

# SPONSORSONE INC.

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

### FOR THE THREE AND SIX MONTHS ENDED JUNE 31, 2022

*The following management's discussion and analysis of financial condition and results of operations (the "MD&A") has been prepared by management and provides a review of the activities, results of operations and financial condition of SponsorSone Inc. ("SponsorSone", "SPO" or the "Company") based upon International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements as at and for the three and six months ended June 31, 2022 (the "Interim Financial Statements") together with the MD&A and the audited consolidated financial statements of the Company as at and for the year ended December 31, 2021 as well as the notes thereto. All amounts are expressed in Canadian dollars unless otherwise stated.*

*This MD&A is dated August 29, 2022. Additional information relating to the Company, including the Company's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

#### FORWARD-LOOKING STATEMENTS

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 several significant factors that 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 the 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.

#### COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. COVID-19 has caused heightened uncertainty and volatility in the global economy, including supply chain stress and inflationary pressure. If economic growth slows further or if a recession develops, customers may not have the financial means to

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make purchases and potentially having a negative impact on the Company's financial performance. Since the impact of COVID-19 is ongoing, the effect of the COVID-19 outbreaks and the related impact on the global economy may not be fully reflected in the Company's financial statements until future period. Further, volatility in the capital markets may continue, which may cause declines in the price of the Company's shares and may also affect its ability to raise working capital through equity or debt transactions.

In particular, upon acquiring PBC in late 2020, the Company started to package own brand spirit and alcohol with the intent to better control the develop these brands. However, due to the shut down and disruption of our packaging partners and material suppliers due to COVID-19 in the States and around the globe, we were not able to package the product and deliver to channels within the required time frame set by the channel partners. COVID-19 had a dramatic effect on the supply chain as manufacturers shut down and subsequently, we unable to bring their full complement of employees back to work to resume pre-pandemic production levels. As such, deliveries time of 15-30 days upon order were lengthened to 90-120 days deliveries creating capital constraints to order and stock inventory using equity capital within our Company while meeting the 10 day order demand of our Distributors and Retailers. Using equity capital for creating an inventory buffer without secured orders for the finished goods was very costly for the Company. The Company maintains finished goods inventory today that is fully paid for and it expecting to sell it all in order to recover some or all its invested capital in inventory.

Due to the COVID-19 supply chain difficulties previously described and the continual need to finance inventory with equity financing the Company we focus on Doc Wylder's and assess an alternative strategy for the Spirits business. A strategy that does not require the Company to use its equity to acquire inventory against no firm orders for the products. Purchase order financing is a viable option once purchase orders from the distributors are issued. The Company will assess the Spirits business on a case by case basis at this time.

The ultimate duration and magnitude of the COVID-19 pandemic's impact on the Company's operations and financial position is not known at this time. An estimate of the financial effect of the pandemic on the Company is not practicable at this time. The Company will provide updates promptly when new information is available.

## **BUSINESS OVERVIEW AND CORPORATE UPDATE**

### **THE CORPORATION**

SponsorsOne Inc. (the "Company" or "SponsorsOne") was incorporated under the laws of the Province of Ontario on March 9, 1965. Over the years, the Company has changed its name several times and operates as SponsorsOne, Inc. The registered office is located at 2 Campbell Drive, #820, Uxbridge, ON L9P 0A3. References to SponsorsOne or the Company include the other names the company has operated under.

MXM Nation Inc. ("MXM") was incorporated on February 2, 2005, under the Business Corporations Act of Ontario, Canada, and is a wholly-owned subsidiary of SponsorsOne, Inc. On December 19, 2013, MXM completed a reverse takeover transaction of SponsorsOne. For accounting purposes, MXM was considered the acquirer, and SponsorsOne was the acquiree.

SponsorsOne Media, Inc., was incorporated under the laws of the State of Delaware, the United States of America on January 9, 2018, and is a wholly-owned subsidiary of SponsorsOne, Inc. The primary office of SponsorsOne Media, Inc. is located at South 8514 Sagewood Road, Spokane, Washington 99223. SponsorsOne Media, Inc. was dissolved in February 2022.

S1 Brands, Inc. was incorporated under the laws of the State of Delaware, the United States of America, on November 25, 2019, and is a wholly-owned subsidiary of SponsorsOne, Inc. The primary office of SponsorsOne Media, Inc. is located at South 8514 Sagewood Road, Spokane, Washington 99223.

Premier Beverage Consortium LLC., was acquired on November 1, 2020 and was restructured to a share corporation and renamed Premier Beverage Consortium Inc. ("PBC"). The company is incorporated under the laws of the State

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of California United States of America, and is a wholly owned subsidiary of S1 Brands Inc. The primary office of Premier Beverage Consortium Inc. is located at 5431 Avenida Encinas, Suite H, Carlsbad, CA, USA, 92008 .

HS Brands Inc. was incorporated on March 17, 2021, under the laws of the State of Delaware, United States of America. This is a wholly owned subsidiary of S1 Brands Inc. The primary office of HS Brands Inc. is located at South 8514 Sagewood Road, Spokane, Washington 99223.

#### **Business Overview**

SponsorsOne Inc. (the "Company") creates Premium brands of tomorrow, digitally native and data-driven with direct engagement from the customer through social media and other digital channels. The Company attempts to meet the very demanding needs of the Millennial customer with elevated products and speed to market.

The Company accomplishes this with a complete end-to-end digital experience that includes marketing, sales, customer engagement & fulfillment. The Company has shifted from working with external, small brands to internal brand creation of unique, high-quality products that the market demands now within high-growth categories. With the Company connected digitally to potential customers, we can democratize product creation through real-time feedback derived from social media. As emerging consumer needs are analyzed through this community-driven network, we will have the ability to conceptualize changes to the Brand/Product and implement such changes within weeks. Or, if new product ideas surface, we can create and launch new Brands within a few months. This dynamic data-driven system collapses brand creation and launch from years to months.

#### **Brand Building**

The Company is focused on the two segments, Adult Beverage and Wellness. The Company has developed an Omni Channel distribution strategy which it manages internally for the Brands we create. This includes Direct to Consumer ("DTC") sales and delivery right to the door of the Millennial. Additionally, the Company has built an international wholesale distribution channel to have its products placed within the retail stores throughout the territory we are operating. The Company expects to have both DTC and Wholesale/Retail channels operating to meet the real-time demand of the Millennial customer, giving them many purchase options for our Brands. With the focus on the Millennials who are digitally connected to social media, the Company can engage and build communities around each of our Brands, potentially fueling sales, marketing, and new Brand creation. The Millennial is motivated around creating a movement and identifying with a brand's buildup, claiming it as their own. Organically, the network effect within the connected community will create many sub-network layers of communities. A multi-layered community's authenticity can be traced back to the originator of the content and the network effect can be measured. All of this is intended to be managed by the Company's proprietary SponsorCoin platform. SponsorCoin enables real-time feedback on each Brand, allowing us to drive strategy using data, enabled on scale, with Artificial Intelligence and Deep Learning.

