

# **SPONSORSONE INC.**

## **MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A")**

### **AMENDED AND RESTATED**

### **FOR THE THREE MONTHS ENDED MARCH 31, 2018**

*This amended and restated MD&A of SponsorsOne Inc. ("SponsorsOne", "SPO" or the "Company") for the three months ended March 31, 2018 has been prepared by management of the Company as of July 3, 2018 and should be read in conjunction with the Company's amended and restated unaudited condensed interim financial statements and accompanying notes for the three months ended March 31, 2018 and 2017, and the Company's Audited Financial Statements for the year ended December 31, 2017. The unaudited condensed interim financial statements and notes thereto and this MD&A are presented in Canadian currency (unless otherwise noted) and were prepared in accordance with international financial reporting standards ("IFRS").*

#### **Forward-Looking Information**

This MD&A contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "may", "will", "anticipate", "plan", "intend", "estimate", "project", "continue", "believe", "estimate", "expect" and similar forward-looking terminology, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital and the estimated cost and availability of funding for the continued operation of the Company. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

Although management believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors and should not be read as guarantees of future performance or results. Accordingly, there are or will be a number of significant factors which could cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual future results, performance or achievements to differ materially include, but are not limited to, our limited operating history, our reliance on key personnel, future capital needs, dependence on proprietary technology and limited protection thereof and general economic trends and international risk. The Company is subject to significant risks and any past performance is no guarantee of future performance. The Company cannot predict all of the risk factors, nor can it assess the impact, if any, of such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. This MD&A offers a brief overview of some of the risk factors to be considered in relation to the Company's business. This list may not be exhaustive and new risk factors may emerge from time to time. Please see the section "Risks and Uncertainties" for further information. We disclaim any intention or obligation to publicly update or revise any forward-looking statements after distribution of this MD&A, whether as a result of new information, future events or other circumstances, except as may be required pursuant to applicable securities laws.

## **SPONSORSONE, INC.**

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**Amended and Restated**

**Dated as at July 3, 2018**

### **BUSINESS OVERVIEW AND CORPORATE UPDATE**

#### **THE CORPORATION**

SponsorsOne Inc. ("SPO") was incorporated under the *Business Corporation Act (Ontario)* under the laws of the Province of Ontario on March 8, 1965 under the name "Superior Copper Mines Limited". The Corporation filed various articles of amendments dated August 8, 1972, March 6, 1979, March 3, 1988, May 9, 1989, January 8, 1990, February 26, 1997 and December 19, 2013 in respect of changes to share capital and other corporate matters including to change of its name to "Mountainview Explorations Inc.", then to "Banro Capital Group Inc." then to "International Infopet Systems Ltd." and finally to "SponsorsOne Inc."

MXM Nation Inc. ("MXM"), a wholly-owned subsidiary of the Corporation, was incorporated under that laws of the Province of Ontario on February 2, 2006 as "Deep Creek Ventures Inc.". On April 4, 2007, MXM changed its name to "MX Mechanics Inc." and on February 5, 2013 MXM changed its name to "MXM Nation Inc."

SponsorsOne Media Inc. ("SPM"), a wholly-owned subsidiary of the corporation, was incorporated under the laws of the State of Delaware on January 11, 2018.

The head office of SPO, MXM and SPM is located at 2 Campbell Drive, Suite 307C, Uxbridge, ON L9P 1H6 and the registered office is located at 365 Bay Street, Suite 400, Toronto, Ontario, Canada M5H 2V1.

#### **Business of the Corporation**

The Corporation is developing a proprietary platform ("*SponsorsCloud*") and cryptocurrency ("*SponsorCoin*"). The *SponsorsCloud* platform, *SponsorCoin* cryptocurrency and transaction engine, in combination, are designed to address social media marketing challenges faced by companies regarding their specific retail product lines such as fashion, specialty food and cosmetics ("Brands").

