



**LX VENTURES INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE THREE AND SIX MONTH PERIODS ENDED**

**JANUARY 31, 2013 AND 2012**



## TO OUR SHAREHOLDERS

April 1, 2013

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of LX Ventures Inc.'s ("LXV" or the "Corporation") operating and financial results for the interim period ended January 31, 2013, compared to the preceding year, as well as information and expectations concerning the Corporation's outlook based on currently available information. This report is dated **April 1, 2013**.

On November 23, 2012, LXV received shareholder approval to change its name from Intensity Company Inc. to LX Ventures Inc. and continue into the province of British Columbia. The Corporation completed the continuation into British Columbia from the province of Alberta and its name change on December 6, 2012. This MD&A, therefore, should be read in conjunction with the audited consolidated financial statements of Intensity Company Inc. for the years ended July 31, 2012 and 2011. Additional information is available at [www.sedar.com](http://www.sedar.com).

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the condensed consolidated interim financial statements and MD&A, is complete and reliable. The Corporation's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's audit committee meets with management no less than quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

### CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking information including the Corporation's future plans. The use of any of the words "target", "plans", "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. Such forward looking information, including but not limited to statements pertaining to Corporation's future plans and management's belief as to the Corporation's potential involve known and unknown risks, uncertainties and other factors which may cause the actual results of the Corporation and its operations to be materially different from estimated costs or results expressed or implied by such forward-looking statements. Forward looking information is based on management's expectations regarding future growth, results of operations, future capital and other expenditures (including the amount, nature and sources of funding for such expenditures), business prospects and opportunities. Forward looking information involves significant known and unknown risks and uncertainties, which could cause actual results to differ materially from those anticipated. These risks include, but are not limited to: the risks associated with the commercial viability of any technologies the Corporation is in the process of developing or deploying, delays or changes in plans with respect to any technologies, costs and expenses, health, safety and environmental risks, the risk of foreign exchange rate fluctuations, risks and uncertainties associated with securing the necessary regulatory approvals and financing to proceed with any planned business venture, product development or deployment, and risks and uncertainties regarding the potential to economically scale and bring to profitability any of the Corporation's current or planned endeavors. Although the Corporation has attempted to take into account important factors that could cause actual costs or results to differ materially, there may be other factors that cause the results of the Corporation's business to not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. See the *Risk Management* section of this MD&A for a further description of these risks. The forward-looking information



included in this MD&A is expressly qualified in its entirety by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking information.

## 1. SUMMARY OF OPERATIONS, EVENTS AND FUTURE PLANS

The Corporation was originally incorporated under the *Business Corporations Act* (Alberta) on November 19, 1998 and has been in the business of selling computer hardware and software products. At the Annual General and Special Meeting of shareholders held on Friday, November 23, 2012 the shareholders of the Corporation voted to change the name of the Corporation to LX Ventures Inc. and continue the Corporation into British Columbia under the *Business Corporations Act* (British Columbia).

After incurring losses in the computer hardware and software business, management devoted considerable energy to searching for a potentially profitable business opportunity, preferably in the software technology sector. A business plan was developed that involved internally innovating several software-based businesses by providing strategic capital, management expertise and the Corporation's networking capabilities to advance technology startups with significant profit potential. The keys to this business plan were twofold: acquiring the management expertise capable of designing and implementing the strategy, and raising sufficient capital to ensure success. The Corporation has further developed that strategy to include developing and/or acquiring technology platforms that can be leveraged through multiple lines of business the Corporation is engaged in.

On October 26 the Corporation announced that it completed a private placement for aggregate proceeds of \$2,216,500, and on November 15, 2012 the Corporation announced wholesale management changes that it believes make the plan achievable.

