

Power Play Development Corporation and Subsidiary

*Consolidated Financial Statements
as of and for the Years Ended
December 31, 2006 and 2005, and
Report of Independent Registered
Public Accounting Firm*

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of Power Play Development Corporation and Subsidiary

We have audited the accompanying consolidated balance sheets of Power Play Development Corporation and Subsidiary (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, and audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Power Play Development Corporation and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, has limited net equity, and has a net working capital deficiency which raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Carlin Charron & Rosen LLP

Boston, Massachusetts
October 5, 2007

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 87,686	\$ 157,482
Accounts receivable	<u>60,912</u>	<u>-</u>
Total current assets	148,598	157,482
PROPERTY AND EQUIPMENT—Net	<u>226,549</u>	<u>388,675</u>
TOTAL	<u>\$ 375,147</u>	<u>\$ 546,157</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 124,389	\$ 41,900
Notes payable to officers	<u>61,050</u>	<u>30,050</u>
Total current liabilities	<u>185,439</u>	<u>71,950</u>
COMMITMENTS AND CONTINGENCIES (Note 5)		
SHAREHOLDERS' EQUITY:		
Convertible preferred stock— \$0.001 par value—8,000,000 shares authorized; 2,991,092 shares issued and outstanding at December 31, 2005	-	2,991
Common stock, \$0.001 par value—100,000,000 shares authorized; 35,008,707 restricted and 3,350,000 unrestricted shares issued and outstanding at December 31, 2006; 88,000,000 shares authorized; 19,370,221 restricted shares issued and outstanding at December 31, 2005	38,358	19,370
Additional paid-in capital	3,291,816	767,284
Common stock subscribed	200,000	-
Subscription receivable	(200,000)	-
Accumulated deficit	<u>(3,140,466)</u>	<u>(315,438)</u>
Total shareholders' equity	<u>189,708</u>	<u>474,207</u>
TOTAL	<u>\$ 375,147</u>	<u>\$ 546,157</u>

See notes to consolidated financial statements

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
REVENUE		
Hosting services	\$ 163,500	\$ -
Advertising	<u>70,017</u>	<u>-</u>
Total revenue	233,517	-
COST OF REVENUE	<u>524,331</u>	<u>-</u>
GROSS MARGIN	<u>(290,814)</u>	<u>-</u>
OPERATING EXPENSES:		
Sales and marketing	116,181	12,624
Research and development	415,237	23,053
General and administrative	<u>2,002,796</u>	<u>249,703</u>
Total operating expenses	<u>2,534,214</u>	<u>285,380</u>
NET LOSS	<u>\$ (2,825,028)</u>	<u>\$ (285,380)</u>
NET LOSS PER SHARE - BASIC AND DILUTED	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING- BASIC AND DILUTED	<u>27,238,770</u>	<u>18,435,782</u>

See notes to consolidated financial statements

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	Series A Convertible Preferred		Common Stock		Additional Paid-in Capital	Common Stock Subscribed	Subscription Receivable	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount					
Balance at December 31, 2004	-	\$ -	16,889,922	\$ 16,890	\$ -	-	\$ -	\$ (30,058)	\$ (13,168)
Issuance of Series A Convertible Preferred Stock, net of issuance costs of \$12,559	2,991,092	2,991	-	-	479,450	-	-	-	482,441
Conversion of promissory note	-	-	2,062,447	2,062	222,938	-	-	-	225,000
Common stock for services	-	-	417,852	418	64,896	-	-	-	65,314
Net loss	-	-	-	-	-	-	-	(285,380)	(285,380)
Balance at December 31, 2005	2,991,092	\$ 2,991	19,370,221	\$ 19,370	\$ 767,284	-	\$ -	\$ (315,438)	\$ 474,207
Issuance of Series A Convertible Preferred Stock, net of issuance costs of \$4,379	1,375,027	1,375	-	-	244,246	-	-	-	245,621
Conversion of Series A Convertible Preferred Stock to common stock	(4,366,119)	(4,366)	4,366,119	4,366	-	-	-	-	-
Common stock for services provided prior to the reverse acquisition recapitalization adjustment	-	-	407,000	407	73,584	-	-	-	73,991
Reverse acquisition recapitalization adjustment	-	-	50,000	50	(50)	-	-	-	-
Issuance of common stock, net of issuance costs of \$25,650	-	-	5,318,367	5,318	766,782	-	-	-	772,100
Common stock for services	-	-	8,847,000	8,847	1,318,203	-	-	-	1,327,050
Common stock subscribed	-	-	-	-	-	200,000	(200,000)	-	-
Stock based compensation expense	-	-	-	-	121,767	-	-	-	121,767
Net loss	-	-	-	-	-	-	-	(2,825,028)	(2,825,028)
Balance at December 31, 2006	-	\$ -	38,358,707	\$ 38,358	\$ 3,291,816	\$ 200,000	\$ (200,000)	\$ (3,140,466)	\$ 189,708