Social media marketing is influenced by people known as influencers, who are people in social media that have followings of people, which people take actions based on what a particular influencer buys, does and says. Large influencers charge fees for their social media influence. There are a lot of smaller influencers ("Micro-Influencers") who have significant followings, sometimes in niche marketing areas who can be influential as well. Social media marketing through Micro-Influencers is challenging due to the difficulty of engagement between Brands, Micro-Influencers, customers and social media advertising and there is little meaningful understanding of the return on investment, costs related to products/services and support given to customers/influencers with no communication channel post advertisement/sponsorship promotion, SPO is developing the *SponsorsCloud* platform and patent pending *SponsorCoin* cryptocurrency. These technologies were designed to address the foregoing issues by creating influencer communities, including Micro-Influencers, for Brands. A "micro-influencer" is an individual consumer that is active on social media but with a small number of subscribers or followers who can have significant effect on buying habits of their followers.

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# USING MICRO-INFLUENCERS TO SUCCESSFULLY PROMOTE YOUR BUSINESS

## WHY MICRO-INFLUENCERS



For each Brand represented, the SPO model will help build a network of micro-influencers. The *SponsorsCloud* platform will integrate with social networks and enables the delivery of social media marketing campaigns. This will be facilitated through our proprietary e-commerce platform, *SponsorsCloud*, which will support the exchange of goods and services between brands and Micro-Influencers by the use of *SponsorCoin*. The main objective of the *SponsorsCloud* platform is to build communities of Micro-Influencers for Brands through online, social media and e-commerce channels. Micro-Influencers will work their way up to higher levels of discounts by continuously engaging and transacting with Brands through various social media and e-commerce activities online across all social networks. *SponsorsCloud* will have a mobile application to allow Micro-Influencers to engage with the Brands and their campaigns. SPO will work with Brands to create marketing content to be distributed through various forms of digital distribution such as Facebook, Instagram, YouTube and on demand content distributors for 30 and 60 minute show formats. The Micro-Influencer establishes an account with SPO through which they receive media content, then modify, add to, and deploy this content through their own social networks. Through their SPO Account, this activity is all tracked and verified allowing SPO to assesses the value of this additional content, validates their social media posts and reward the Micro-Influencer with *SponsorCoin*.

*SponsorsOne Media* is a wholly owned Delaware corporation in the U.S. Its purpose is to engage directly with Brands to develop their digital marketing strategy including the production of video, audio, photography, graphics and other web content ("Entertainment Media"). Brands will not be required to pay for the creation of Entertainment Media up front thereby making it more accessible to smaller Brands with limited budgets. Production costs can be offset in some circumstances from distribution partners who often pay for such content. The Entertainment Media will be designed to promote specific Brands and provides content for Micro-Influencers to disseminate to their social network.

*SponsorCoin* will be the currency used to compensate the Influencers for interacting, engaging and creating social media content around a Brand's campaign. The *SponsorsCloud* will monitor all the activity of the Micro-Influencer across all social networks and *SponsorCoins* will be awarded to Micro-Influencers based on criteria set with the Brand such as quantity, quality, and type of engagement (campaign criteria). The more coins the Micro-Influencers earn, the higher the discount level the user will achieve in a tiered format set up by the Brand, entitling the Micro-Influencer to greater discounts and better redemption offers. The Influencer will be able to use their *SponsorCoins* to purchase goods and services from the Brand online

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through their e-commerce store set up through *SponsorsCloud*. Micro-Influencers will also be able to transfer their *SponsorCoins* to charitable organizations and convert their *SponsorCoins* into Bitcoin, Ethereum and Litecoin cryptocurrencies. Exchanging currency within the *SponsorsCloud* will allow Micro-Influencers to monetize their *SponsorCoin* beyond the marketplace into any currency supported by participating cryptocurrency exchanges.

Additionally, the *SponsorsCloud* platform will track and log relevant data, specifically the engagement activity and movement of *SponsorCoins* between the Micro-Influencers and Brands within the social networks. This data will then be used to perform analysis and provide marketing analysis for Brands. The Brands interactive dash board and its automated content will be available on a subscription-based pricing model based on the size of their influencer community.

