D printing should have. To educate and build an environment of learning in our platform, customer satisfaction, and revenue growth. As we expand, we will continue to invest in our 3D printing products and training platform.

I would like to bring highlight to the whole Tinkerine team for their continuing dedication in seeing our company succeed. I also thank our shareholders for their support as we execute our business strategy and look forward to future developments and regular updates on our expansion.

Sincerely,

Eugene Suyu
President and CEO,

Tinkerine Studios

Financial Highlights

	Six Months Ended June 30th 2016	Six Months Ended June 30th 2015	Q2 Ended June 30th 2016	Q2 Ended June 30th 2015	Q1 Ended Mar 31st 2016	Q1 Ended Mar 31st 2015
Revenue	\$ 450,399	\$ 453,528	\$ 278,710	\$ 344,986	\$ 171,689	\$ 108,552
Cost of Goods Sold	275,272	259,296	168,155	135,497	107,117	85,191
Gross Margin	175,127	194,232	110,555	170,881	64,572	23,361
EBITDA	(372,501)	(762,222)	(158,019)	(299,062)	(214,480)	(405,966)
Net Income (Loss)	(501,327)	(868,700)	(190,103)	(340,076)	(311,224)	(525,037)
Net Comprehensive Income (Loss)	(501,326)	(813,692)	(190,103)	(338,665)	(311,223)	(475,027)
Basic and Diluted income(loss) per share	-0.01	-0.02	0.00	-0.01	-0.01	-0.01
Weighted average number of common shares						
Basic and Diluted	46,180,338	42,026,505	46,180,338	42,026,505	43,192,195	42,026,505

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

August 29, 2016

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 six months ended June 30, 2016. 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, 2015 audited financial statements and the accompanying notes which are available at 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 related online educational content market.

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

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, in accordance with International Financial Reporting Standard ("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.

Q2 2016 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

- Q2 2016 revenue of \$278,710 was 62% above Q1 2016 revenue of \$171,689. Q2 2015 revenue was \$344,986.
- Revenue for the first 6 months ended June 30 is flat to a year ago. In analyzing the revenue there was growth in the Canadian market of 8% and the US market of 19% but this growth was offset by the lower revenue of 76% in the Other markets as we shifted our focus to the North American market where we expect to see economies of scale in our sales and marketing expenses in the next 2 months
- Tinkerine continue to seek opportunities to expand its sales channels and dealer network, that will position it to grow the sales revenue in the next 2 quarters. The Company strategic focus is to build, expand and strengthen the dealer network for our Ditto™ Pro 3D printers with primary focus on the United States.

- In the first 6 months of 2016 revenue derived by geographic segment was Canada – 312,293 and United States – 123,209 and Other is \$14,897 versus geographic segmented sales in the first 6 months in 2015 of Canada – \$288,426, United States – 103,332 and Other – 61,770
- The new Tinkerine U platform was launched in July and the company will utilize this platform for part of their sales, marketing and education initiatives

Q2 loss before interest, taxes, depreciation, amortization, foreign exchange gains and losses and stock-based compensation (EBITDA) improved by \$141,043 to a loss \$158,019 in Q2 2016 compared to a loss of \$299,062 in Q2 2015.

The Company's net loss for Q2 2016 dropped to \$190,103 compared to the net loss of \$340,076 in Q2 2015. This improvement is attributable to the implemented cost measures to decrease our controllable expenses and our total cash expenses to approximately \$268,955 in Q2 2016 from \$469,943 in Q2 2015.

Q2 2016 Financial Highlights

- **Maintained sales revenue to a year ago.**
- **41% decrease in expenses.**
- **Decrease in EBITDA in Q2 2016 of \$158,019 compared to \$299,062 in Q2 2015.**
- **Working capital decreased in Q 2 2016 to \$676,514 from \$903,502 in Q2 2015.**
- **An improvement of 71% in the quarterly cash deficit from operating activities of \$302,597 in Q2 2016 versus deficit of \$1,039,578 in Q2 2015.**

Detailed Discussion and Analysis of Operating Results for the Periods Ended June 30 2016 and June 30 2015