### *Recent Management and Board Changes*

The management changes announced on November 15, 2012, resulted in a new slate of executives and directors that immediately began working on transitioning the Corporation from a hardware and software distributor into a vertically integrated high-growth technology company. LXV is now positioned to leverage its unique human, financial, and venture capital experience to develop innovative and leading edge products for the high-technology marketplace. Moving forward, LXV will be focused on incubating, accelerating and acquiring technologies that can benefit from internally-developed growth platforms, and be deployed in multiple lines of business. Key appointments were as follows:

*Mike Edwards, Chief Executive Officer* – Mr. Edwards is a life long entrepreneur who has started and invested in technology companies for over 20 years. Prior to taking the lead at Growlab, a Vancouver-based technology accelerator, he co-founded Initio Group and co-founded AreaConnect, a localized search directory, which sold to Marchex in 2006 and provided a significant return to its shareholders. Over the last few years, Mr. Edwards has invested in more than 35 technology startups including Punch'd, which sold to Google in July 2011, Artsicle, Summify, which sold to Twitter in January 2012, Hoseanna, LaunchRock, and Rewardli, as well as Dave McClure's 500 Startups venture capital fund.

*Ray Walia, Chief Operating Officer* – Mr. Walia is a successful entrepreneur with over 13 years of experience in multiple businesses spanning across a variety of industries with two successful exits. Mr. Walia co-founded and is the Executive Director of the non-profit Launch Academy, which is a high-energy reaction chamber where a tech start-up's evolution can be ignited and accelerated through the fundamental theories of Lean Startup, customer development, innovation, accounting, metrics, and accountability.



*Kevin Rathbun, Chief Financial Officer* – Mr. Rathbun was previously CFO of Realm Energy International Corporation and is currently a director of Newstrike Capital Inc. (TSXV:NES). Prior to that, he was a partner with Watershed Capital Partners, where he facilitated numerous successful merger, acquisition and divestiture transactions. He holds the designation of Chartered Financial Analyst as well as a degree in Commerce from Royal Roads University.

*Brady Fletcher, Director* – Mr. Fletcher started his investment banking career with Canaccord Genuity, subsequently moving to Byron Capital Markets at the end of 2011. He has since launched an independent advisory practice, Sea to Sky Equities, in early in 2012. Throughout his career Brady has assisted a wide range of corporate clients - ranging from resource companies to technology, sustainability, and diversified industrial companies worldwide. In the process, he developed a reputation for the ability to expertly understand clients' strategic objectives and seek the best possible outcomes in financing, advisory, and strategic services for clients. Presently a director with Chrysalix Energy Venture Capital, he's responsible for the development of strategic relationships and advising the fund's portfolio on execution of different financing strategies. He holds a Bachelor of Science in Computer Engineering from Queen's University.

Concurrently with the above-mentioned management changes, the Corporation also received the resignation of Mark Ferguson as a director, Keir Reynolds as chief financial officer and Richard Grayston as president and chief executive officer. Mr. Reynolds remains on the board and has been appointed executive chairman. Mr. Grayston has since resigned as a director.

#### ***Development of LXV's Business***

LXV has started to aggressively roll out its business plan, making significant progress in all facets of its business plan.

#### ***Internal development***

LXV is aggressively pursuing an internal innovation strategy to create value in the digital technology sector through launching, integrating and acquiring early-stage high-growth companies in the FinTech, HealthTech and AdTech market verticals.

On January 30, 2013, the Corporation made its first foray into the FinTech sector, announcing the launch of *Fodio*, a wholly-owned subsidiary that provides core business support services including accounting, admin and human resources to small to medium-sized businesses. Cloud accounting has disrupted the traditional accounting industry in a profound way over the last few years and is pushing much more of the financial reporting back into the hands of business owners and employees who once had the assistance of experienced bookkeepers and accountants. Today, there are dozens of cloud accounting SaaS and mobile app choices, leaving many businesses unsure of proper suitability, feature fit and correct setup.

Fodio is a hybrid back office and cloud accounting solution encompassing the functions of what a traditional bookkeeper, accountant or CFO would perform. Fodio provides custom tailored setup of software for the individual needs of a business while continuing to provide remote back office services and the tracking of vital data for businesses.