The Company follows a product management and commercialization model, identifying market opportunities, differentiation, competitive dynamics, supply chain availability, pricing, margin, and profit potential. If the Company agrees to invest in creating new Products or Brands, standard product development and consumer testing will validate the acceptance of the product and potential pricing. The Company will launch these products in an Omni Channel approach (DTC and Wholesale/Retail) to build demand and establish the brand and/or product within its target market. The Company intends to profit from sales of the Products while it builds awareness within the target market. The end goal is to build value in the Brand as we incubate the market and then look to exit the Brand with an outright sale of the Brand and all its associated assets. The initial focus will be on commercial success through sales within the Omni distribution channel. If the Company believes it has maximized the brand's value at this early adoption stage, it may consider selling the brand to a larger National Beverage Company that will have the resource to scale this nationally and competitively. This will be determined based on market demand, retailer expansion plans vs. the capital required to meet such demand. The analysis will be done and reviewed quarterly by management.

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### **Current Brand and Market Focus:**

The Company's current focus is the Adult Beverage and Wellness Sectors, where multiple Brands have been developed and are being commercialized through Omni Channel distribution and sales. Upon the launch of a new brand, the Company will work with select buyers at Major retailers to pull the product through the Company's established distributors. The initial launch focus is geographical, focused on Southern California, Arizona, Nevada, and Texas first. This includes direct selling to Retailers and, upon success with these retailers, launching geotargeted social media marketing to drive sales directly where the product is stocked. All new products introduced by the Retailers in their market have a benchmark that must be met to continue selling and restocking the products. The product being sold by these retailers must come from authorized and licensed distributors. In the State of California, PBC is licensed to also self-distribute to Retailers.

As of this report, the Company has not exited a Brand through an outright asset sale and therefore does not have a set deal structure for selling its internally created Brands. In discussions with potential buyers, we have discussed what the terms may look like for an outright sale of specific Branda we own, including the sale of finished goods and raw material inventory, intellectual property, trademarks and registrations, supply chain contracts, website, and social media sites, and Retailer contracts.

### **Revenues:**

The Company sells finished goods inventory to distributors and, in the case of California, in support of the DTC market, uses an exemption to sell directly to an online retailer in support of our Doc Wylders eCommerce site, [www.docwylders.com](http://www.docwylders.com). The State of California has a Retailer Permit that lets PBC sell direct to the Retailer and by pass the licensed distributor. PBC has obtained this license and uses this to sell direct to SpeakEasy who manages our [www.docwylders.com](http://www.docwylders.com) ecommerce site and handles all order and shipping processing.

Payment terms accepted by Distributors are FOB, our shipping dock net of 30 days. It is common to receive a payment within 40 days of invoicing. In some cases, distributors offer a 10-day payment with a 1% discount on the invoice, and the Company now prefers this payment arrangement.

Margin in the Spirits business varies depending on distribution channel and volume. On the Spirits products (Whiskeys, Vodka and Gin), we see on average 30%-35 margin and expect these margins to vary based on volume, supply chain capability, etc. For the Ready to Drink market (Doc Wylder's), we also see margins in the 30-35% range when selling through distributors.

In the Direct to the Consumer market ("DTC"), the Company expects margins in the 50-60% range, selling directly to the retailer (using our California exemption) and not through a distributor. The DTC channel will be supported through community commerce, resulting in a commission payout to the community members that influenced the sale. This will be paid by the Company to the member through a cash settlement system. The SponsorCoin platform is currently integrated into Stripe.

If one of our Brands is sold outright, the Company intends to offer access to the Platform as a Service for a fee (PaaS), allowing the Buyer to grow the DTC market already built by the Company. Using the SponsorsCoin platform to maintain DTC sales for the Brand buyer will cost the buyer 10%-15% of sales. It is the Company's intention to remain involved in the development of the Brand within the DTC market using the SponsorCoin platform.

### **SponsorCoin**

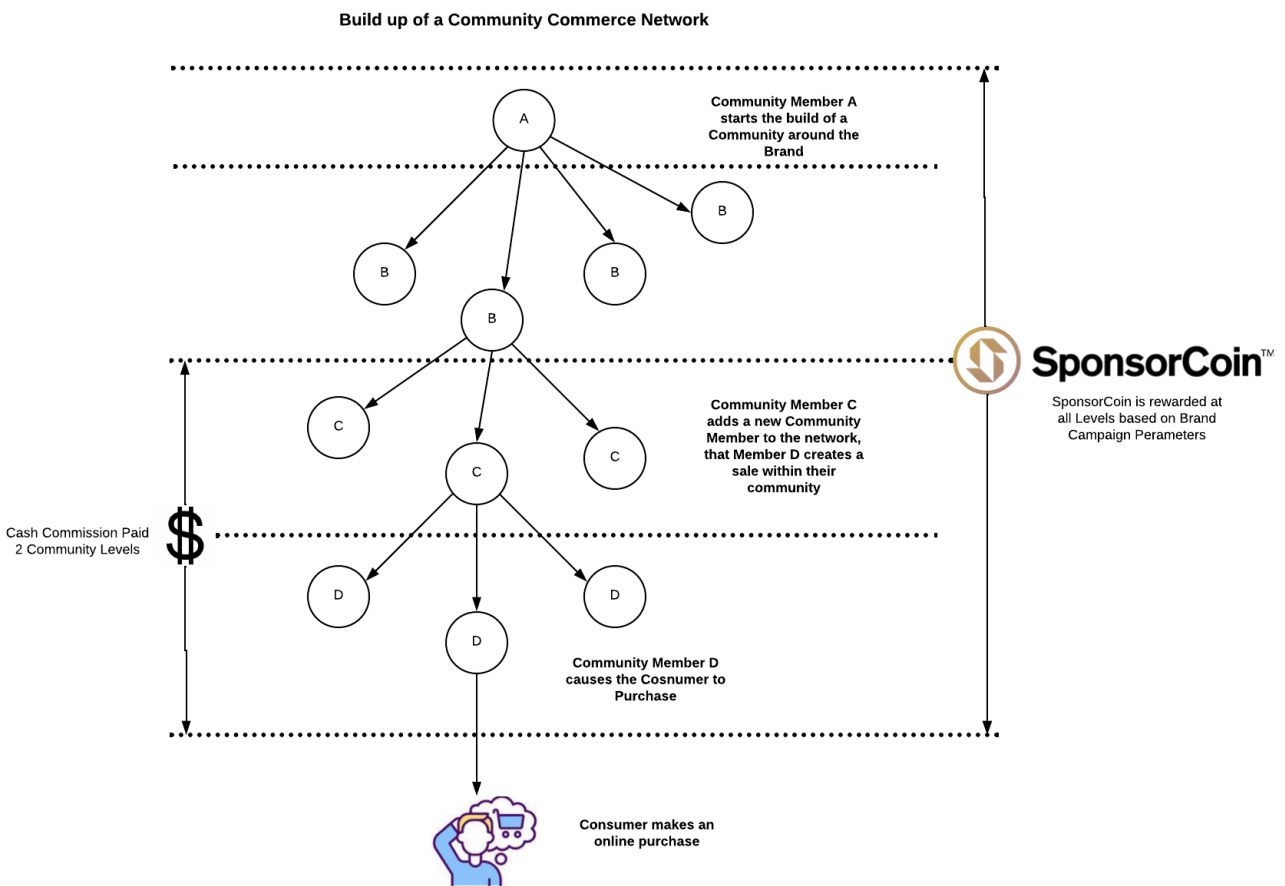
The SponsorCoin platform was conceived by MXM Nation Inc. in 2012 and continues to evolve within the Company. Specifically, within MXM Nation Inc., a wholly subsidiary company. MXM Nation is a Waterloo-based, Ontario, Canada company where platform development is performed locally and internationally with contract software engineers. The SponsorCoin platform was developed to track the authentic engagement occurring as communities are built around a Brand. The SponsorCoin itself is a rewards system (and not a Cryptocurrency) to reward the user with SponsorCoins based on the type of engagement and the quality of the engagement. The Brand rewards content creation and authentic engagement among the community. As the community builds, we document the social graph