See notes to consolidated financial statements.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,825,028)	\$ (285,380)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	193,884	9,685
Common stock for services	1,401,041	65,314
Stock-based compensation expense	121,767	-
Changes in operating assets and liabilities:		
Accounts receivable	(60,912)	-
Accounts payable and accrued expenses	<u>82,489</u>	<u>40,630</u>
Net cash used in operating activities	<u>(1,086,759)</u>	<u>(169,751)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(31,758)</u>	<u>(356,359)</u>
Net cash used in investing activities	<u>(31,758)</u>	<u>(356,359)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of preferred stock	245,621	482,441
Proceeds from issuance of common stock	772,100	-
Proceeds from issuance of convertible promissory notes	-	125,000
Net proceeds from notes payable to officers	<u>31,000</u>	<u>-</u>
Net cash provided by financing activities	<u>1,048,721</u>	<u>607,441</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(69,796)	81,331
CASH AND CASH EQUIVALENTS—Beginning of year	<u>157,482</u>	<u>76,151</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 87,686</u>	<u>\$ 157,482</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	<u>\$ 3,965</u>	<u>\$ 7,389</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of property and equipment financed by promissory note	<u>\$ -</u>	<u>\$ 20,000</u>
Promissory notes repaid through issuance of common stock	<u>\$ -</u>	<u>\$ 225,000</u>

See notes to consolidated financial statements.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

1. NATURE OF OPERATIONS

Located in Framingham, Massachusetts, Power Play Development Corporation and Subsidiary (the "Company" as used herein refers collectively to the Company together with its operating subsidiary) is a holding company incorporated in Nevada in May 1998 that, through its subsidiary, has developed proprietary software that allows brands, portals, corporations and non-profit agencies the ability to offer private labeled poker applications and other gaming promotions that the Company is developing. The Company operates "The National League of Poker" (www.nlop.com). The Company's revenue is derived from hosting services and advertising and sponsorship fees.

Going Concern—The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As shown in the accompanying consolidated financial statements, the Company has sustained consolidated net losses for the years ended December 31, 2006 and 2005 of approximately \$2.8 million and \$300,000, respectively. At December 31, 2006, the Company had an accumulated deficit of approximately \$3.1 million and a working capital deficiency of approximately \$37,000. These factors raise doubt about the Company's ability to continue as a going concern.

As is typical with early stage growth companies, the 2006 and 2005 losses are largely a result of business development expenses as well as significant investment in software development. The 2006 loss also includes a non-cash charge against income of approximately \$1.5 million representing the value of stock based compensation.

Management plans to develop revenue growth through customer acquisition. Having developed appropriate software infrastructure and a replicable model for customer acquisition and monetization, management intends to use proceeds from an expected round of financing to invest significantly in marketing so as to achieve critical mass. Management believes that the Company will be successful in its efforts to adequately meet its capital needs.