1. Revenue

Revenue for Q2 2016 was \$278,710 for the three months ended June 30, 2016 versus \$344,986 for the comparative period Q2 2015. For the six month period ended June 30 2016, the revenue was \$450,399 versus \$453,528 in 2015

For Q2 2016, revenue was represented by 83% hardware sales, 12% filament and 5.0% services/miscellaneous. Comparatively revenue for Q2 2015 was represented by 88% hardware sales, 10% filament and 2% services/miscellaneous

The number of 3D printers sold in Q2 2016 was represented by the sale of 120 3D printers compared to 168 3D printers sold in the second quarter of 2015

Filament Revenue for Q2 2016 is \$43,164 compared to \$46,089 in Q2 2015. Sales can be directly attributed to the volume decrease in printer sales and the Company offset this volume by expanding the product line and increased the variety of filaments available for use with the 3D printer

2. Gross Profit Margins

Gross profit for the three months ended June 30, 2016 was \$110,555 or 45% versus \$209,489 or 61% for the three month ended June 30, 2015. The comparative gross margin of 61% is non-GAAP due to being normalized for a one-time production and training cost which would reduce the comparative to a gross margin of \$170,881 or 49.5% Comparative margins are skewed higher in the three months ended June 30, 2015 due to limited wages paid to the founders in production roles over that period. Gross profit for the six months ended June 30 2016 is \$175,127 or 39% versus \$194,232 or 43% in 2015.

3. Expenses

In Q2 2016 the Company incurred \$300,658 of total expenses compared to \$510,957 in Q2 2015, a reduction of \$210,299 in total expenses. For the six months ended June 30, 2016 total expenses were \$676,454 versus \$1,062,932 for the six months ended June 30, 2015, a reduction of \$386,478. The Company's RTO occurred in April 2014 and expenditures prior to that time were more limited. The Company has implemented measures to decrease its controllable expenses and the total cash expenses to approximately \$266,307 in Q2 2016 from \$470,001 in Q2 2015. For the six months ended June 30, 2016 total cash expenses were \$546,773 versus \$953,165 for the six months ended June 30, 2015. We continue to review departmental budgets and corporate spending in certain areas and these are further discussed below.

Highlighted quarterly expenses include the following:

- Remuneration and benefits was significantly lower at \$102,521 for Q2 2016 versus \$183,166 for Q2 2015. For the six months ended June 30, 2016 remuneration and benefits also trended lower at \$234,283 versus \$388,083 for the six months ended June 30, 2015. Staffing levels were adjusted in all functional areas, including the adjustment in business development and investor relations staff. Also the Chief Financial Officer was internally replaced in January 2016 by one of the founders
- Stock based compensation was \$12,768 in Q2 2016 versus approximately \$34,525 in Q2 2015. For the six months ended June 30, 2016 stock based compensation was \$92,107 versus \$96,905 for the six months ended June 30, 2015. 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. In Quarter 1 the directors passed a resolution to amend the exercise price on all 2,425,000 issued options to \$0.075. Also in Q1 key employees were issued with a total of 1,075,000 share options at the exercise price of \$0.075. In Q2 key personnel were issued with a total of 1,195,000 share options at the exercise price of \$0.075.
- Professional and consulting fees were \$50,419 for Q2 2016 versus \$73,571 in Q2 2015. For the six months ended June 30, 2016 professional and consulting fees was \$83,276 versus \$160,570 for the six months ended June 30, 2015. During the first six months of 2016 we continued to review consulting costs particularly expenses related to consultant and investor relations.
- Product promotion, trade shows and travel was \$15,238 for Q2 2016 versus \$58,352 in Q2 2015. For the six months ended June 30, 2016 product promotion, trade shows and travel was \$26,106 versus \$125,751 for the six months ended June 30, 2015. We amended our trade show strategy and focused on selective trade shows where key metrics including leads and attendance versus expense were used to determine participation in the trade show. 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.

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.

LIQUIDITY

As at June 30, 2016, the Company had net working capital of \$676,514 compared to \$718,159 at December 31, 2015. Our cash position was \$228,152 at the end of Q2 2016 compared to \$200,748 at December 31, 2015. This improved liquidity is due to the injection of funds of \$330,000 from the private placement in March and April and the initiatives to reduce cash expenses.