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to determine who has developed the network and all sub-network connections. This allows us to measure the network effect leading to the sale of a product in the DTC model. With this knowledge, the Brand selling its products through the DTC platform can determine who directly influenced the sale and who added this new community member to the network. The commissions set by the Brand then get paid to these two individuals and are allocated on a percentage basis set by the brand. The diagram below shows the build of a Community Network for the purposes of Commerce. In the diagram, Member A starts building their community by inviting Member B. Member B invites Member C, and Member C adds Member D, and so on. There is no limitation on the number of members and the number of layers. In this diagram, Member D influences a sale by a consumer, this is tracked through the engagement of the content posted by Member D. In the event of a sale, Member D and Member C will receive a cash commission based on the allocation percentage entered by the Brand. A typical commission split is 60% to member D and 40% to Member C. In the event of a sale and in the event that Member A develops content that was used at all sub levels that caused purchase by the Consumer, then all layers engaged with this content will be rewarded with SponsorCoins. The rewards a campaign specific and are specified by the Brand for each layer reward. The SponsorCoin reward has a finite limit to the number of Coins allocated to each campaign. When the marketing budget (SponsorCoins) runs out, then only cash commissions will be issued. This is demonstrated below:



Cash commissions are calculated in real-time, placed in a settlement account at Stripe under the Brand name, and paid out once the product return period of the purchased product has expired. All settlement timing and calculations are done by the SponsorCoin platform, and settlement instructions are sent to Stipe through the direct API interface to move the cash commission from the Brands settlement account to the account of the Community Member and to SponsorsOne for the SponsorCoin platform usage.

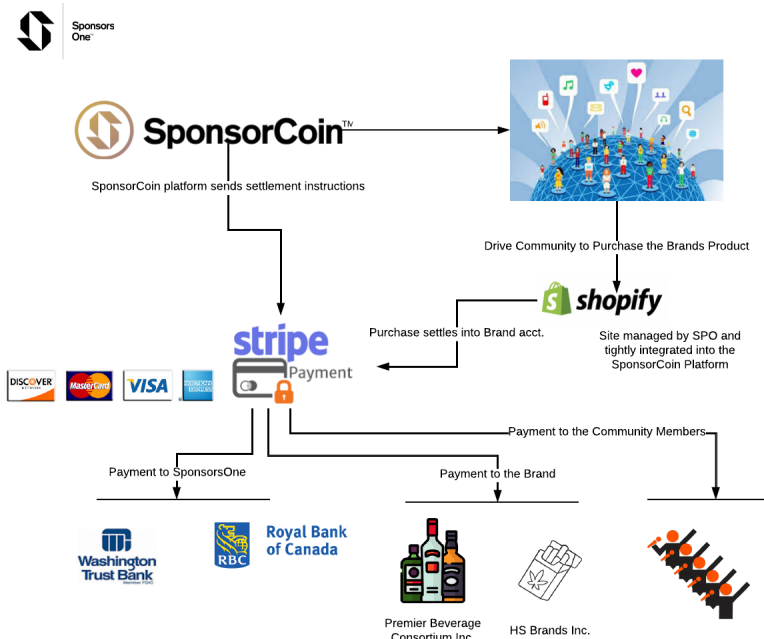
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Currently, the SponsorCoin platform will only be used for our internal Brands such as Doc Wylder’s, Smithville, and Hemp Smokes. The platform will not be offered to external Brands at this time. The Company believes that adding external Brands will not be feasible until the Community becomes of critical mass and data analytics are available. Adoption and usage will determine when the Company opens the platform to a larger Brand community.

The diagram below shows the settlement system, which calculates the fee splits based on the sale, the commissions, and the platform fees:



*(Diagram shows the complete transaction settlement infrastructure for supporting DTC Marketing and Sales)*

The SponsorCoin platform is used internally to support the DTC marketing and sales of our Spirits and Wellness Brands. The Company charges PBC and HSB a PaaS Fee of 10% of sales, this is an intercompany transfer to ensure MXM Nation is running its operation profitably. If and when an external Brand is allowed to use the SponsorCoin platform, it is anticipated that a 15%-20% fee of sales will be charged to that Brand.

If in the event one of our internal Brands is sold to an external company, the SponsorCoin service may be offered to the acquirer.

The SponsorCoins that are issued for authentic engagement can only be used internally among the Brands participating on the platform. SponsorCoin can be redeemed automatically at check out on the Shopify eCommerce platform, and each user's SponsorCoin may have varying value depending on the past engagement with the Brand for which they are purchasing the product. This is determined algorithmically at the time of check out. The user will have a SponsorCoin Wallet that shows every transaction where they earned SponsorCoin, with what Brand, doing what action and a total balance will be shown. All this information is shown on a dashboard to assist the member on which Brands value them the most, driving the Member to buy these Brands' products. If SponsorCoins are used to purchase products, thus reducing the actual cash purchase price, a credit card or debit card will be then used to complete the purchase for the balance of the payment. This is all automatically calculated at the time of purchase. If SponsorCoin is redeemed, the SponsorCoin transfers to the Brand wallet to be used again for issuance against authentic engagement within the community. Each SponsorCoin issued into circulation within the ecosystem has persistent data that stays with the life of each coin.

To manage the total SponsorCoin float, the Company will reserve capital equivalent to 10% of the total float issued. Mathematically, for every SponsorCoin issued at \$010 per coin, the Company will reserve \$0.01 in cash to offer a

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buyback to convert the coin back to cash. This allows us to reduce the total SponsorCoin in circulation, allowing the value to be managed without issuing an oversupply.

It is the intention of the Company to integrate the SponsorCoin cash redemption as stated above into an approved CryptoWallet so the cash proceeds can be used to purchase any cryptocurrency approved by the Member. It is the Company’s intention to make this a seamless process integrating with a CryptoWallet supported by a licensed CryptoExchange. This software has been developed and will be deployed once the SponsorCoin platform significantly demands cash redemption and conversion to Crypto. The exact mechanism, including the value, if any, of redemption is still being designed and developed.