**COMPANY HIGHLIGHTS**

- On March 28, 2018, the Corporation announced the appointment of Mr. Brad Herr as the new Chief Financial Officer of the Corporation and the resignation of Mr. Arvin Ramos from that position.
- On April 18, 2018 the Corporation entered into an engagement letter with Emerging Equities Inc. to act as agent, on a reasonable best-efforts basis, in connection with a proposed financing up to 16,666,667 units ("Units") at a price of \$0.18 per unit for gross proceeds of CA\$3 million (the "Unit Offering"). Each Unit is comprised of one Common Share and one half of a common share purchase with each whole warrant entitling the holder thereof to purchase one Common Share at an exercise price of \$0.30 for a period of twelve (12) months (subject to acceleration in certain circumstances).
- On April 28, 2018, the Corporation received a Notice of (Re) Assessment (the "HST Assessment") from Canada Revenue Agency regarding GST / HST filings for the period from July 1, 2015 to December 31, 2017, which, if correct, would give rise to \$194,994.27 in HST payable. The Corporation's tax advisors have advised that there are valid grounds to appeal the assessment and the Corporation is currently in the process of filing a Notice of Objection. Pending the outcome of the appeal process, the Corporation has booked the \$194,994.27 as an amount payable in its second quarter 2018 financial statements.
- On May 16, 2018, the Corporation completed a private placement of 1,568,440 special warrants ("Special Warrants") of the Corporation at \$0.18 per special warrant for gross proceeds of \$282,319. Each Special Warrant entitles the holder to receive 1 Unit for no additional consideration.

**Selected Annual Financial Information**

The following table reflect the summary of results for the periods set out.

| <i>March 31,</i>                       | <b>March 31,<br/>2018</b> | December 31,<br>2017 | December 31,<br>2016 |
|--|---------------------------|----------------------|----------------------|
|  | \$                        | \$                   | \$                   |
| Total Assets                           | <b>141,393</b>            | 203,899              | 193,218              |
| Total Revenue                          | <b>Nil</b>                | Nil                  | Nil                  |
| Net Loss                               | <b>(499,944)</b>          | (602,304)            | (993,592)            |
| Net Loss Per Share (Basic and Diluted) | <b>(0.02)</b>             | (0.02)               | (0.05)               |

**SPONSORSONE, INC.****Management's Discussion and Analysis for the Three Months Ended March 31, 2018****Amended and Restated****Dated as at July 3, 2018****Selected Quarterly Financial Information**

The following table highlights selected unaudited financial information in respect of the previous eight quarters of the Company. The Company's quarterly operating results have varied in the past and may vary substantially in the future. Accordingly, the information below is not necessarily indicative of results for any future quarter.

|                                | Q1-2018 | Q4-2017 | Q3-2017 | Q2-2017 | Q1-2017 | Q4-2016 | Q3-2016 | Q2-2016 | Q1-2016 |
|--------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                | \$      | \$      | \$      | \$      | \$      | \$      | \$      | \$      | \$      |
| Revenue                        | -       | -       | -       | -       | -       | -       | -       | -       | -       |
| Net loss                       | 499,944 | 98      | 193,945 | 203,425 | 204,836 | 154,999 | 227,886 | 391,945 | 218,762 |
| Basic & diluted loss per share | 0.02    | 0.00    | 0.00    | 0.01    | 0.01    | 0.01    | 0.01    | 0.02    | 0.01    |

**Operating Results****Three months ended March 31, 2018 compared with March 31, 2017**

For the three months ended March 31, 2018, the Company reported a net loss of \$499,944 versus a net loss of \$204,836 in the comparable period for 2017. The increase is due to primarily to the company's efforts to retain personnel during the development stage through use of stock options. The Company granted 1,450,000 options to officers, directors and key employees and consultants during the current quarter. The options are exercisable for 10 years at \$0.30 per share and are fully vested. The options were valued at \$435,000 and recorded as compensation expense in the period.

Marketing, general and administrative expenses were \$493,614 during the three months ended 2018 versus \$174,417 in 2017. This amount includes \$435,000 in compensation from options granted during the period. These expenses are expected to increase in future periods.

The Company incurred \$2,661 in research and development costs for the three months ended March 31, 2018 compared to \$26,750 in the same period in 2017. The decrease relates to the limitations on the ability of the Company to develop its products due to funding constraint. These fees are expected to increase going forward as the Company will direct more resources once financing is secured.