Subsequent to December 31, 2006, the Company raised approximately \$557,000 (net of a \$275,000 stock repurchase) through the issuance of common stock. On July 24, 2007, the Company entered into a conditional agreement to merge with Strategic Gaming Investments, Inc. (SGI), which is anticipated to occur in the forth quarter of 2007. Pursuant to the terms of the agreement, the Company will exchange 100% of its fully diluted common stock for 70% of the fully diluted common stock of SGI. During the interim period before closing, SGI will provide bridge financing of \$500,000, which will be cancelled immediately following the closing.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities, which may be necessary should the Company be unsuccessful in its efforts to continue as a going concern.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements include the accounts of Power Play Development Corporation (“PWPY”) and its wholly owned subsidiary NLOP, Inc. (“NLOP”). All intercompany accounts and transactions have been eliminated in consolidation.

On September 12, 2006, PWPY and NLOP executed a Share Exchange and Stock Acquisition Agreement whereby NLOP and its shareholders exchanged 100% of their common shares outstanding for 99.8% of the common shares outstanding of PWPY (See Note 7).

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates, and such differences could be material to the accompanying consolidated financial statements. These estimates and assumptions include the collectibility of accounts receivable, recoverability of property and equipment, accruals, and other factors.

Cash and Cash Equivalents—All highly liquid investments with an original maturity when purchased of three months or less are considered to be cash equivalents.

Concentrations of Credit Risk—Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of cash, cash equivalents and trade accounts receivable. The Company deposits cash at financial institutions in amounts which at times may exceed federally insured limits. The Company invests cash, which is not required for immediate operating needs, primarily in highly liquid investment-grade instruments that bear minimal risk. The Company is exposed to credit risk in the event of default by the financial institutions or issuers of investments to the extent of amounts recorded on the balance sheet that exceed federally insured limits.

During the year ended December 31, 2006, two customers accounted for approximately 70% and 16% of revenue, respectively. At December 31, 2006, these customers and one other accounted for approximately 39%, 33% and 19% of accounts receivable, respectively. The Company reviews a customer’s credit history before extending credit and typically does not require collateral. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical experience, and other information. Such losses have been within management’s expectation and the Company did not require an allowance for doubtful accounts at December 31, 2006.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment—Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of computers and equipment is calculated using the straight-line method over their estimated useful lives, which is generally three years. Leasehold improvements are amortized over the lesser of the assets' estimated useful lives or remaining term of the lease.

The Company accounts for costs incurred to develop computer software for internal use in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". As required by SOP 98-1, the Company capitalizes the costs incurred during the application development stage, which includes costs to design the software configuration and interfaces, coding, installation and testing. Costs incurred during the preliminary project stage along with post-implementation stages of internal use computer software are recorded as research and development expenses as incurred. Capitalized software development costs are typically amortized over the estimated life of the software, which is generally two years. The capitalization and ongoing assessment of recoverability of capitalized software development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.

Accounting for Impairment of Long-Lived Assets—The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be sold or disposed of are reported at the lower of their carrying amount or fair value less cost to sell or dispose.

Fair Value of Financial and Derivative Instruments—The Company has issued various financial debt and/or equity instruments, some of which have required a determination of their fair value and/or the fair value of certain related derivatives, where quoted market prices were not published or readily available. The Company bases its fair value determinations on valuation techniques that require judgments and estimates, including discount rates used in applying present value analyses, the length of historical look-backs used in determining the volatility of its stock, expected future interest rate assumptions and probability assessments. From time to time, the Company may hire independent valuation specialists to perform or assist in the fair value determination of such instruments.

Revenue Recognition—The Company generates revenue from advertising on its websites and from limited licenses to use online poker applications and other gaming promotions hosted by the Company. Advertising revenue is generally recognized at the time the advertisement runs. Hosting revenue is generally recognized over the contracted hosting period.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Expense—The Company expenses the costs of advertising as incurred. Advertising expense was \$67,442 for the year ended December 31, 2006. The Company did not incur any material advertising expenses for the year ended December 31, 2005.

Income Taxes—The consolidated financial statements reflect provisions for federal, state, and local income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets, including tax loss and credit carryforwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the enactment date. Deferred tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock-Based Compensation—The Company accounts for stock based awards to employees in accordance with the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, (SFAS No. 123(R)). The Company accounts for stock-based awards to non-employees in accordance with Emerging Issues Task Force (“EITF”) Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services* and SFAS No. 123(R).