#### ***Expansion of Expertise through Advisory Board***

On February 12, 2013, LXV significantly strengthened its business and technical expertise when it announced the formation of an Advisory Board populated by highly successful business people. These individuals bring a depth of experience to LXV, which management believes will help accelerate the deployment of its business plans. The appointees to the Advisory Board were:



- *David Baxby* – Mr. Baxby is currently the Co-CEO of Virgin Group with responsibility for all of Virgin Group's global investments. He spent 10 years with Goldman Sachs in London and Sydney before joining Virgin Management in 2004 to establish the Sydney office as the CEO of the Asia Pacific region. Since then he has served as a Director of Virgin Mobile, Virgin Active, Virgin Money and Virgin Australia with responsibility for the group's investments in these businesses. Mr. Baxby moved to Shanghai in 2006 to establish a number of startup businesses in the Asia Pacific region and in 2008 moved to Geneva to assume responsibilities for the Virgin Group's investments in Aviation. In 2008, he joined the Board of Virgin Atlantic, Virgin America and Air Asia X and became Chairman of Virgin Unite in Australia, the Virgin Group's charitable foundation.
- *Lance Tracey* – Mr. Tracey co-founded PEER 1 Hosting with Mark Teolis in 1999. Until its acquisition in January 2013 by Cogeco Cable for \$526 million, he sat as the chairman of the Board of Directors and between 2005 and 2007 took over as the president and chief executive officer. Lance has long been a technology enthusiast, and has been involved in a variety of high-tech ventures throughout his career. Lance has co-founded Sutton Group Realty Services, Internet Direct, E-xact Transactions and Bryght.com. Today, he is an active early-stage investor who recently joined forces with Boris Mann to launch Full Stack, a new investment vehicle they're calling "napkin capital."
- *Reza M. Kazemipour* – Mr. Kazemipour has more than 20 years of experience in sales, strategy, investments and business leadership roles in the software industry. Mr. Kazemipour is currently CEO of Oris4, an enterprise cloud search service, and serves as a board advisor to many Silicon Valley and Canadian Start-up's. He also acts as a mentor to accelerators/incubators like, GrowLab, UpWest Labs, and Media Camp, (a Turner Broadcasting unit). Prior the advisory roles, Mr. Kazemipour was CRO at Ryma Technology, (Acquired by OneDesk), CEO/Founder of AltosMedia, and an "EIR", Entrepreneur-In-Residence at Clearstone Venture Partners. He held executive management positions at Siderean (Acquired by OpenText), Fast Search & Transfer (Acquired by Microsoft), Cerebra (acquired by Webmethods), and Selectica.

#### *Technology Acquisitions*

LXV's first acquisition of technology was completed on November 12, 2012, when the Corporation acquired all of the issued and outstanding share capital of GSD Technologies Inc. in exchange for 2,800,000 common shares of LXV. GSD owns a suite of web-based and mobile solutions that enable investors to gain and compile crowd-sourced stock market data. Its solutions provide the power of a highly scalable software platform in a lightweight on-line and mobile tool that works with existing social networks, making it easy and affordable for investors of any size to design and launch their own crowdsourced data campaigns. Subsequent to the purchase of GSD, certain former shareholders of GSD were appointed as officers and/or elected to the board of directors of LXV.

On February 13, 2013, LXV expanded its technology base in the sector when it acquired the crowdfunding platform Weeveit.it. Since its launch in July 2012, Weeve has helped dozens of nonprofits by providing a simple and effective platform to increase their fundraising efforts, making it easier to raise funds as compared to traditional fundraising methods. Weeve was featured in major media outlets including TechVibes, TechCrunch, The Digital Journal and The Huffington Post. Weeve was named as one of the "top 6 coolest companies to watch" by The Metro and described as the startup "set to disrupt nonprofit fundraising" by The Digital Journal. In addition to the technology's application in the crowdfunding space, LXV plans to take Weeve's sophisticated framework and repurpose it for use in other industries that are ready for disruption.

#### *Strategic Alliances*

LXV has also recently formed strategic alliances by way of investment in the software services sector. These alliances include:



- *Battlefy* – an online destination for gamers to play and watch e-Sports (competitive play of video games). After profiting from hosting local gaming competitions, the founders moved Battlefy to Los Angeles to scale the monetization of e-Sport leagues, catering to 300+ million players worldwide.
- *7 Geese* – a social performance management tool for the agile and entrepreneurial workforce to track goals, receive recognition, and gather feedback.
- *Wyley Interactive* – a simple to use mobile engagement network powered by the playing of mobile games to earn customer specific incentives that users actually want and use. Currently, more than 650 million people are playing games on their smart phones and Wyley aims to connect brands and consumers through the power of mobile gaming.
- *Metadig Media* – an application that is revolutionizing local search by uncovering the most covert, unique, and unexpected locations around the world.
- *Payroll Hero* – a consumer friendly, cloud based application that focuses on increasing the efficiency of employee scheduling and payroll processes. This application has been built for web and mobile devices with a focus on businesses in Asia.
- *Skyscraper* – a digital advertising management solution for publishers that offers a drag-and-drop interface for placing ads on major web publishing platforms like WordPress, Tumblr and Squarespace.
- *Perch Communications* – Perch is the first hands-free video communication app for iPod Touch, iPad or iPhone designed to let families stay connected using wall mounted iOS devices in the home. Perch's facial detection technology and motion detection technology allows automatic communication to people within the group.