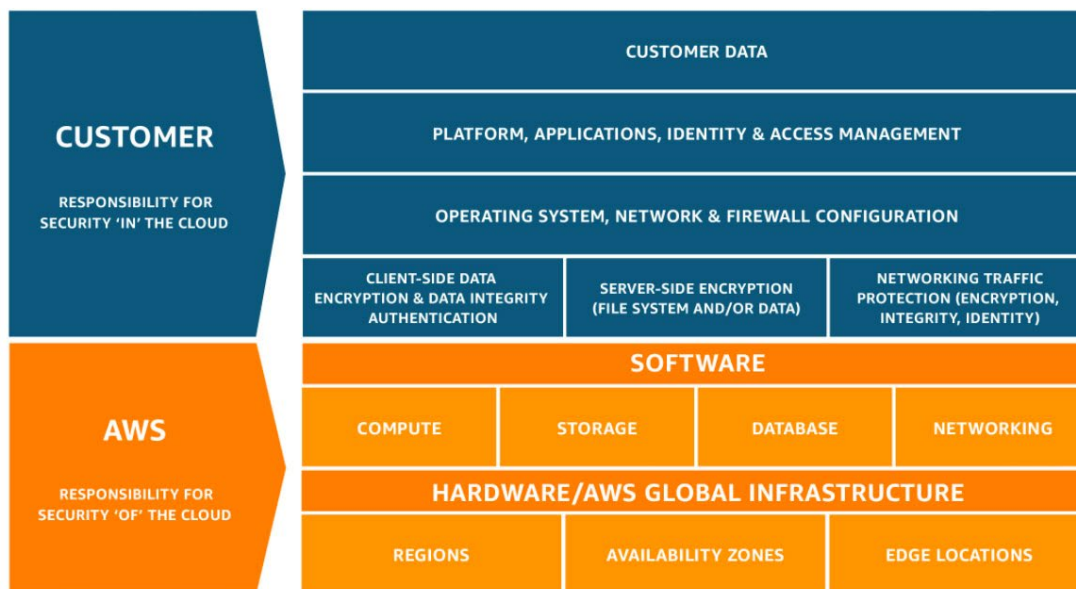
The SponsorCoin platform is NOT using the Blockchain for tracking SponsorCoin ownership, nor does it use a user's private key to unlock the ledger record. SponsorCoin is built on a centralized ledger, and all security is managed through encryption and two-factor authentication.

**SponsorCoin Security**

To build many communities around the Brand, privacy and data protection of community members will be required. The Company has implemented a multilayered approach to safeguarding the member's identity, data, and wallet where the SponsorCoin is held.

Every SponsorCoin earned keep persistent data around its journey within the SponsorCoin platform. From the issuance of the SponsorCoin by SponsorsOne to the Brand’s wallet to the user and then back to the Brand (or transferred/donated to another user), the data surrounding the issuance and use of the SponsorCoin is stored to provide intelligence around what actions result in Brand outcomes leading right to the sale of a product. Protecting this intelligence for the User, the Brand, and for SponsorsOne will allow for robust community commerce build-up and full engagement between the User and the Brands. Protection, Security, and Identity Management all play a critical role in the implementation, and SponsorsOne has taken a multi-layered approach to security and privacy as stated below:

Layer 1: Cloud-Based Protection - Server level (AWS Service)



*Diagram provided by Amazon AWS Services*

In the AWS layer, AWS is designed to help build secure, high-performing, resilient, and efficient infrastructure for the SponsorCoin application. World-class security experts provided by AWS, monitor the infrastructure and

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assist in the build and help maintain a broad selection of innovative security services, meeting our security and regulatory requirements. AWS security services and solutions are implemented to assist the Company with an optimal security posture at the cloud levels as follows:

**Prevent:** Define user permissions and identities, infrastructure protection and data protection measures were implemented.

**Detect:** Visibility into the SponsorCoin security posture with logging and monitoring services. Ingest this information into a scalable platform for event management, testing, and auditing.

**Respond:** Automated incident response and recovery to help shift the primary focus of security teams from response to analyzing the root cause.

**Remediate:** Leverage event-driven automation to quickly remediate and secure the AWS environment in near real-time.

Layer 2: Application Privacy/Security and Identity Management (Shown in blue in the diagram above)

The SponsorCoin application has implemented a number of fraud detection mechanisms to detect and review and reverse transactions that are associated with the issuance and earning of SponsorCoins as follows:

**Leveling Limits:** Spending limits within each sponsor level by brand limit the redemption exposure risk to the Brand at time of purchase. Once the campaign account has issued all allocated SponsorCoin, the campaign is over, and the Brand will need to add SponsorCoins to the Brand Wallet.

**SponsorCoin Float:** The amount of SponsorCoin issued to a Brand will represent no more the 10% of sales, which avoid SponsorCoin deflation due to oversupply. The SponsorCoin super admin can adjust issuance levels based on revenue acceleration or seasonality.

**Manual Review on High-Value Content:** Certain high-value content, such as written reviews and detailed commentary on the Brand and its products, will be placed into a remediation queue and reviewed by content specialists. This avoids high-limit SponsorCoin issuance when robots and spammers attempt to gamify the platform. Our internal controls protect the Brand against fraudulent SponsorCoin Issuance

**Compensated Actions:** The Brand defines the relevant actions that we are willing to issue their SponsorCoins. This includes the specific action, the amount to be issued, and the number of times this action is allowed. A mechanism to protect the Brands from gamifying their campaign rewards system.

**Community KYC for Cash Commissions:** Each user signing up to be part of the decentralized sales force of the Brand will open a Stripe account and will need to provide account opening documentation and bank account information to Stripe. SponsorCoin platform and the e-commerce backend - shopping cart is integrated for settlement into the Brand stripe account. Stripe will hold cash commissions for the return period and then release commissions to the member's Stripe account. Stripe is the payment system, and SponsorCoin relies on Stripe's secure money systems.

**SponsorCoin Member to member transfers:** The SponsorCoin placement allows for transfers from wallet to wallet, helping a friend out to purchase participating Brands' products or potentially level up with a Brand. Any transfer from one account to another will be two factor authenticated to the member's smartphone and/or email. This will prevent unauthorized transfers. Strong identity management is in place to authenticate the wallet owner before such transfer is allowed. The exact mechanism, including the value, if any, upon transfer is still being designed and developed.

**User Data Authorization and Payment:** In addition to earning SponsorCoin for performing authentic marketing actions for the Brand, it is contemplated that data sales to the Brand will be shared with the members if their



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data is used. The intention is to reward with SponsorCoin by creating a marketplace for anonymized engagement data and trends.

#### **SponsorCoin as a Rewards System for Authentic Marketing Engagement**

The SponsorCoin platform was developed to provide a detailed view into how consumers engage within social media, which leads up to a sale. Effectively adjust the campaign's strategies in real-time to improve engagement and drive higher sales. Sales are monitored only for the Direct to Consumer e-commerce marketplace, and it is tightly integrated into the Shopify e-commerce platform.

SponsorCoin is issued as a reward for authentic content creation and engagement within the member owe community. When we assign a par value of \$0.10 to each coin issued for valuing redemption, the value of the SponsorCoin will change based on the sponsorship level the member is with each Brand. All members start at Level 1 and can work their way up to Level 10 through continual engagement with the Brand. The SponsorCoin value will increase with that particular Brand based on the level obtained. While SponsorCoin can be used across multiple Brands participating in the platform, the user may be at different levels with multiple Brands and therefore, their SponsorCoin will be worth more or less depending on the Level achieved.