In Q2 2016 the Company's investment in inventory was \$528,841 with inventory Finished Goods being \$271,935 compared to \$238,340 at December 31, 2015. This increase in 3D printer inventory improves our ability to fulfil dealers' orders in a timely manner and provides the infrastructure to onboard larger dealers. Prepaid and Deposits were \$45,720 at June 30, 2016 versus \$40,023 in December 31, 2015 and these payments are related to prepayment of overseas parts purchases.

At the time of release of this MD&A management believes the Company is presently operating with adequate 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. However, any unforeseen downturn in sales or, alternatively, pursuit of a more aggressive growth strategy would necessitate further equity investment.

CAPITAL RESOURCES

As at June 30, 2016, the Company's share capital was \$4,344,412 representing 49,238,349 issued and outstanding common shares without par value. In March and April 2016, 6,600,000 common shares were issued at \$0.05 in a private placement. Also, 6,600,000 warrants were issued on a one for one basis as part of the same private placement. Reserves, representing the fair value of stock options outstanding and vested and warrants issued, is recorded at \$458,687. The net increase of approximately in Reserves during the first six months of 2016 is for the calculated charge for Stock-based Compensation of \$92,107

As at June 30, 2016 the Company has 4,135,000 stock options outstanding with a weighted average exercise price of \$0.075 and an average remaining term of 3.8 years. Warrants outstanding include 6,600,000 at \$0.10 which expire 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 August 18, 2016, the following common shares, options and share purchase warrants were outstanding:

As as August 14, 2016	Number of Issued and outstanding
Common Shares	49,238,349
Stock Options	4,135,000
Warrants	6,600,000
	<u>59,973,349</u>

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, 2016 is \$10,070.84 (December 31, 2015 - \$11,546) due to officers in the normal course of business.

Key management personnel compensation

During the six months ended June 30, 2016, the officers of the Company were paid salaries or independent contractor fees as follows: Eugene Suyu, CEO, \$30,000 (2015 - \$30,000); Justin Sy Interim CFO, \$22,500 (2015 - \$19,500). In aggregate Stock-based compensation of \$8119,63 was attributable to options held by directors and officers in the six months ended June 30, 2016 (2015 - \$17,556).

Officers and directors

The following individuals were re-elected or elected director at the June 24, 2016 AGM and continue to the date of this MD&A. The board changes include the appointment of Mr. Bob Longo as Director and the resignation of Martin Burian as Director and CFO effective February 19th, 2016

- Desmond Liew -- Chairman and Director
- Eugene Suyu -- Chief Executive Officer, President and Director

- Justin Sy – Director and CFO
- Todd Blatt -- Director and Vice-President of Market Direction
- Bob Longo - Director

Martin Burian resigned as CFO and director effective February 19th 2016

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements as at March 31, 2016 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 August 26, 2016

ADDITIONAL INFORMATION

Additional information relating to the Company is on SEDAR at 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 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 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 also more 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 existing financial resources have come from the issue of new equity and, may be viewed as limited. Further the Company has negative operating cash flow and a cash balance of \$228,152, as at June 30, 2016. 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.

Corporate Information

REGISTERED OFFICE

1500-1055 West Georgia Street
Vancouver, British Columbia, Canada
V6E 4N7

HEAD OFFICE and OPERATIONS

Tinkerine Studios Ltd.

341 W 6th Avenue
Vancouver, British Columbia, Canada
V5Y 1L1

OFFICERS & DIRECTORS

Eugene Suyu
Director and CEO

Justin Sy
Director and CFO

Todd Blatt
Director and VP Market Direction

Desmond Liew
Chairman of the Board

Bob Longo
Director

LISTINGS

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

CAPITALIZATION

(as at June 30th, 2016)

Shares Issued: 49,238,349

TRANSFER AGENT

Computershare
3rd 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

McMillan LLP
Royal Centre
1500-1055 West Georgia Street
Vancouver, British Columbia
V6E 4N7