Depreciation stayed the same at \$3,669 in the three months ended March 31, 2018 and 2017. Intangible assets of the Company were fully amortized in 2016. There was no acquisition of capital assets during the three months ended March 31, 2018 and 2017.

The Company is currently working to settle accounts payable related to management and advisors' fees and expects to recognize a gain on settlement in future periods..

**Liquidity and Capital Resources**

The Company is in the development stage but is now ready to expand its operations, and requires additional capital to achieve its strategic objectives. The Company requires additional working capital to fund product development and business development efforts expanding its VSN, building and acquiring new VSN and licensing its technology, establishing strategic partnerships, and targeting specific verticals.

As at March 31, 2018, the Company had a working capital deficiency of \$2,257,636. SponsorsOne is currently not generating operating cash flows, and has significant cash requirements to continue its research and development of its platforms and administrative overhead. In order to meet future expenditures and

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development costs, SponsorsOne will need to raise additional financing. Although SponsorsOne has been successful in obtaining financing to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to SponsorsOne. Whether and when the Company can attain profitability and positive cash flows is uncertain. These uncertainties represent significant risks to the Company's ability to continue as a going concern.

The Company is currently working on raising additional funds to address the current working capital deficiency and the company has implemented a strict cash flow management process with oversight from the board of directors to ensure cash is utilized in the most effective manner. This includes weekly cash flow management meetings, budget committee pre-approval of all cash expenses and disbursements, and on-going cash balance tracking and management. During times of working capital deficiencies, management and the board of directors collectively prioritize necessary payments and communicate payment plans with the relevant stakeholders/vendors.

*Private Placement and Options Granted*

On January 5, 2018, the Company completed a non-brokered private placement for gross proceeds of \$105,000 through the issuance of 2,625,000 units (the "Units") at a price of \$0.04 per Unit. Each Unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of \$0.05 per common share for a period of 24 months from the closing of the private placement.

On January 10, 2018, the Company granted 1,450,000 stock options to certain officers, directors and consultants. Each option is exercisable at \$0.30 expiring January 10, 2028.

**Subsequent Events**

On April 18, 2018 the Corporation entered into an engagement letter with Emerging Equities Inc. to act as agent, on a reasonable best-efforts basis, in connection with a proposed financing up to 16,666,667 units ("Units") at a price of \$0.18 per unit for gross proceeds of CA\$3 million (the "Unit Offering"). Each Unit is comprised of one Common Share and one half of a common share purchase with each whole warrant entitling the holder thereof to purchase one Common Share at an exercise price of \$0.30 for a period of twelve (12) months (subject to acceleration in certain circumstances).

On April 28, 2018, the Corporation received a Notice of (Re) Assessment (the "HST Assessment") from Canada Revenue Agency regarding GST / HST filings for the period from July 1, 2015 to December 31, 2017, which, if correct, would give rise to \$194,994.27 in HST payable. The Corporation's tax advisors have advised that there are valid grounds to appeal the assessment and the Corporation is currently in the process of filing a Notice of Objection. Pending the outcome of the appeal process, the Corporation has booked the \$194,994.27 as an amount payable in its second quarter 2018 financial statements.

On May 16, 2018, the Corporation completed a private placement of 1,568,440 special warrants ("Special Warrants") of the Corporation at \$0.18 per special warrant for gross proceeds of \$282,319. Each Special Warrant entitles the holder to receive 1 Unit for no additional consideration.

On June 18, 2018, the Corporation announced the extension of the expiry dates of 6,790,784 outstanding share purchase warrants (the "Warrants") that were issued pursuant to a private placement and debt settlement completed in July, 2016. Each Warrant entitles the holder to purchase one Common Share at a price of \$0.30 per share for a period of 24 months from the date of issuance which expires on July 4, 2018. Subject to Canadian Securities Exchange approval, the expiration of the Warrants will be extended to July 4, 2019. All other terms of the Warrants will remain the same.