The SponsorCoin can only be used within the SponsorCoin platform with participating Brands, similar to any loyalty points system in the market today. The difference is traditional points systems issue points on purchases made, where SponsorCoin issues on authentic content creation and engagement (i.e., marketing).

Loyalty programs are common base with Brands and retailers, and therefore, the Company believes\* that it does not require any regulatory approval for offering a point-like program to be used for redemption within the participating SponsorCoin platform. External Brands outside the platform have no access to the SponsorCoin, and the SponsoCoin is not being marketed as a generic rewards system for all and any participating retailers and Brands.

With respect to the cash commissions being paid to participating members as external contract salespeople, the SponsorCoin platform will print monthly income statements for each member earning commissions and file a year-end enring report for tax reporting in each jurisdiction that operates. As the member is a contractor, it is not the intention to withhold taxes as employees of the Brand companies. Furthermore, the earning of SponsorCoin as a rewards system will also not be reported as income as the value of the SponsorCoin is only realized at redemption as with a typical rewards-based points system

As a rewards system, similar to other points-based rewards systems which were not classified as a security under Canadian or USA securities laws, the Company believes\* that the SponsorCoin is not a security under securities law. Further, this is not a Cryptocurrency that trades in the open market, and as a point-based system within a closed system, moderated by participating Brands, centralized in nature, the SponsorCoin does not fall under Cryptocurrency regulations by its rewards-based nature.

\* This is based on our own interpretation and understanding of the current laws and regulations. No formal legal opinions have been obtained. The Company may seek for formal legal opinion before the platform is in use and/or commercialized.

#### **Company History**

SponsorsOne has evolved from the original launch of what is now called influencer marketing and placed its roots in supporting amateur extreme sports athletes back in 2006. The Company was called MX Mechanics Inc., and it managed 30 Brands and twenty amateur athletes (micro-influencers) who promoted the Brands resulting in increased sales and market share.

In 2011 the Company enabled the Brand's products to be purchased online using e-commerce and connecting the athlete to the Brand by directly influencing sales. The Company added a rewards system called X-Points, and these points were issued for purchasing products. This was met with resistance from the traditional wholesale/retail network causing the Brands to resist going direct to consumers.

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In 2012 the Company introduced the ability to tie the retailer into the fulfillment process, accomplishing both influencer marketing and DTC sales which gave the Brands the option to support their wholesale/retail channel as the fulfillment and distribution network.

In 2013 the Company discovered that this model could work for any Brand, not just Extreme Sports, and social media was exploding. The idea of an influencer was born within social media, and big money was being spent on paying these influencers to place content from the Brands. This was the beginning of a Pro-Influencer. We didn't see the sustainability of this model as it was driven mainly by very large Brands spending very large dollars with very large Influencers.

In 2015 the Company saw the emergence of micro-influencers and smaller Brands exploding all over social media. Instagram emerged, and micro-influencer became a business opportunity for the Millennials. The Company was developing for this market from day one and understood it well.

In 2018 the Company launched with Small Brands and influencers to test the platform and see the response. It was clear that the influencer network wanted to see the content generated by the influencer. The company-created content was not needed until the brand was well established within that network of influencers. Only then did the network want to hear from the Company directly. We also saw the launch of affinity programs where Brands were paying a cash commission for a sale that the influencer generated. Affinity programs do not track the network effect, and commissions were on direct only (single layer) influence.

In 2020, the Company pivoted away from small brands that were underfunded with a lack of management expertise and that very little value was being added by these small brands. Most of their products were sourced from other manufacturers and the margins in many of the top categories, like fashion, were very thin. We decided to build our own Brands, which we owned 100%, focusing on the Spirits and then Wellness markets. These are high-volume markets with rapidly shifting trends. We sourced top distillers to co-develop products and launched Doc Wylder's. Then we launched Smithville Whiskey, 4 Corners Vodka, and Riverview Gin, enhancing our portfolio. We announced the intention of entering CBD market with a Hemp Smokes product offering.

In 2021 and 2022, the Company experienced supply chain issues in the Beverage market; cans, glass, and cardboard, among other items we difficult to obtain, and costs increased. The Company started to acquire inventory to help buffer the long lead time items while the wholesaler channel was still demanding ten days order commitments. Concluding 2021, the Company had a large inventory position of both unfinished and finished goods.

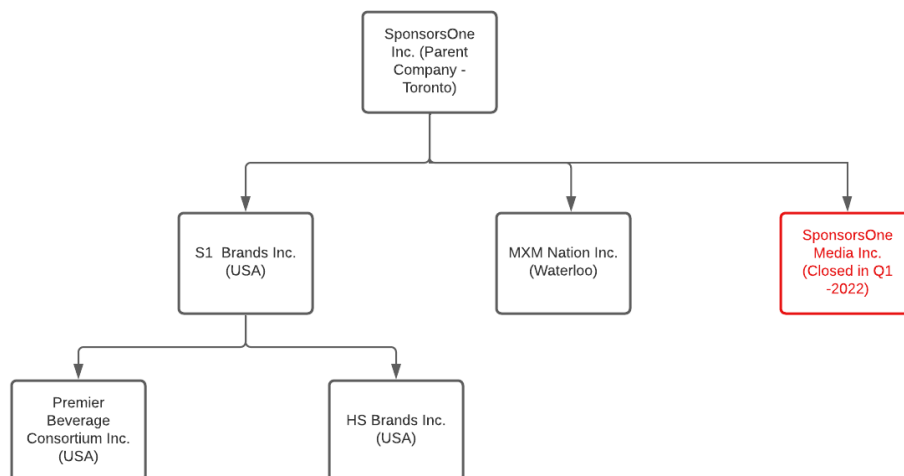
#### **Corporate Structure:**

SponsorsOne Inc. is the parent company to several subsidiary companies:

## SPONSORSONE, INC.

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1. SponsorsOne Inc. (Parent Company) public and listed on the CSE in Canada (CSE:SPO), and listed on the OTC markets (OTC:SPONF) and in Frankfurt (FSB:5S0)
2. S1 Brands Inc., a USA company, 100% owned by SponsorsOne Inc. that creates subsidiary Band companies, manages and invests in Brand creation, development, sales, marketing and the buildup of wholesale/retail distribution.
  - a. Premiere Beverage Consortium Inc., a product company 100% owned by S1 Brands Inc., focused on the Spirits market with premium product development and manufacturing.
  - b. HS Brands Inc, a product company 100% owned by S1 Brands Inc., focused on Hemp Smokes product development and manufacturing.
3. MXM Nation Inc. (soon to be renamed S1 Labs Inc.) is 100% owned by SponsorsOne Inc. and is a Waterloo technology company building the SponsorCoin platform and managing the company's digital infrastructure internationally.
4. SponsorsOne planned to close and dissolve SponsorsOne Media Inc., in Q1 2022, contract content creation as a business center for SponsorsOne shifted to the Influencer as the content creation and the Company saw no need to continue with this entity.

The Company may open more product divisions as emerging opportunities for Brand building occurs.