The fair value of stock option awards is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table:

	2006
Expected volatility	64%
Weighted average risk-free rate of return	4.54%
Expected dividend yield	0.00%
Expected term	6 - 10 years

The Company uses the simplified calculation of expected life described in the Securities and Exchange Commission Staff Accounting Bulletin No. 107 (“SAB 107”) and volatility is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. Expected forfeitures are based on the Company’s historical experience. The Company uses the straight-line method for expense attribution.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Issued Accounting Standards—In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 defines a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in an enterprise’s financial statements. FIN 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (“GAAP”), and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. The Company is currently evaluating the provisions of SFAS 157 and has not determined its impact on the Company’s consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Under SFAS No. 159, the Company may irrevocably elect to report marketable securities, hedges and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permissible, provided that the Company has not yet issued interim financial statements for 2007 and has adopted SFAS No. 157. The Company is currently evaluating the provisions of SFAS No. 159 and has not determined its impact on the Company’s consolidated financial statements.

3. LOSS PER SHARE

The computation of basic net loss per common share is based on the weighted-average number of common shares outstanding. The shares issuable upon conversion of preferred stock or exercise of warrants or options have been excluded from the calculation of diluted earnings per share as their effect would be anti-dilutive. Accordingly, basic and fully diluted shares used in the calculation of weighted-average number of common shares outstanding are the same for each period presented.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2006	2005
Computers and equipment	\$ 88,811	\$ 67,450
Capitalized software development costs	337,536	330,910
Leasehold improvements	3,771	-
	<u>430,118</u>	<u>398,360</u>
Accumulated depreciation and amortization	<u>(203,569)</u>	<u>(9,685)</u>
	<u>\$ 226,549</u>	<u>\$ 388,675</u>

5. COMMITMENTS AND CONTINGENCIES

The Company leases 3,000 square feet of office space under an operating lease that expires in December 2009. Future minimum lease payments under the operating lease are as follows:

For the years ended December 31,

2007	\$ 15,000
2008	18,000
2009	<u>20,000</u>
	<u>\$ 53,000</u>

Rent expense totaled \$14,000 and \$6,000 in 2006 and 2005, respectively.

6. BORROWINGS

Convertible Promissory Notes—In 2005 and 2004, the Company issued a series of Convertible Promissory Notes (“Convertible Notes”) totaling \$125,000 and \$100,000, respectively, to private investors. The Convertible Notes carried an interest rate of 5% per annum, and were converted into 2,062,447 shares of the Company’s common stock on May 15, 2005.

Notes Payable to Officers—In June 2006 and January 2005, the Company entered into promissory agreements (the “Notes”) with certain of its officers. The Notes are payable upon demand and bear interest rates of 0 – 7.24% per annum.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

7. SHAREHOLDERS' EQUITY

Reverse Merger Transaction—On September 12, 2006, Power Play Development Corporation (“PWPY”) and NLOP, Inc. (“NLOP”) executed a Share Exchange and Stock Acquisition Agreement (the “Merger Agreement”). Pursuant to the Merger agreement, NLOP shareholders exchanged 100% of their 2,200,000 common shares outstanding for 24,143,340 shares of PWPY thereby becoming the majority owners of the Company. Concurrent with the merger, the Company issued 8,800,000 shares of its common stock to advisors to the merger.

Prior to the merger, NLOP was a privately held company. The post-acquisition entity is accounted for as a recapitalization of NLOP using accounting principles applicable to reverse acquisitions with NLOP being treated as the accounting parent (acquirer) and PWPY, the legal parent, being treated as the accounting subsidiary (acquiree). Prior to the consummation of the merger, PWPY was a non-reporting pink sheet company and public shell which had no material assets, liabilities or net stockholder's equity. NLOP is regarded as the predecessor entity. In accordance with the provisions governing the accounting for reverse acquisitions, the historical figures presented are those of NLOP. The key components of the reverse acquisition recapitalization adjustment were as follows:

	Shares	Amount	Additional Paid-In Capital
Public company shares already outstanding on date of merger, par value \$.001	20,050,000	\$ 20,050	\$ (20,050)
Public company shares retired	(20,000,000)	(20,000)	20,000
Public company shares issued in exchange for private company shares, par value \$.001	24,143,340	24,143	(24,143)
Private company shares exchanged, par value \$.001	<u>(24,143,340)</u>	<u>(24,143)</u>	<u>24,143</u>
Reverse acquisition recapitalization adjustment	<u>50,000</u>	<u>\$ 50</u>	<u>\$ (50)</u>

Convertible Preferred Stock—Prior to the Merger, all of the convertible preferred stock outstanding was converted to common stock on a share for share basis

Common Stock—The Company is authorized to issue 100,000,000 shares of common stock with a par value of \$.001 per share. At December 31, 2006, the Company had 1,333,333 shares of common stock for which a shareholder had signed a subscription agreement to purchase at a price of \$.15 per share but had not yet paid for the shares. At December 31, 2006, the Company has recorded common stock subscribed and a subscription receivable in the amount of \$200,000.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

7. SHAREHOLDERS' EQUITY (CONTINUED)

2006 Stock Option Plan— The Company's 2006 Stock Option Plan (the "Plan") provides for the granting of incentive stock options and nonstatutory stock options, restricted stock, stock appreciation rights, phantom stock awards and stock units to employees, officers, directors, and consultants of the Company. The Company can issue up to 5,000,000 shares of common stock under the Plan. At December 31, 2006, there are 2,472,384 shares of common stock that remain available for future grant under the Plan.

Under the Plan, the Board of Directors may grant incentive stock options to employees, with an exercise price not less than 100% of the fair market value on the date of grant or, in the case of 10% or greater shareholders, not less than 110% of the fair market value. Nonqualified stock options may be granted to employees, directors, or consultants of the Company. The exercise price of each nonqualified stock option shall be determined by the Board of Directors but shall not be less than the fair value of the common stock on the date of grant. In general, stock options have vesting periods of up to three years and expire within 10 years from issuance. Certain stock option grants provide for accelerated vesting upon a change in control, as defined in the stock option agreements.

During the year ended December 31, 2006, the Company granted options to employees with a fair value of \$248,273, which is being amortized into compensation expense over the vesting period of the options as the services are being provided.

A summary of option activity under the Plan as of December 31, 2006, and changes during the year then ended is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding—January 1, 2006	-	\$ 0.000		
Granted	2,527,616	\$ 0.150		
Exercised	-	\$ 0.000		
Canceled	-	\$ 0.000		
Outstanding—December 31, 2006	<u>2,527,616</u>	\$ 0.150	9.96	\$ -
Exercisable—December 31, 2006	<u>1,170,396</u>	\$ 0.150	9.96	\$ -
Vested or expected to vest	<u>2,527,616</u>			

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

7. SHAREHOLDERS' EQUITY (CONTINUED)

The weighted-average grant date fair value of options granted during 2006 was \$0.098 per share.

A summary of the status of the Company's non-vested options as of December 31, 2006 and changes during the year then ended is presented in the table below:

	Number of Shares	Weighted Average Fair Value
Non-vested—January 1, 2006	-	\$ -
Granted	2,527,616	\$ 0.098
Vested	(1,170,396)	\$ 0.101
Forfeited	-	\$ 0.000
Non-vested—December 31, 2006	<u>1,357,220</u>	\$ 0.094

The total fair value of stock options that vested during the year ended December 31, 2006 was \$121,767. Compensation expense recognized in the Statement of Operations as research and development and general and administrative expenses totaled \$33,018 and \$88,749, respectively. As of December 31, 2006, there was \$126,506 of unrecognized compensation cost related to non-vested stock options to be recognized in future periods. That cost is expected to be recognized over a weighted-average period of 2.96 years.