### ***Capital Raising Activities***

On October 12, 2012 the Corporation closed the first tranche of a non-brokered private placement initially announced on September 20, 2012 and issued 19,715,000 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of \$1,971,500 (the "First Closing"). Each Unit consisted of one common share and one half of a common share purchase warrant of the Corporation, with each whole warrant entitling the holder to purchase one additional common share of the Corporation at price of \$0.30 per share for a period of 18 months from the date of issue (the "Warrants"). If at any time after the date of issue the closing price of the common shares of LXV on the TSX Venture Exchange is greater than \$0.50 per share for 10 consecutive trading days, the Corporation may give written notice to warrant holders that the Warrants will expire 30 calendar days after the date of such notice.

On October 26, 2012 the Corporation closed the second tranche of the non-brokered private placement originally announced on September 20, 2012, and issued 2,450,000 Units at a price of \$0.10 per Unit for gross proceeds of \$245,000 (the "Second Closing").

The fair value of the Warrants issued in connection with the First Closing was calculated using the Black-Sholes option pricing model, resulting in \$173,935 of the First Closing being allocated to warrant reserves. The remainder was recorded as common shares. The fair value of the Warrants issued in connection with the Second Closing was calculated using the Black-Sholes option pricing model, resulting in \$18,314 of the Second Closing being allocated to warrant reserves. The remainder was recorded as common shares.



## 2. EARNINGS AND EXPENSES

Following is a discussion of the Corporation's consolidated financial results for the three and six month periods ended January 31, 2013 and 2012. The condensed consolidated interim financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". All inter-company balances and transactions have been eliminated upon consolidation.

### *Revenue*

The Corporation reported revenues of \$Nil for the three and six month periods ended January 31, 2013, compared to revenues of \$21,096 and \$40,705 for the same periods in the prior year. The decline in revenue is due to the Corporation's recent change of focus and exit from computer hardware and software sales due to the lack of profitability associated with those activities.

### *Loss and Loss Per Share*

For the three and six month periods ended January 31, 2013 the Corporation's net and comprehensive loss was \$404,491 and \$496,686 respectively, compared to net and comprehensive losses of \$45,895 and \$92,015 for the corresponding periods in the prior year. The increase in the Corporation's net and comprehensive losses during the current fiscal year is attributable to the Corporation's current and aggressive business development strategy, and to the granting of stock options during the period. Share-based payments accounted for nearly 60% of expenses during the three month period ended January 31, 2013, and nearly 50% of expenses for the six month period ended January 31, 2013.

Loss Per Share for the three and six month periods ended January 31, 2013 was a loss of \$0.01 and \$0.02 respectively, compared to a loss per share of \$0.01 and \$0.02 for the corresponding periods in the prior year. The unchanged losses per share reported for the three and six month periods ended January 31, 2013, in spite of increased net and comprehensive losses, were due to a significantly larger number of common shares outstanding during the current periods as compared to the prior year. The increase in the weighted average common shares outstanding for the current periods offset the increase in net and comprehensive loss. The weighted average shares outstanding for the three month period ended January 31, 2013 were 30,261,767, and for the six month period ended January 31, 2013 were 20,169,485. This compares to a weighted average number of shares outstanding of 5,631,550 for the corresponding periods for the prior year.

### *Cost of Sales*

Cost of sales for the three and six month periods ended January 31, 2013, were \$Nil, compared to \$19,690 and \$27,654 for the same periods in the prior year. Cost of sales were \$Nil as the Corporation reported no sales revenues for the three and six month periods ended January 31, 2013.