#### Status Update on Internal Development Projects

The Company has many development stage projects underway, including the SponsorCoin platform and the various Brands. The status and stage of each development is discussed below:

##### 1. The SponsorCoin Platform (within the MXM Nation Inc., wholly owned subsidiary):

The SponsorCoin platform was conceived in 2013, focusing on high-level influencers that were just beginning to monetize their influence within social media. The social platform had begun to commercialize its application program interface (API) to allow applications such as the SponsorCoin to access social content and social interactions. From 2014 to 2015, a significant development was done to build the awards system for content scoring, and testing commenced in 2016. With the back end significantly completed in 2017, the Company began to focus on UX/UI design and mobile. From 2018 to 2019, the Influencer market underwent a significant shift to the micro-influencer, and the company launched using the back end with small brands. There was a lot of content engagement, but very little transpired into sales for the launched Brands. In 2019 we focused on building brands internally and acquired Premier Beverage Consortium in 2020. Social media platform were continually evolving their API, and we had to keep redeveloping how we access the content. The influencer shifted from being paid for influence to wanting commission-based income, causing 2020 and 2021 to add cash

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commission tracking into the platform along with SponsorCoin rewards for marketing content engagement. In 2021 we rebranded the platform into the emerging community commerce space shifting from the influencer market to the community commerce market where members become part of a decentralized sales force. Our development team continued to evolve the back-end settlement system, integrated the payment system into Stripe, and added the redemption process of the SponsorCoin into the checkout process of Shopify.

Back-end development was 98% completed in Q1 2022, and the mobile app to support community commerce began development. The key to starting mobile app development was to create an API into the SponsorCoin platform for external apps to interact with the back-end systems of the SponsorCoin platform. Back-end testing has been ongoing, and the Company awaits the mobile app to start end-user testing. Product development was slowed down due to capital shortages, and a small team of developers is being maintained today. Upon additional capital and the development fully staffed, the Company expects the beta testing within the community members to be live within 90 days of funding. Member UX/UI design is critical to the launch of the platform, where the Brand interface is usable today internally.

The commercial launch of the SponsorCoin platform is estimated to cost \$250,000 to complete the UX/UI design on the mobile app and complete the Beta test. The specific launch date is dependant on raising capital to generating capital from the sale of the finished goods inventory currently owned by PBC. Once the Company announces the closing of capital or capital generation and a public announcement is made, the platform will be 90-120 days to launch.

The Company plans to eventually open the SponsorCoin platform to external brands once it has significantly developed sizable communities and the UX/UI design for Brands. The timeframe would be in late 2023 or 2024 for external brand availability.

#### **2. Doc Wylder's - Ready to Drink Spirits Beverage (within Premier Beverage Consortium Inc. a wholly owned subsidiary of S1 Brands, which is wholly women by SponsorsOne Inc.):**

Doc Wylder's was developed in 2020 and launched into the market in early testing in Q2/Q3 2021. From brand creation to market growth is a multi-year process, as we experienced. 2021 was the year we introduced Doc Wylder's to the major retailers, which, if accepted, will run an introduction program in selected stores to determine consumer demand, verify pricing and assess marketing positioning relative to the competition. Success trials were run at Costco in Nevada and Ralphs in Southern California. Commiserate with the retailer introductions is the distribution. PBC successfully executed a distribution agreement with Johnson Brothers in Nevada to supply Costco and with RNDC in Southern California to supply Ralphs. PBC is now discussing a further regional expansion with both Ralphs and Costco with a focus on California, Nevada, and Arizona.

The Company views 2022 as a year to sign up more doors within the current retailer (Costco and Ralph's to name a few) and to potentially add new national retailers; however, capital constraints limit the expansion at this time. The Company needs to maintain inventory to support the expansion as the retailer will place small orders and replenish as required. Utilizing the limited capital resource of the Company to build inventory prevents a more aggressive sales and marketing approach. The Company has been seeking debt and or equity financing and continues to do so in order to support a more aggressive expansion of Doc Wylder's product.

In addition, Doc Wylder's is planning to undergo a packaging redesign to a lower-cost bottle as well a reformulation. We have received significant feedback from our clients on social media that the current Doc Wylder's could make some improvements around the flavor profile, sweetness, and packaging. Sourcing feedback from the community allows us to improve the product, and we have begun the design process for Doc Wylder's 2.0 ("DW 2.0"). Our plan is to introduce DW 2.0 later in 2022 for preliminary tasting and review and over the same time period secure the supply chain to deliver the new design to our customers and distributors. The launch of this new product, DW 2.0 is capital dependent which may delay the introduction. It is expected the Doc Wylder's 2.0 redesign and launch to cost \$500,000 and take 4-6 months to ready the product for production.

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Currently, Doc Wyler's has its supply chain in place and sits with a small amount of finished goods inventory used to support the DTC market, and the reorders from our Distributors. In addition to the finished goods inventory, there are raw materials such as printed cans, screw tops, cardboard, and packaging available for immediate production runs if needed. It is the intention of the Company to continue to sell the current Doc Wylder's until the inventory is depleted. Committing to finished goods inventory expansion is capital dependent, and at this time, the Company does not have the capital to expand finished goods inventory.

**3. Smithville Spirits (Whiskey, Vodka, and Gin):**

The Smithville line of products has been developed and the Company currently has approximately 76,000 bottles of finished good inventory ready for distribution. Trademarks registered, website splash page and DTC site is in development. It is the intention of the Company to sell the current inventory to retailers through our distributor network. The sales process is underway, and the Company expects to sell the majority of the finished goods inventory by the end of 2022 through its established distribution channels and into already established retailers as product demand exceeds inventory at this time due to supply chain issue and the holiday season is approaching (September to December) where spirits sales are at their peak. The current management will provide the sale efforts to secure the sale of these assets.

The Company relies on third party distillers for all its spirits and alcohol products. The Company will create the Brand and influence the final product development with the distiller based on differentiate market strategy with the intent to purchase finished goods from the distiller to be sold by the Company to licensed distributors and retailers.

**4. Hemp Smokes Products:**

The critical requirement for the launch of this product was to secure high volume and high-quality manufacturing. This manufacturing supply agreement was executed in late 2021, and a small sample of the product was supplied to potential buyers. The CBD market in the USA is majority DTC, whereas major retailers have not adopted selling CBD products in any quantity due to the uncertainty in the laws surrounding the sale and distribution of CBD. The Company is in discussions with international buyers and is exploring the export market for this product line. The Company does not foresee any significant contribution in sales in 2022 from the Hemp Smokes product line. The Company continues to develop the product, the marketing strategy, and the sales channels using sample products which could lead to a larger stacking order from customers.

It is planned that the Company will purchase finished good from the manufacturer of Hemp Smokes under the Brand created by the Company. The Company owns the Brand and will market and build the market for the Brand, selling direct to consumers online and selling through distributors and wholesalers. The Company will provide consumer support through a planned call center and online support through its web site.

The Company is still in the investigative stage to determine if the Hemp Smokes products are commercially viable. The Hemp Based CBD market has undergone dramatic price reduction and demand has fallen significantly due to current inflationary pressures and reduced consumer spending. It is expected that in 2023 the Company will complete its assessment of the market, the product and the profitability of the product before the final investment is made to commercialize the previewed Hemp Smokes products.

