

***Power Play Development  
Corporation and Subsidiary***

*Consolidated Financial Statements  
as of September 30, 2007 and for the  
Three Months and Nine Months then Ended 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 reviewed the accompanying consolidated balance sheet of Power Play Development Corporation and Subsidiary (the "Company") as of September 30, 2007, and the related consolidated statements of operations and cash flows for the three months and nine months then ended and consolidated statement of changes in shareholders' deficit for the nine months then ended. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements in order for them to be 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 a shareholders' deficit, 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  
December 28, 2007

# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2007

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### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents	\$	210,345
Accounts receivable		188,538
Prepaid expenses and other current assets		17,806
Total current assets		<u>416,689</u>

PROPERTY AND EQUIPMENT, NET		<u>475,852</u>
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TOTAL	\$	<u><u>892,541</u></u>
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### LIABILITIES AND SHAREHOLDERS' DEFICIT

#### CURRENT LIABILITIES:

Accounts payable	\$	493,886
Accrued expenses and other current liabilities		170,168
Current portion of capital lease obligation		94,172
Convertible note payable		490,000
Notes payable to officers		80,371
Total current liabilities		<u>1,328,597</u>

CAPITAL LEASE OBLIGATION, NET OF CURRENT PORTION		<u>62,396</u>
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TOTAL LIABILITIES		<u>1,390,993</u>
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#### COMMITMENTS AND CONTINGENCIES (Note 5)

#### SHAREHOLDERS' DEFICIT:

Common stock, \$0.001 par value—100,000,000 shares authorized; 35,627,862 restricted and 3,350,000 unrestricted shares issued and outstanding		38,978
Additional paid-in capital		4,152,652
Common stock subscribed		5,000
Subscription receivable		(5,000)
Accumulated deficit		<u>(4,690,082)</u>
Total shareholders' deficit		<u>(498,452)</u>

TOTAL	\$	<u><u>892,541</u></u>
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See report of independent registered public accounting firm and notes to the consolidated financial statements

## POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

### CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

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	For the three months ended	For the nine months ended
REVENUE:		
Hosting services	\$ 222,700	\$ 475,550
Advertising	<u>95,289</u>	<u>267,619</u>
Total revenue	317,989	743,169
COST OF REVENUE	<u>311,828</u>	<u>639,426</u>
GROSS MARGIN	<u>6,161</u>	<u>103,743</u>
OPERATING EXPENSES:		
Sales and marketing	111,928	235,458
Research and development	237,613	496,894
General and administrative	<u>346,802</u>	<u>908,227</u>
Total operating expenses	<u>696,343</u>	<u>1,640,579</u>
LOSS FROM OPERATIONS	(690,182)	(1,536,836)
INTEREST EXPENSE, NET	<u>4,349</u>	<u>12,780</u>
NET LOSS	<u>\$ (694,531)</u>	<u>\$ (1,549,616)</u>
NET LOSS PER SHARE - BASIC AND DILUTED	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	<u>38,630,495</u>	<u>37,233,851</u>

See report of independent registered public accounting firm and notes to the consolidated financial statements

**POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

	Common Stock		Additional Paid-in Capital	Common Stock Subscribed	Subscription Receivable	Accumulated Deficit	Total
	Shares	Amount					
Balance at December 31, 2006	38,358,707	\$ 38,358	\$ 3,291,816	\$ 200,000	\$ (200,000)	\$ (3,140,466)	\$ 189,708
Common stock subscribed	-	-	-	20,000	(20,000)	-	-
Issuance of common stock, net of issuance costs of \$59,557	5,994,155	5,995	930,869	(215,000)	215,000	-	936,864
Repurchase of common stock	(5,500,000)	(5,500)	(269,500)	-	-	-	(275,000)
Common stock for services	125,000	125	24,875	-	-	-	25,000
Stock based compensation expense	-	-	101,941	-	-	-	101,941
Issuance of warrants	-	-	72,651	-	-	-	72,651
Net loss	-	-	-	-	-	(1,549,616)	(1,549,616)
Balance at September 30, 2007	<u>38,977,862</u>	<u>\$ 38,978</u>	<u>\$ 4,152,652</u>	<u>\$ 5,000</u>	<u>\$ (5,000)</u>	<u>\$ (4,690,082)</u>	<u>\$ (498,452)</u>

See report of independent registered public accounting firm and notes to the consolidated financial statements

# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

	<u>For the three months ended</u>	<u>For the nine months ended</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (694,531)	\$ (1,549,616)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	103,496	214,616
Common stock and warrants issued for services	25,000	97,651
Stock-based compensation expense	60,302	101,941
Changes in operating assets and liabilities:		
Accounts receivable	(74,813)	(127,626)
Prepaid expenses and other current assets	(11,208)	(17,806)
Accounts payable	36,678	377,335
Accrued expenses and other current liabilities	(33,321)	162,330
Net cash used in operating activities	<u>(588,397)</u>	<u>(741,175)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	<u>(31,290)</u>	<u>(290,435)</u>
Net cash used in investing activities	<u>(31,290)</u>	<u>(290,435)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on capital lease obligation	(12,079)	(16,916)
Proceeds from issuance of common stock	141,740	936,864
Repurchase of common stock	-	(275,000)
Net proceeds from (payments on) notes payable to officers	(5,679)	19,321
Proceeds from convertible note payable	<u>490,000</u>	<u>490,000</u>
Net cash provided by financing activities	<u>613,982</u>	<u>1,154,269</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(5,705)	122,659
<b>CASH AND CASH EQUIVALENTS—Beginning</b>	<u>216,050</u>	<u>87,686</u>
<b>CASH AND CASH EQUIVALENTS—End</b>	<u>\$ 210,345</u>	<u>\$ 210,345</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash paid during the period for interest	<u>\$ 3,352</u>	<u>\$ 13,527</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisition of property and equipment financed by capital lease obligation	<u>\$ -</u>	<u>\$ 173,484</u>

See report of independent registered public accounting firm and notes to the consolidated financial statements

# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

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### 1. NATURE OF OPERATIONS

Located in Framingham, Massachusetts, Power Play Development Corporation and Subsidiary (the "Company" as used herein refers collectively to Power Play Development Corporation together with its operating 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](http://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. The Company has sustained losses since its inception in 2004, and has an accumulated deficit of approximately \$4.7 million and a working capital deficiency of approximately \$.9 million. These factors raise doubt about the Company's ability to continue as a going concern.

As is typical with early stage growth companies, the accumulated deficit is largely a result of business development expenses as well as significant investment in software development. The accumulated deficit also includes non-cash charges against income of approximately \$1.7 million representing the value of stock based compensation and common stock issued for services through September 2007.

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 future rounds 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.

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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The consolidated financial statements include the accounts of Power Play Development Corporation ("PWPY"), a holding company incorporated in Nevada, and its wholly owned subsidiary NLOP, Inc. ("NLOP"). All intercompany accounts and transactions have been eliminated in consolidation.

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# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Use of Estimates*—The preparation of 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 financial statements and accompanying notes. Actual results may differ from those estimates, and such differences could be material to the 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 in the balance sheet that exceed federally insured limits.

During the three months and nine months ended September 30, 2007 two and three customers accounted for approximately 75% and 64% of revenue, respectively. At September 30, 2007 two customers accounted for approximately 72% of accounts receivable. 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 provide an allowance for doubtful accounts at September 30, 2007.

*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.

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# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

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### 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 the 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.

**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.

**Advertising Expense**—The Company expenses the costs of advertising as incurred. Advertising expense totaled \$17,441 and \$66,779 for the three months and nine months ended September 30, 2007, respectively.

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# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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 in income in the period that includes the enactment date. Deferred tax expense (benefit) 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*. 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:

Expected volatility	64%
Weighted average risk-free rate of return	4.89%
Expected dividend yield	0.00%
Expected term	1 - 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.

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# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

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### 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. The Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material effect on the 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, but the FASB has delayed the effective date for one year for certain fair value measurements when those measurements are used for financial statement items that are not measured at fair value on a recurring basis. 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 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 the 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 THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

### 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Computers and equipment	\$ 128,429
Capitalized software development costs	579,376
Purchased software	177,272
Leasehold improvements	8,960
	<u>894,037</u>
Accumulated depreciation and amortization	<u>(418,185)</u>
	<u>\$ 475,852</u>

### 5. COMMITMENTS AND CONTINGENCIES

*Operating Lease*— 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 twelve months ending September 30,

2008	\$ 17,400
2009	21,000
2010	<u>3,600</u>
	<u>\$ 42,000</u>

Rent expense totaled \$5,268 and \$15,131 for the three month and nine month periods ended September 30, 2007, respectively.

*Other Commitments*— In February 2007 the Company entered into a non-cancelable 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.

### 6. NOTES PAYABLE TO OFFICERS

The Company has promissory agreements (the "Notes") with certain of its officers. The Notes are payable upon demand and bear interest at rates ranging from 0 to 7.24% per annum.

# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

### 7. CONVERTIBLE NOTE PAYABLE

The convertible note payable arose from cash advances received in connection with a conditional merger agreement with Strategic Gaming Investments, Inc. The note is unsecured and bears interest at 5%. If the merger conditions are not met within the specified timeframe, the note will be converted into common stock at \$.20 per share (See Note 12).