### *Operating, General and Administrative Expenses*

Operating, general and administrative expenses for the three and six month periods ended January 31, 2013, were \$404,941 and \$496,686 respectively, compared to \$82,670 and \$140,435 for the corresponding periods in the prior year. The increase in operating, general and administrative expenses for the period is due to the reasons described above under "Loss and Loss Per Share". Additionally, share-based payments accounted for nearly 60% of expenses during the three month period ended January 31, 2013, and nearly 50% of expenses for the six month period ended January 31, 2013.



During the three month period ended January 31, 2013, the Company granted 2,425,000 stock options to directors, officers, and consultants of the Company, with a fair value of \$240,840. All options vested immediately, and the full value of the stock options was recognized during the period. The weighted average fair value of these stock options was \$0.10 per option.

### 3. ASSETS

Current assets held by the Corporation as of January 31, 2013 consisted of cash in the amount of \$1,043,097 (July 31, 2012 - \$1,546) and accounts receivable in the amount of \$29,773 (July 31, 2012 - \$3,001). Accounts receivable comprise excise taxes recoverable.

The Corporation's other assets consist of intangible assets and investments. During the three month period ended January 31, 2013, the Company acquired all of the issued and outstanding shares of GSD Technologies Inc. for consideration consisting of 2,800,000 common shares of the Company. GSD owns a suite of web-based and mobile solutions that enables investors to gain and compile crowd-sourced stock market data. The fair value of GSD's assets and liabilities as of November 12, 2012, the date of acquisition, consisted entirely of technology related intangible assets the net assets of GSD acquired were valued at \$392,000, all of which was attributed to technology-related intangible assets.

Also during the three month period ended January 31, 2013, the Corporation solidified a series of strategic relationships through investments in several companies (described above in *Section 1 – Summary of Operations, Events, and Future Plans*). As of January 31, 2013, the Corporation's investments consisted of the following:

<b>Investments</b>	<b>As at January 31, 2013</b>
Equity investments	220,000
Convertible notes	125,000
Promissory notes	150,000
	<b>495,000</b>

### 4. LIQUIDITY AND CAPITAL RESOURCES

At January 31, 2013, the Corporation had working capital of \$1,049,704 compared to a working capital deficiency of \$392,048 at July 31, 2012.

Management's intention for the remainder of fiscal 2013 is to continue to acquire and develop high-impact technologies. Management believes it has adequate resources on hand to fulfill all of its activities planned for fiscal 2013. There is no assurance, however, that the Corporation's capital resources will be sufficient to cover all of its business initiatives. If its capital resources are insufficient, the Corporation may have to raise additional capital in the future, or reduce its discretionary expenditures.

### 5. SELECTED ANNUAL INFORMATION

The following table provides a brief summary of the Corporation's financial operations for the three most recently completed fiscal years. For more detailed information pertaining to the Corporation, please see annual audited financial statements and MD&A for 2012 and prior years, which are available at [www.sedar.com](http://www.sedar.com).





**SELECTED ANNUAL INFORMATION**

Year ended July 31,	2012		2011		2010	
Revenue	\$	45,018	\$	175,547	\$	253,244
Cost of sales	\$	29,127	\$	113,963	\$	192,438
Expenses	\$	217,834	\$	178,216	\$	206,608
Other income (expenses)	\$	39,716	\$	-	\$	(19,692)
Net earnings (loss)	\$	(162,227)	\$	(116,632)	\$	(165,494)
Earnings (loss) per share, basic and fully diluted	\$	(0.03)	\$	(0.02)	\$	(0.05)
Cash	\$	1,546	\$	15,873	\$	11,385
Working capital (deficiency)	\$	(392,048)	\$	(238,854)	\$	(122,780)
Total assets	\$	4,547	\$	37,964	\$	52,275
Total long-term liabilities	\$	-	\$	-	\$	-
Shareholders' equity	\$	(392,048)	\$	(237,279)	\$	(120,647)
Cash dividends	\$	-	\$	-	\$	-

The Corporation presently does not pay any dividends on its common shares and has no intention of paying dividends on its common shares, as all available funds will be used to develop the Corporation's business for the foreseeable future.

**6. SELECTED QUARTERLY INFORMATION**

The following table provides a brief summary of the Corporation's financial results for each of the eight most recent quarters. For information pertaining to the Corporation's quarterly results, please refer to the financial statements and MD&A for each period presented, which are available at [www.sedar.com](http://www.sedar.com).