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The Corporation reached agreements with holders of accounts payable and accrued balances to extend, settle, or reduce the outstanding balances. Extensions (the "Extensions") occurred with holders of \$154,271 of accounts payable. Such amounts are now payable over a 3-year period with the first monthly payments commencing on July 31, 2019 with equal monthly installments sufficient to satisfy the debts in full by June 30, 2021. Accounts payable and accrued balances totaling \$1,227,823 were settled and / or written off in full for cash payments totaling \$30,632 (the "Settlements"). The Settlements were obtained from persons friendly to the Corporation who expressed a willingness to resolve old balances at reduced or zero payout. Lastly, the Corporation reclassified (the "Reclassifications") accounts payable totaling \$473,639 as other liabilities – long term, on the basis that the amounts are disputed and management believes them to be without merit. The Extensions, Settlements and Reclassifications resulted in a reduction of accounts payable totaling \$1,855,733. The Corporation also has reached agreement to settle an additional \$191,144 in accounts payable by the payment of \$30,000 and the issuance of 400,000 common shares.

**Commitments**

The Company has no commitments for capital expenditures.

**Contingencies and Off-Balance Sheet Arrangements**

The Company has no contingencies and no off-balance sheet arrangements.

**Outstanding Share Data**

As at the date of this report, the following Common Shares and convertible securities of the Company are issued and outstanding:

|  |            |
|--|------------|
| Common Shares – issued and outstanding | 30,409,712 |
| Stock options – vested                 | 3,335,000  |
| Warrants                               | 11,766,332 |

**Future Accounting Changes**

Standards issued but not yet effective up to the date of issuance of these financial statements are listed below. This list is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments ("IFRS 9") covers the classification and measurement of financial assets and financial liabilities and the effective date is for annual periods on or after January 1, 2018, with earlier application permitted. The Company is still assessing the impact of adopting IFRS 9. Amendments to IFRS 9 also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

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During the period ended March 31, 2018, officers, directors, and management, which are considered key management, compensation was \$ (for the year ended December 31, 2017 - \$421,764). Management compensation has been included in the marketing, general and administrative account:

| <b>As at:</b>            | <b>March 31, 2018</b> | <b>December 31, 2017</b> |
|--------------------------|-----------------------|--------------------------|
| Consulting fees          | \$ 19,775             | \$ 300,000               |
| Accounting fees          | -                     | 36,000                   |
| Share-based compensation | 435,000               | 85,764                   |
|                          | <b>\$ 454,075</b>     | <b>\$ 421,764</b>        |

As at March 31, 2018, included in accounts payable and accrued liabilities is \$1,283,408 (December 31, 2017 – \$1,409,798) due to related parties for consulting services.

In February 2007, a company controlled by an officer of the Company entered into a loan agreement for the purchase of equipment. As the Company holds an exclusive use agreement over the equipment, which was obtained for the benefit of the Company, and the Company has agreed to pay for all reasonable costs associated with using and financing the equipment, the equipment and corresponding loan obligation are recorded on the Company's records. The loan amount was \$42,043, maturing February 2023 bearing interest at 6.69%. The loan was refinanced at 7.71% for another five years effective February 2012. The equipment serves as collateral for the loan. As at March 31, 2018 the balance of this loan was \$28,519 (December 31, 2017 – \$28,519).

In March 2011, an officer of the Company entered into a loan agreement for the purchase of equipment. As the Company holds an exclusive use agreement over the equipment, which was obtained for the benefit of the Company, and the Company has agreed to pay for all reasonable costs associated with using and financing the equipment, the equipment and corresponding loan obligation are recorded on the Company's records. The loan amount was \$176,910, maturing February 2028 bearing interest at 7.64%. The loan was refinanced at 7.10% in August 2013, with the maturity date unchanged. The equipment serves as collateral for the loan. As at March 31, 2018, the balance of this loan was \$109,177 (December 31, 2017 – \$109,177).

Both loans have now been classified as current as payments are past due and the loans are now in default and the lenders have demanded immediate repayment.

**Financial Instruments**

All financial assets are classified either held fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale. Also, all financial liabilities are classified as either fair value through profit or loss or other financial liabilities. All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at the fair values, except for held-to-maturity investments, loans and receivables and other liabilities, which are measured at amortized cost.