### 8. CAPITAL LEASE OBLIGATION

In June 2007 the Company entered into a capital lease obligation for certain infrastructure software. The software has been recorded at the present value of the total lease payments using a discount rate of 8.5%. The obligation is being repaid in 24 monthly installments of \$8,452.

The future payments due under this agreement as of September 30, 2007 are as follows:

<u>For the twelve months ending September 30,</u>	
2008	\$ 101,436
2009	76,068
	<u>177,504</u>
Less imputed interest	20,936
	<u>156,568</u>
Less current portion	94,172
	<u>\$ 62,396</u>

The recorded cost and accumulated amortization of the software is \$173,484 and \$28,914, respectively, at September 30, 2007. Amortization expense totaled \$20,612 and \$28,914 for the three months and nine months ended September 30, 2007, respectively.

### 9. SHAREHOLDERS' DEFICIT

**Common Stock**—The Company is authorized to issue 100,000,000 shares of common stock with a par value of \$0.001 per share. At September 30, 2007 the Company had 33,329 shares of common stock for which a shareholder had signed a subscription agreement to purchase at a price of \$0.15 per share but had not yet paid for the shares. At September 30, 2007 the Company has recorded common stock subscribed and a subscription receivable in the amount of \$5,000.

**Warrants**— In January 2007, in connection with certain services provided, the Company issued warrants to a consultant to purchase 500,000 shares of its common stock at an exercise price of \$0.01 per share. The warrants are 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 \$72,651 at issuance.

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# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

### 9. SHAREHOLDERS' DEFICIT (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 September 30, 2007 there are 640,697 shares of common stock that remain available for future grant 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 of issuance. Certain stock option grants provide for accelerated vesting upon a change in control, as defined in the stock option agreements.

During the three months and nine months ended September 30, 2007 the Company granted options to employees with a fair value of \$187,767 and \$227,452, respectively. The options are being amortized to 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 September 30, 2007, and changes during the nine months 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, 2007	2,527,616	\$ 0.150		
Granted	1,831,687	\$ 0.199		
Exercised	-	\$ 0.000		
Canceled	-	\$ 0.000		
Outstanding—September 30, 2007	<u>4,359,303</u>	\$ 0.170	9.42	\$ 138,882
Exercisable—September 30, 2007	<u>1,976,094</u>	\$ 0.162	9.32	\$ 77,569
Vested or expected to vest	<u>4,359,303</u>			

Continued--

# POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007

### 9. SHAREHOLDERS' DEFICIT (CONTINUED)

The weighted-average grant date fair value of options granted during 2007 was \$0.124 per share. A summary of the status of the Company's non-vested options as of September 30, 2007 and changes during the nine months then ended is presented in the table below:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested—January 1, 2007	1,357,220	\$ 0.094
Granted	1,831,687	\$ 0.124
Vested	(805,698)	\$ 0.116
Forfeited	-	\$ 0.000
Non-vested—September 30, 2007	<u>2,383,209</u>	\$ 0.110

The total fair value of stock options that vested during the three months and nine months ended September 30, 2007 was \$60,302 and \$101,941, respectively. Compensation expense recognized in the Statement of Operations as research and development expenses totaled \$9,458 and \$22,105 and general and administrative expenses totaled \$50,844 and \$79,836 for the three months and nine months ended September 30, 2007, respectively. As of September 30, 2007, there was \$253,454 of unrecognized compensation cost related to non-vested share-based compensation arrangements to be recognized in future periods. That cost is expected to be recognized over a weighted-average period of 2.53 years.

### 10. INCOME TAXES

The Company has federal and state net operating loss carryforwards of approximately \$2.8 million which are available to offset future taxable income, if any. The carryforwards expire at various dates through 2027. The net operating loss carryforwards and other book/tax temporary differences resulted in a deferred tax asset of approximately \$1.2 million at September 30, 2007. 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 was 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 by approximately \$234,000 and \$529,000 during the three months and nine months ended September 30, 2007, respectively.

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# **POWER PLAY DEVELOPMENT CORPORATION AND SUBSIDIARY**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**AS OF AND FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007**

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### **10. INCOME TAXES (CONTINUED)**

The provision for (benefit from) income taxes differs from the statutory federal corporate income tax rate of 34% primarily due to changes in the deferred tax valuation allowance.

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.

### **11. RELATED PARTY TRANSACTIONS**

During the three months and nine months ended September 30, 2007 the Company paid consulting fees of \$36,250 and \$136,248, respectively, to two members of the board of directors for consulting services provided during the periods.

### **12. SUBSEQUENT EVENTS**

Subsequent to September 30, 2007 the Company canceled its conditional merger agreement with Strategic Gaming Investments, Inc. As such, the convertible note payable has been exchanged for common stock at \$.20 per share.

See report of independent registered public accounting firm.