

Business Update (June 2013) - Bubble Gum Interactive (BGI)

Company Outlook

- Although we have not realized our growth and revenue targets for the Space Heroes Universe virtual world, generally the company is in good shape with evolving opportunities for growth for both the Space Heroes Universe virtual world and mobile games.
- Current operational burn rate under 100K per month and a runway out to January 2014 based on current cash in bank, modest revenues, EOFY13 R&D Tax rebate and EMDG reimbursements.
- Management continues to focus on business development aimed at increasing revenue for SHU, including licensing opportunities. In addition, we are also focused on the mobile gaming space, a market experiencing tremendous growth and with opportunities available for niche games developers like us.
- Essentially, it is earlier in the mobile games cycle than the virtual worlds cycle, and the potential for monetization is much higher, due to rapid device proliferation and different focus for our mobile games i.e. on broader audiences, focusing on adults instead of solely on kids. Our first title Jetpack Jinx is officially launching on Tango tomorrow as the first game on the Tango mobile platform (>120 million users) and we're expediting development of further titles including Cake Bake Blitz slated for launch in July. (For reference, here is an interesting report (<http://www.indexventures.com/blog#post/627>) about the games studio SuperCell, generating >\$2.5M per day).

Space Heroes Virtual World

- Current revenue from the virtual world is about \$20,000 per month, with the ARPPU being around \$48 over an 8 month tenure. Conversion of users hitting the website is strong with 20-25% of UV's becoming free members, however retention is low, which is affecting the number of paid subscriber conversions based on a lower free player base.
- The company are expecting a small uplift in revenues beginning in July with SHU expansion into South America and Asia via game cards and affiliate deals with Click Jogos and potentially also Asia Network (currently in early discussions). Generally though, the SHU virtual world will not meet revenue targets sufficient to see a transformational change in company earnings. There are a combination of factors attributing to the modest performance, mainly –
 - a significant downturn in the virtual worlds industry given migration of kids globally to mobile gaming
 - a lack of flash on mobile support by Adobe, and
 - a lack of a marketing budget for continued user acquisition.
- The downturn in the marketplace has seen several virtual worlds close and scale back, with MiniMonos recently announcing closure, and Disney's APAC office also closing Club Penguin operations. See some recent press below –
 - Moshi Monsters CEO "The shift to mobile took us by surprise"
<http://www.guardian.co.uk/technology/blog/2013/may/18/acton-smith-moshi>
 - MiniMonos is closing: <http://lancewigg.com/2013/05/01/minimonos-is-closing-minomonsters-is-hiring/>
- We are confident we can continue to grow SHU in the current environment, given the product's quality and popularity. Lacking a marketing budget, the main SHU strategic focus continues to be on –

- o affiliate distribution deals
- o merchandise licensing deals (as a revenue and distribution channel) with partners Wild Pumpkin (Australia), Empire Multimedia (SEA) and AT New Media (UK), and we are currently scoping US and Brazil partners.
- o cloud gaming enablement with potential partners Ubitus, to allow the virtual world to be played on tablets (currently this is not possible, as it is built in flash).
- In regards to the current retention issues, the Company continues to look at ways of increasing retention, with ongoing success, however this is small and generally slow going. Recently the company engaged Robb Beeston former head of Disney Online Worlds APAC to consult on a combination of user acquisition, retention and business development strategies. This is ongoing and results will be reported in the next investor update.