**SUMMARY OF QUARTERLY RESULTS**

Quarter ended	Jan. 31 2013	Oct. 31 2012	Jul. 31 2012	Apr. 30 2012	Jan. 31 2012	Oct. 31 2011	Jul. 31 2011	Apr. 30 2011
Revenue	\$ -	\$ -	\$ 4,313	\$ -	\$ 21,096	\$ 19,609	\$ 8,655	\$ 69,437
Cost of sales	-	-	1,473	-	19,690	7,954	20,107	18,837
Expenses	404,941	91,745	40,522	36,877	82,670	57,765	125,474	15,409
Forgiveness of debt	-	-	-	4,347	35,369	-	-	-
Net earnings (loss)	(404,941)	(91,745)	(37,682)	(32,530)	(45,895)	(46,120)	(136,926)	35,191
Earnings (loss) per share, basic and fully diluted	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)	0.01
Cash	1,043,097	1,791,941	1,546	1,710	4,680	11,745	15,873	5,816
Working capital (deficiency)	1,049,704	1,683,804	(392,048)	(355,635)	(330,665)	(284,872)	(238,854)	(102,068)
Total assets	1,974,870	1,829,055	4,547	33,530	44,211	37,453	37,964	56,103
Total long-term liabilities	-	-	-	-	-	-	-	-
Shareholders' equity	1,936,704	1,708,804	(392,048)	(354,366)	(329,294)	(283,399)	(237,279)	(100,353)
Cash dividends	-	-	-	-	-	-	-	-



## 7. RELATED PARTY TRANSACTIONS

During the three and six month periods ended January 31, 2013, the Corporation entered into the following transactions with related parties:

- Paid or accrued management fees of \$30,000 for the three month period ending January 31, 2013 (2012 - \$Nil) and \$46,700 for the six month period ended January 31, 2013 (2012 - \$Nil) to a corporation controlled by the Chief Executive Officer of the Company;
- Paid or accrued management fees of \$30,000 for the three month period ending January 31, 2013 (2012 - \$Nil) and \$47,500 for the six month period ended January 31, 2013 (2012 - \$Nil) to a corporation controlled by the Chief Operating Officer of the Company;
- Paid or accrued management fees of \$15,000 for the three and six month periods ending January 31, 2013 (2012 - \$Nil) to a corporation controlled by the Chief Financial Officer of the Company;
- Paid or accrued management fees of \$22,500 for the three month period ending January 31, 2013 (2012 - \$Nil) and \$27,500 for the six month period ended January 31, 2013 (2012 - \$Nil) to a corporation controlled by the Executive Chairman of the Company;
- Paid or accrued management fees of \$15,500 for the six month period ended January 31, 2013 (2012 - \$81,662) to individuals who were formerly directors or officers of the Company, and a privately owned corporation controlled by a former director of the Company;
- Paid or accrued rent for office premises of \$7,500 for the three month period ending January 31, 2013 (2012 - \$15,000) and \$8,750 for the six month period ended January 31, 2013 (2012 - \$30,000) to companies affiliated with or owned or controlled by current or former directors of the Company.

During the prior three month period ending January 31, 2012, a related party forgave the Corporation of debt owed to such related party in the amount of \$35,369.

All related party transactions were in the normal course of business and have been measured at the agreed upon exchange amounts, which is the amount of consideration established and agreed to by the related parties. The exchange amounts approximate fair values.

## 8. FUTURE ACCOUNTING CHANGES

The IASB has made the pronouncements described below related to accounting changes, which have not yet been adopted by the Corporation. As of the date hereof, the following standards, amendments and interpretations have not been early adopted and are not expected to have a material effect on the Corporation's future results and financial position:

### *Financial Instruments*

The IASB intends to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in three phases, of which the first phase has been published. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. For financial liabilities, the approach to the fair value option may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is currently effective for annual periods beginning on or after January 1, 2013. However, the IASB has published an exposure draft which



proposes to extend the mandatory effective date to January 1, 2015. The Corporation is currently assessing the impact of this standard.

#### ***Fair Value Measurement***

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Prospective application of this standard is effective for fiscal periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation is currently assessing the impact of this standard.