Other Stock Based Compensation—In 2006, the Company issued 8.8 million shares of common stock in exchange for services provided related to the Share Exchange and Stock Acquisition Agreement noted above. In addition, the Company issued 454,000 shares of common stock in exchange for other consulting services in 2006. The estimated fair value of these shares amounted to \$1,401,041, which is included in general and administrative expenses in 2006. Fair value was estimated based on contemporaneous private sales of Company stock.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

8. INCOME TAXES

As of December 31, 2006 and 2005, the Company had federal and state net operating loss carryforwards of approximately \$1,542,000 and \$217,000, respectively, which are available to offset future taxable income, if any. The carryforwards expire at various dates through 2026. The available net operating loss carryforwards and other book/tax timing differences resulted in a deferred tax asset of approximately \$664,000 and \$112,000 at December 31, 2006 and 2005, respectively. Management has established a 100% valuation allowance against the deferred tax asset. In assessing the need for a valuation allowance, the Company estimates future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event the Company were to determine that it would be able to realize its deferred tax assets in the future it would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. The valuation allowance increased approximately \$552,000 and \$112,000 during the years ended December 31, 2006 and 2005, respectively.

The provision for (benefit from) income taxes reconciles to the statutory federal rate as follows:

	2006		2005	
Statutory federal tax rate	34.0	%	34.0	%
State income tax	(1.6)		(3.3)	
Permanent differences:				
Consideration paid in stock and options	(17.3)		-	
Other permanent differences	(0.1)		(0.8)	
Deferred tax asset valuation allowance	(15.0)		(29.9)	
	<u>-</u>	<u>%</u>	<u>-</u>	<u>%</u>
Effective federal tax rate	-	%	-	%

Utilization of the net operating loss carryforwards may be subject to a substantial limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

9. RELATED PARTY TRANSACTIONS

During 2005, the Company paid fees of \$41,665, \$25,000 and \$200,500, respectively, to three members of the board of directors for consulting services provided by the individuals during the period. During 2006, two of the members of the board of directors continued to receive consulting fees of \$100,000 and \$153,442, respectively.

POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONCLUDED AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

10. SUBSEQUENT EVENTS

Commitments— In January 2007, the Company entered into an agreement for development services to be provided from January through June 2007 at a fixed fee of \$85,700. In February 2007, the Company entered into an agreement for system infrastructure services. The agreement requires 24 monthly payments of \$29,510. In June 2007, the Company entered into an agreement for public relations services to be provided through June 2008. The agreement requires periodic payments totaling \$145,000, and is cancelable by either party. In June 2007, the Company entered into a capital lease agreement for infrastructure software. The lease requires 24 monthly payments of \$8,050. The present value of the lease payments is approximately \$177,000.

Warrants— In January 2007, in connection with certain services provided, the Company issued a warrant to a consultant to purchase 500,000 shares of its common stock at an exercise price of \$0.01 per share. The warrant is fully vested and may be exercised at any time, in whole or in part, on or prior to January 8, 2016. The fair value of these warrants was calculated to be approximately \$75,000 at issuance.

Stock Repurchase— In January 2007, the Company entered into an agreement to repurchase 5,500,000 outstanding shares of restricted common stock at a cost of \$275,000.

Stock Options— Through September 2007, the Company has granted to employees and non-employees options to purchase approximately 1,832,000 shares of common stock at a weighted average exercise price of \$0.19 per share. The fair value of these options was calculated to be approximately \$230,000 at issuance.

Private Placements— Through September 2007, the Company raised approximately \$960,000 through the sale of approximately 5,800,000 shares of common stock at prices ranging from \$0.15 to \$0.20.

Merger— In July 2007, the Company entered into a conditional merger agreement with Strategic Gaming Investments, Inc. ("SGI"). Shareholders of the Company will exchange 100% of their fully diluted PWPY shares and will receive 70% of the fully diluted shares of the merged entity. Concurrent with the merger, and as a contingency of the merger, SGI will sell a minority interest of the merged entity in a private placement with gross proceeds to the Company of not less than \$6 million. The proceeds will be utilized for working capital. The merged entity's headquarters will remain in Framingham, Massachusetts.