Mobile Games Strategy

- Over the last 12 months, the company has made good investments in mobile as a sideline to the SHU virtual world, and importantly has developed a rapid development framework based on the HAXE programming language that allows us to develop games for iOS, Android and Windows using a single code base. We chose HAXE since it has a very similar programming structure to AS3 (flash), meaning the team have been able to port their significant flash skills directly into making mobile games.
- Recently our focus has turned to freemium mobile monetization strategies with Paul Gray leading the charge here in regards to formulating best in practice monetization strategies, with the management team very confident our slate of upcoming titles will generate significant revenue given appropriate market exposure and distribution.
- The mobile games market is also very challenging to monetize, as it is typically a freemium marketplace that's fairly saturated with titles. However we have been very fortunate to have struck a recent revenue sharing distribution deal with the mobile instant messaging platform Tango (120M users) – thanks to IT-Farm and Bill Tai who have also invested in Tango and helped with the introduction and negotiations. IMPORTANTLY - The news is currently under PR embargo, but as of tomorrow, Tango will officially launch its mobile gaming service with Bubble Gum (and Game Loft) being the first publishers on the platform. This is a huge win for us, with Tango promising to push advertising to 5 million users per month with the aim to maximize installs and generate revenue from in app purchases.
- The first title Jetpack Jinx has been completely rebuilt for monetization and the updated app is now available on the App Store (with Google version launching in July). It features a very comprehensive IAP and social gaming feature set based on our new learning's. A second flagship title will follow in July – Cake Bake Blitz, as the fourth or fifth title on Tango. To give some further context, please see some recent press below about Tango and similar products using gaming services to generate significant revenues (since inherently the messaging service itself is free).
 - o LINE reports \$60M quarterly revenue (Q1, 13) <http://techcrunch.com/2013/05/09/line-reports-q1-2013-earnings-of-58-9m-half-from-game-in-app-purchases-30-from-stickers-80-from-japan/>
 - o Kakao reports \$42M revenue in 2012 <http://e27.co/2013/04/22/the-kakao-story-rising-from-the-ashes-of-failure-and-being-lean/>
- We are following on from the Tango relationship with additional discussions (again thanks to IT Farm) with LINE (150m users) and weChat (300m users) and hope to strike similar deals. Phil Mason met with

LINE in Japan last week, with discussions starting off well and progressing. LINE was very impressed with our game quality, monetization strategies and focus on story and audience experience.

- Given the increased focus on Mobile games and a major opportunity for the company, we have a slate of 4 titles in development, all for release with different partners by October, and all in key (high value) gaming categories. These include the Cake Bake Blitz match 3 game, Run n' Gun, Stunt Riding Game, and a Bubble Shooter based on a ghost hunting theme. Importantly, our audience focus has shifted too, with the company aiming all development at the 25-50 age range, regardless of the family friendly nature of all titles and additional appeal to kids. We are also looking at the pre-school market, as this is also easier to monetize, and generally based on paid up from Apps. It's likely we'll have a product for this market niche too by the end of Q1 2014, pending distribution opportunities.

Breakeven Projections and Capital Raising

- Although we require more data, management are hoping that the mobile opportunities will generate significant income to realize breakeven by end of year.
- It is not expected that breakeven will come from the SHU virtual world in 2013. Management are currently looking at strategies to grow the financial position for the company beyond revenue opportunities, including a major application to the Federal government's new Game Australia Fund for \$450,000 to be decided in mid-June.
- We are also assessing the market conditions and company value proposition for another potential equity capital raise, which would start in August if mobile revenue growth is not in line with expectations.

Other News and Marketing Highlights

- The team presented at 'The Making of a Mobile Game at Vivid Sydney' on 30th May at the Museum of Contemporary Art Australia. This provides a welcomed opportunity to showcase the company's capabilities with significant opportunities for additional press.
- The Space Heroes Universe cartoons are an effective content marketing strategy, with a low cost production but high impact, particularly in supporting the brand in lieu of a major marketing budget. Episode 2 has already received coverage in the animation industry press and will be available in 3-4 weeks once the music is finished.

Next Investor Update and Investor Day in the Studio

- We'll be sending out another investor update towards the end of August. We will provide an update to the status and performance of the new mobile games and status of the Space Heroes virtual world. We will aim to have an Investors day in the Studio in the first or second week of September

Sydney Angel Sidecar Fund Investment

- Cost of Investment \$500,000
- Book Value \$900,000