The Company is taking a very conservative approach to investing in this product and is investing only to a point of validation in order to move to the next stage. Currently, a cost of \$250,000 will do a small sample production run to us for developing and securing a distribution channel in the USA and Internationally. This is expected to take 6 months to fully determine next level of investment to commercialization. Further investment will require the Company to either raise more capital or sell its current spirits finished good inventory with PBC.

**5. Vitamin Shot Product:**

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The Company has not pursued the development of this product as capital availability to add another brand and product was not within the capacity of the Company. Preliminary work was done on design and manufacturing and this work continues with independent laboratories pursuing the innovation in this category. Currently the Company is not working on the development of this product.

Due to the Company’s current financial position, most projects are on hold or with very limited progress until they can obtain the necessary funding.

**Our Brands:** The Company has announced a full line of premium Spirits and Ready to Drink (RTD) Spirits.

**Meet Doc Wylder’s:**



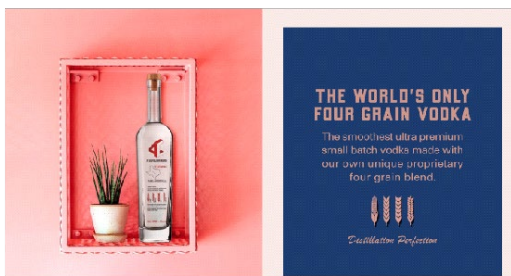
The new Doc Wylder's product line consists of Lemonades in four types. Lemonade infused with Vodka, Lemonade infused with Tequila, Lemonade and Berry infused with Vodka, and a Lemonade infused with Bourbon, all packed in a 12 oz/4pack. The aluminum bottle has a stunning graphic and is recyclable and resealable. Doc Wylder’s provides the Company with a significant entry into the rapidly emerging RTD's and Hard Seltzer market. This category global market is projected to have revenues of tens of billion dollars through 2025. (source: Future Market Insights Global and Consulting PVT on a report published August 2, 2022)

**Meet the Smithville Lineup of Premium Whiskeys:**



**Smithville** is the name for our line-up of Bourbons and Whiskeys, including the following expressions – six-year Bourbon, four-year Bourbon, Rye Whiskey, and a Four Grain Whiskey. Our Bourbon and Whiskey line derives its name from Smithville, Texas. Smithville’s name was as a result of a coin toss.

**Meet Four Corners Vodka:**



**Four Corners Vodka**, our boutique vodka has been handcrafted from the local small production farms, enabling us to produce the smoothest, finest tasting Vodka available. The name Fours Corners' inspiration is the four grains used along with the four corners in the central part of the town of Smithville.

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**Meet Riverview Gin:**



Riverview Gin is a compilation of proprietary local, and statewide botanicals carefully blended to create the most aromatic expression wheel providing flavors rarely captured n a bottle. Riverview derives its name from the many early families who settled in Smithville and lived on the Colorado River.

**Meet the HS Brands line up of Hemp Smokes (Primero, Suede and Reign):**



Hemp Smokes will contain 20 smokes per pack and 10 packs per case. Each smoke contains 15 mg of CBD. All product complies with the Federal law definition of Industrial hemp, which restricts Delta 9 THC to a limit of 0.3% on a dry weight basis. In fact, test results often indicate that hemp used by our manufacturer has THC levels far below the legal limit, often certified as “undetected”. No hemp is received by or allowed in the manufacturer’s facilities without being 100% compliant with the 2018 Federal Farm Bill\*\* definition of industrial hemp.



\*\* Under the 2018 Farm Bill and the Farm Act of 2018 the USDA Final Rule published on January 19, 2021 and became effective March 22, 2021, the Company, HS Brands Inc., incorporated under the Laws of the State of Delaware and is a wholly owned subsidiary of S1 Brands Inc., is required to provide a Certificate of Authentication verifying the Total Potential THC (Delta 9) is under 0.3% by weight. The grower of this agricultural commodity and the producer of the final product has the regulatory requirement to be certified and licensed as well as to produce the COA from an independent certified laboratory. The Company’s licensing obligation is to have a valid business license which it does, have a retail license, which it will have based on its final place of operation which has not been decided yet. And must provide a QR Code on the packaging linking back to the COA which was provided by the independent certified lab commissioned by the grower and manufacturer. In the case of HS Brands, it acts as a master distributor and a direct-to-consumer retailer and intends to have all the specific licenses in place based on the state it intends to operate. The Company intends to determine this in 2023 once it finally decides to launch the product commercially in the USA and potentially for export to international markets.

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## **RESULTS OF OPERATIONS**

### **Financial Discussion – Three and Six Months Ended June 30, 2022**

For the three and six months ended June 30, 2022, the Company reported a net loss of \$476,796 and \$1,208,682 (or \$0.0002 and \$0.001 loss per share), respectively, compared to net loss of \$6,671,637 and \$15,177,589 (or \$0.006 and \$0.016 loss per share), respectively, incurred during the three and six months ended June 30, 2021. The Company continued to experience operating losses.

During the three months ended March 31, 2022, the Company issued 305,202,187 common shares for \$3,052,022 worth of expenses. The expenses are for marketing and consulting fees. For the three and six months ended June 30, 2022, the Company expensed \$62,585 and \$367,787, respectively (2021 - \$Nil). As at June 30, 2022, \$2,684,235 remains as prepayments for future services.

Operating expenditures came to \$458,030 and \$1,181,457, respectively, during the three and six months ended June 30, 2022. This is a significant decrease compared to \$6,691,849 and \$15,195,759, respectively, for the three and six months ended June 30, 2021. The significant decrease is mainly due to the following:

#### Marketing

During the three months ended March 31, 2022, the Company incurred \$320,202 in marketing-related expenses. These expenses will help the Company maintain Doc Wylder's Band while the Company tries to determine and coordinate a regional rollout in 2022. These marketing expenses will also help preserve the SponsorsOne corporate brand within the public market. We also agreed with SRAX Inc. to implement on their platform to manage and communicate directly with the 19,000+ shareholders of SponsorsOne and provide ongoing marketing support to the Company. SRAX is a publicly listed company on NASDAQ and provides a complete shareholder engagement platform to allow our Company to connect directly to these shareholders. The contract value to SRAX was \$1,200,000 and is booked as a pre-paid expense as platform services are used. Services such as shareholder messaging through social media, NOBO analysis quarterly on the shareholder churn, the effectiveness of messaging campaigns to retain shareholders, dashboard analytics, and top shareholder holding to allow the Company to dialogue directly with the major shareholders are the main services provided. The Company has direct access to all shareholder data on the SRAX platform and authorizes all content before distribution.

The marketing expense is funded as part of the Company's issuance of 305,202,187 common shares during the three months ended March 31, 2022 (valued at \$3,052,022). The expenses are for marketing and consulting fees. For the three and six months ended June 30, 2022, the Company expensed \$62,585 and \$367,787, respectively (2021 - \$Nil). As at June 30, 2022, \$2,684,235 remains as prepayments for future services.