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The Company's financial assets and liabilities are classified and measured as follows:

| <u>Asset/Liability</u>                   | <u>Classification</u>             | <u>Measurement</u> |
|--|-----------------------------------|--------------------|
| Cash and cash equivalents                | Fair value through profit or loss | Fair value         |
| Accounts receivable                      | Loans and receivables             | Amortized cost     |
| Accounts payable and accrued liabilities | Other financial liabilities       | Amortized cost     |
| Loans payable                            | Other financial liabilities       | Amortized cost     |

**Risks and Uncertainties**

Given the speculative nature of the business of the Company, an investment in the Common Shares should only be considered by those persons who can afford a total loss of their investment. The risks presented below should not be considered to be exhaustive and may not represent all of the risks that the Company may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations. If any of the risks described below occur, the Company's business, financial condition, liquidity and results of operations could be materially harmed:

*Limited Operating History and Sales*

The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of development. As the Company is in an early stage and is introducing new products, the Company's revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. In addition, it is also difficult to evaluate the viability of the Company's SponsorsCloud platform because the Company has had limited experience to address the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving markets such as the Company's target markets. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

*No Assurance of Profitability*

The Company cannot give assurances that it will not incur net losses in the future. The limited operating history makes it difficult to predict future operating results. The Company is subject to the risks inherent in the operation of a new business enterprise in an emerging business sector, and there can be no assurance that the Company will be able to successfully address these risks.

*Future Capital Needs; Uncertainty of Additional Funding*

The Company may not be able to fully implement and execute its business strategy without additional financing. There can be no assurance that such additional financing will be available, and if available, there can be no assurance that the cost of obtaining such financing will be on favourable or reasonable commercial terms or that financing will not result in substantial dilution to the Company's shareholders.

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#### *Dependence on Key Personnel*

The Company's future success depends on its ability to retain key employees and attract, train, retain and successfully integrate new talent into its management team. The Company's success is highly dependent on its continuing ability to identify, hire, train, motivate and retain appropriate personnel. Competition for these personnel can be intense, and the Company cannot provide assurance that it will be able to attract or retain them. To do so, it may be necessary for the Company to materially increase the compensation it pays.

#### *Management of Growth*

The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

#### *Competition*

Competition in the advertising industry as it relates to digital and social media is increasing. While the Company is targeting smaller niche sites with higher expected revenues per subscriber, there can be no assurances that competitors will not adopt a similar strategy and attempt to enter the markets that the Company has targeted.

#### *Dependence on Proprietary Technology and Limited Protection Thereof*

The Company will be relying on a combination of trademark, copyright, patent and trade secret law, as well as confidentiality restrictions contained in certain confidentiality agreements, to establish and protect the Company's proprietary rights in its intellectual property. As a result, the Company may not be able to adequately prevent a competitor, business partner or customer from creating or obtaining an illegal copy of its software or otherwise using it for inappropriate purposes such as reverse engineering.

#### *General Economic Trends*

The worldwide economic slowdown and tightening of credit in the financial markets may impact the business of the Company's customers, which could have an adverse effect on the Company's business, financial condition, or results of operations. Adverse changes in general economic or political conditions in any of the major countries in which the Company does business could also adversely affect the Company's operating results.

#### *Asset Location and Legal Proceedings*

Substantially all of the Company's assets are located in Canada where intellectual property is generally enforced. Social media is global in nature, and the Company expects to have subscribers and assets located outside of Canada. Accordingly, the Company may be subject to legal proceedings and judgments in foreign jurisdictions.

#### *Risk Associated with Foreign Operations in Developing Countries*

The Company's primary revenues are expected to be achieved in North America initially. However, the Company may expand to markets outside of North America, and become subject to risks normally associated with conducting business in a developing country. The Company cannot predict government positions on such things as foreign investment, intellectual property rights or taxation. A change in government positions on these issues could adversely affect the Company's business.

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#### *Market Acceptance*

The Company's ability to gain and increase market acceptance of its platform depends upon its ability to establish and maintain its brand name and reputation. In order to do so, substantial expenditures on market research, product development, product testing, strategic relationships and marketing initiatives may be required.