#### ***Reporting Entity***

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangement", IFRS 12, "Disclosures of Interest in Other Entities" and amendments to both IAS 27, "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates". IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangement by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation to arrangements that meet the definition of a joint operation. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint venture will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles. Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted if all of the standards are collectively adopted. The Corporation is currently assessing the impact of these standards.

#### ***Presentation of items of other comprehensive income***

In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements", requiring corporations to group items presented within other comprehensive income based on whether they may be subsequently reclassified to profit or loss. Retrospective application of this amendment is effective for fiscal years beginning on or after July 1, 2012, with earlier adoption permitted. The Corporation does not expect a significant impact upon implementation of the amended standard.

## **9. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, accounts receivable, investments in convertible notes, investments in promissory notes, trade and other payables, loans payable and borrowings from related parties. As at January 31, 2013, there are no significant differences between the carrying amounts of these items and their estimated fair values. The carrying value of these items approximates their fair values due to their immediate or short-term maturity.

The Corporation's financial instruments are exposed to certain financial risks. The Corporation has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and funding risk, interest rate risk, and currency risk (see *Section 10 – Risk Management*).



At initial recognition, the Corporation classifies all financial instruments as held-to-maturity, available-for-sale, held-for-trading, loans and receivables, financial liabilities measured at amortized cost or financial assets and liabilities measured at fair value. Financial assets held to maturity, loans and receivables and financial liabilities, other than those measured at fair value, are measured at amortized cost. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the statement of operations. Instruments classified as available for sale are measured at fair value with unrealized gains and losses included in other comprehensive income.

The Corporation has classified its financial instruments as follows:

Cash and cash equivalents	Measured at Fair Value – “Held for trading”
Short-term investments	Measured at Fair Value – “Held for trading”
Accounts receivable	Loans and accounts receivable
Accounts payable and advances	Other liabilities

The carrying amount for cash, accounts receivable, deposits, convertible notes and promissory notes on the balance sheet approximate their fair value due to the current nature of these instruments. Accounts payable and advances are measured at amortized cost. Management has determined that the carrying value approximates fair value.

## 10. RISK MANAGEMENT

Early stage technology companies face many risks. While management is unable to eliminate risks, the Corporation is intent on identifying and mitigating such risks as much as is reasonably possible.

Many early stage technology companies are unsuccessful in achieving development and of their product or commercialization thereof due to external factors that cannot be predicted, anticipated, or controlled by management, and even one such factor may result in the economic viability of a particular project being detrimentally impacted to the point where it is not feasible nor economical to proceed. The Corporation frequently evaluates and monitors its activities and the risk factors which could impact those activities, and makes timely decisions in regard to risk management. Management occasionally seeks the assistance of experienced professionals when appropriate to address risks.

Risks faced by the Corporation include:

- Credit risk
- Liquidity risk and funding risk
- Interest rate risk
- Market risk

The Board of Directors approves and monitors the risk management processes.

### *Credit Risk*

Credit risk is the risk of potential loss to the Corporation if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Corporation is associated with cash and accounts receivable, investments in convertible notes, and investments in promissory notes. Management believes that the credit risk with respect to cash is minimal as balances are held with a high-credit quality financial institution.



There were no provisions recorded for bad debts during the period ended January 31, 2013. The Corporation believes that credit risk associated with its financial instruments is low and that no provision for bad debts is warranted with respect to financial instruments currently held.

#### ***Liquidity Risk and Funding Risk***

The Corporation's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising of funds to meet commitments and sustain operations. The Corporation controls liquidity risk by management of working capital and cash flows.

#### ***Interest Rate Risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation manages its financial instruments with the objective of minimizing potential interest rate risk, which generally means avoiding interest-bearing obligations other than in unusual circumstances.

#### ***Market Risk***

The Corporation's exposure to financial market risk is limited as there are no financial instruments which fluctuate as a result of changes in prices quoted in open markets.

### **11. ACCOUNTING POLICIES & USE OF CRITICAL ESTIMATES**

For a complete summary of the Corporation's use of critical estimates, accounting policies and future accounting policies see Notes 2 and 3 of the accompanying condensed consolidated interim financial statements for the three and six month periods ended January 31, 2013, and the Corporation's audited consolidated financial statements for the year ended July 31, 2012.

### **12. TRANSITION TO IFRS**

As result of the Accounting Standards Board of Canada's decision to adopt International Financial Reporting Standards ("IFRS") for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Corporation adopted IFRS in its financial statements for the year ending July 31, 2012, making them the first annual financial statements of the Corporation under IFRS. The Corporation previously applied the available standards under Canadian generally accepted accounting principles ("Canadian GAAP") that were issued by the Accounting Standards Board of Canada. An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position and financial performance and cash flows is set out in this section of the MD&A.

The accounting policies set out in Note 3 of the Corporation's audited consolidated financial statements for the year ended July 31, 2012, have been applied in preparing the financial statements for the year ended July 31, 2012, the comparative information presented in the financial statements for the year ended July 31, 2011, the preparation of an opening IFRS balance sheet at August 1, 2010 (the Corporation's date of transition), and for subsequent years as applicable.

#### ***IFRS initial elections upon adoption***

IFRS 1 First-time Adoption of International Financial Reporting Standards generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.



The IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS are as follows:

Estimates

The estimates previously made by the Corporation under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Corporation has not used hindsight to create or revise estimates.

Business Combinations

The Corporation elected under IFRS 1 to exempt the restatement of business combinations occurring before the transition date required under IFRS 3.

Transition to IFRS

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to the recognition, measurement and disclosure. Management has determined that adoption of IFRS has not resulted in changes to the Corporation's financial position and equity as at August 1, 2010, July 31, 2011, and July 31, 2012, the statement of comprehensive loss for the years ended July 31, 2012 and 2011, and the net cash flows for the years ended July 31, 2012 and 2011 reported under Canadian GAAP. Thus, no reconciliations have been presented.

Warrant Reserves

Under Canadian GAAP, amounts recorded in relation to the fair value of warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified as warrant reserves.

Renaming

The Corporation has renamed certain line items in the condensed consolidated financial statements as required by IFRS and where it was considered more meaningful or provided better comparison to financial statements of other companies:

- i) Contributed surplus has been renamed as share-based payments reserve.
- ii) Accounts payable and accrued liabilities have been renamed as trade and other payables.
- iii) Amortization and accumulated amortization have been renamed as depreciation and accumulated depreciation.

### 13. OUTSTANDING SHARE DATA

As of January 31, 2013, there were 30,596,550 common shares issued and outstanding. The Corporation had 2,425,000 stock options outstanding and 11,082,500 share purchase warrants outstanding as of the same date. As of January 31, 2013, the Corporation had the following common share purchase warrants issued and outstanding:

Date of Issue	Number of Warrants	Exercise Price	Expiry Date	Exercised to Date	Remaining Outstanding	Assigned Value
Oct. 12, 2012	9,857,500	\$ 0.30	Apr. 12, 2014	-	9,857,500	\$ 173,935
Oct. 26, 2012	1,225,000	\$ 0.30	Apr. 26, 2014	-	1,225,000	\$ 18,314
Total	11,082,500			-	11,082,500	\$ 192,249



As of January 31, 2013, the Corporation had the following stock options issued and outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, August 1, 2011	-	\$ -
Stock options granted (Feb. 3, 2012)	100,000	\$ 0.10
Balance, July 31, 2012	100,000	\$ 0.10
Stock options forfeited (Sept. 24, 2012)	(100,000)	\$ 0.10
Stock options granted (Nov. 15, 2012)	2,425,000	\$ 0.16
Balance, January 31, 2013	2,425,000	\$ 0.16

The following events occurred subsequent to the period end:

- On March 12, 2013, the Corporation issued 50,000 common shares in exchange for gross proceeds of \$8,000 pursuant to the exercise of 50,000 stock options.

The number of common shares outstanding as of the date of this MD&A is 30,646,550, and the fully diluted share capital of the Corporation, consisting of 30,646,550 common shares issued and outstanding, 11,082,500 share purchase warrants, and 2,375,000 stock options outstanding and exercisable (including unvested options), as at the date of this MD&A is 44,104,050, common shares.

#### 14. CORPORATE INFORMATION

##### Directors and Officers

Keir Reynolds, Executive Chairman and director  
Mike Edwards, CEO and director  
Ray Walia, COO and director  
Brady Fletcher, director  
Derek Lew, director  
Kevin Rathbun, CFO

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**Stock Exchange Listing**

TSX Venture Exchange  
Symbol: LXV