#### *Rapid Technological Change*

The advertising industry as it relates to social and digital media marketing is characterized by rapid technological change, changes in user and customer requirements and preferences, frequent new product and service introductions embodying new technologies and emergence of new industry standards and practices that could render the Company's existing products and systems obsolete and can exert price pressures on existing products. It is critical to the Company's success that it is able to anticipate and react quickly to changes in technology or in industry standards and successfully develop and introduce new, enhanced and competitive products on a timely basis. The Company cannot give assurance that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhanced existing products by others will not render the Company's products obsolete. The process of developing new technology is complex and uncertain, and, if the Company fails to accurately predict customers' changing needs and emerging technological trends, its business could be harmed. The Company must commit significant resources to developing new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, and result in increased operating expenses.

#### *Product Defects and Reputation*

The Company will continue developing source code for its platform. Such source code and related products may contain errors or hidden defects that may significantly impact the user experience. The Company may not be able to correct the defects in a timely manner, and may lead to a loss of or a delay in market acceptance. In addition, such errors or hidden defects could cause adverse damage to its reputation and impair its ability to acquire new users. In addition, the Company may need to make significant expenditures to eliminate defects from its products. As well, errors and defects could lead to claims for liability or other claims involving costly litigation.

#### *Electronic Communication Security Risks*

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

#### *Data Transmission*

The Company transmits the majority of the content of its SponsorsCloud platform as a service over the Internet. If the Company experiences transmission failures or limited transmission capacity on the Internet or other data networks the Company may use, it may be unable meet its commitments.

#### *Insurance Coverage*

The Company will require insurance coverage for a number of risks, including business interruption, environmental matters and contamination, personal injury and property damage. Although the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking

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into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

#### *Tax Risk*

The Company will be considered to have been carrying on business in Canada for purposes of the *Income Tax Act* (the "**Tax Act**"). However, the Company will be operating in the social and digital media space, a new and developing industry that has had historically low regulations and tax compliance. There is risk that foreign governments may look to increase their tax revenues or levy additional taxes to level the playing field for perceived disadvantages to the traditional brick and mortar business. While the Company does not foresee any adverse tax affects, there is no guarantee that governments will not impose such additional adverse taxes in the future.

#### *Risks in Foreign Jurisdictions*

Social media is a global phenomenon, and the Company anticipates that a significant user base will be located outside Canada. International business activities entail additional risks such as uncertainty as to the protection and use of intellectual property, partnership risks, political risks, legal and regulatory risks, the risk of increase in taxes (including value added taxes) and trade barriers. Furthermore, as profits of foreign subsidiaries are taxable under foreign income tax legislation, revenues from foreign operations could be adversely impacted.

#### *Currency Fluctuations*

Due to the Company's present operations, and its intention to in the future operate in jurisdictions outside Canada, the Company is expected to be exposed to significant currency fluctuations in the future. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. A substantial portion of the Company's revenue could be earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the US dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations globally so it may be subject to additional gains and losses against additional currencies. The Company does not currently have a foreign exchange hedging program in place. However, in the future, it may establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, it may not hedge its entire exposure to any one foreign currency and it may not hedge its exposure at all with respect to certain foreign currencies.

#### *Fluctuations in Quarterly Results*

The Company's quarterly operating results may fluctuate significantly in the future depending on factors such as the popularity of social media, the ability to attract users, progress on implementation of projects and upgrades, the number, timing and significance of new product announcements by the Company and its competitors, the ability to license and develop new VSN, introduce and market new and enhanced versions of products on a timely basis, changes in operating expenses, and general economic factors, among others. A significant portion of the Company's expenses are based on expectations of future revenue and, therefore, is relatively fixed in the short-term. Accordingly, if revenue levels are below expectations, operating results are likely to be adversely affected. As quarterly revenue is dependent upon building a significant user base, and the ability to monetize that user base, the inability to build and monetize the user base could cause the Company to plan or budget inaccurately, and those variations could adversely affect its financial results.

#### *Officer and Director Conflicts*

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The Company's officers and directors may have certain interests and arrangements that are different from, or in addition to the Company's shareholders. Executive officers and directors may have rights to indemnification including directors' and officers' liability insurance that will survive consummation of their agreements.