The pre-paid marketing expense was with 3 external marketing firms to begin structuring the retention marketing to the existing shareholder base of 19,000 shareholders. All prepaid in order to reserve resources in 2022 and as such services are delivered, documented and reported back to the Company the Company will monitor the retention through continued NOBO data mining and analysis. The fees include shareholder targeted marketing in social media, NOBO report generation and data analysis, message targeting, management of a direct connect investor platform for information, interaction with management and online conference calls for quarterly and annual report results and discussions. In addition to the shareholder retention strategy, new shareholder marketing initiatives will be launch in order to attract new shareholders acquiring larger positioning with the view to hold positions longer. The current shareholder base trades in and out of the shares frequently, in 2022 and 2023 our focus will be shifting to the institutional market and as such through these years direct marketing to this new shareholder base will occur. The marketing costs currently is treated as a pre-paid expense and will be expensed monthly based on marketing spend of each of the engaged marketing firms.



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#### Administrative and general

3 months ended June 30, 2022 vs. 3 months ended June 30, 2021

For the three months ended June 30, 2022 and 2021, administrative and general expense include mainly consulting for operating/marketing experts (2022 - \$32k; 2021 - \$441k), management fees (2022 - \$33k; 2021 - \$53k), professional fees for lawyers/accountants (2022 - \$140k; 2021 - \$170k), S1 & HS brands operating expenses (2022 - \$33k; 2021 - \$Nil), PBC operating (2022 - \$127k; 2021 - \$453k), other office / listing expense (2022 - \$18k; 2021 - \$47k). As illustrated above, expenses in Q2 2022 decreased significantly from expenses in Q2 2021. This is mainly due to the fact in Q2 2021, the Company continued to develop the brands and products of the newly acquired PBC (acquired in late 2020). However, in Q2 2022, due to the lack of funding, the Company cut back on all expenses.

6 months ended June 30, 2022 vs. 6 months ended June 30, 2021

For the six months ended June 30, 2022 and 2021, administrative and general expense include mainly consulting for operating/marketing experts (2022 - \$157k; 2021 - \$765k), management fees (2022 - \$45k; 2021 - \$215k), professional fees for lawyers/accountants (2022 - \$165k; 2021 - \$473k), S1 & HS brands operating expenses (2022 - \$40k; 2021 - \$171k), PBC operating (2022 - \$254k; 2021 - \$458k), other office / listing expense (2022 - \$39k; 2021 - \$129k). As illustrated above, expenses in 6 months ended June 30, 2022 decreased significantly from expenses in 6 months ended June 30, 2021. This is mainly due to the fact in the 6 months ended June 30, 2021, the Company continued to develop the brands and products of the newly acquired PBC (acquired in late 2020). However, in the 6 months ended June 30, 2022, due to the lack of funding, the Company cut back on all expenses.

#### Share based compensation

No new options or DSUs were issued for Q1 and Q2 2022. However, during the three and six months ended June 30, 2022, \$24,962 and \$61,037, respectively, share-based compensation was recorded for the vesting of the previously issued options and DSUs. In Q2 2021, \$756,272 share-based compensation was recorded for the vesting of 19,000,000 options and 7,000,000 DSUs issued during Q2 2021.

#### Research and development

Research and development of \$13.5k was incurred for the SponsorCoin platform in Q1 2022 (3 months Q2 2022 - \$Nil). The cost does not meet the criteria for capitalization for accounting purpose. The Company continues to ramp up the development costs of the platform in Q2 2022. However, due to the lack of funding, we are slowing down the development. Very minimal such expenses incurred during Q1 and Q2 2021.

#### Cash flow

During six month ended June 30, 2022, the Company's recorded a \$442,969 cash outflow in operating activities. These are the minimum required cash expenditure to maintain operation and listing related functions (such as audit, legal, etc.). This compared to six month ended June 30, 2021, where the company recorded a \$3.4 million cash outflow in operating activities. The main reason for the higher cash outflow in operating activities is due to significant \$1,635,500 inventory built-up and overall increase expense to support the newly acquired PBC and push for brand developments.

The above operating cash outflow is supported by the \$438,909 notes payable proceeds in received during six month ended June 30, 2022. During six month ended June 30, 2021, the Company also raised \$4.2 million (net) through private placement to support the inventory built-up, brand development and operating of PBC.

#### Operating segment (US & Canada)

No significant changes for both US and Canadian segments since December 31, 2021. In Canada, the Company incur approximately \$3 million for long-term marketing/promotion and consulting via share issuance as previously

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discussed. Due to lack of funding, no significant activities in the US segment during six month ended June 30, 2022. This compared to Q1 and Q2 2021 when significant operation was happening after acquiring PBC in late 2020. Therefore, for Q1 and Q2 2021, both Canadian segment and US segment incurred significant expenses (In Q1/Q2, 2021, Canada – marketing/promotion for brands and product; US – ramp up operation).

**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 and may vary substantially in the future. Accordingly, the information below does not necessarily indicate any future quarter's results.

(Amounts expressed in \$)			
Period	Revenue	Net income (loss)	Basic and diluted loss per share
<b>Q2 – 2022</b>	<b>Nil</b>	<b>(476,796)</b>	<b>(0.0002)</b>
<b>Q1 – 2022</b>	<b>26,287</b>	<b>(731,886)</b>	<b>(0.0004)</b>
Q4 – 2021	26,152	(4,887,307)	(0.001)
Q3 – 2021	76,102	(6,769,365)	(0.001)
Q2 – 2021	153,763	(6,671,637)	(0.006)
Q1 – 2021	Nil	(8,505,951)	(0.010)
Q4 – 2020	Nil	(4,490,717)	(0.030)
Q3 – 2020	Nil	(2,624,956)	(0.020)

The Company generated some revenues during the year 2021 from PBC operations. However, due to the supply chain issue, the sales were slowing quarter over quarter. Current inflationary pressures within the supply chain have caught up with price increases at retail allowing the Company to adjust prices heading into Q3 and Q4 2022. Current finished goods inventory was produced in 2021 when supply chain issues became in short supply, but prices increase among component parts had not started in Q1, Q2 2021. In Q2/Q3 2022, component pricing has increased due to inflation, however retail prices are also on the rise. The Company expects to lose about 3-5% margin during the combination of supply chain increases, short supplies being somewhat offset by a 5% price increase to wholesale distribution. This increase will be passed on to the retailers. To optimize the supply change delivery and price, larger raw materials quantities need to be purchased and warehoused tying up working capital which the Company does not have at this time. Currently the focus is to sell the current finished goods inventory and focus on Doc Wylder's and the RTD market. Spirits will move towards a Control Brand strategy where the buyer will finance the supply chain in order to maintain exclusive distribution.

The significant quarterly losses are due to the significantly higher marketing expenses as discussed previously.

**Liquidity and Capital Resources**

As at June 30, 2022, the Company had \$426 in cash and working capital of \$3,058. The positive working capital is due to a prepayment of \$2,684,235 recorded from issuance of shares. The Company will still require additional working capital to fund further product development and business development efforts, establishing strategic partnerships, and targeting specific marketing sectors.

SponsorsOne is currently generating negative operating cash flows. The Company will need to raise additional funds to pursue its business development strategy aggressively. 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 favorable to SponsorsOne. Whether and when the Company can attain profitability, and positive operating cash flows is uncertain. These uncertainties represent significant risks to the Company's ability to continue as a going concern.

The Company has implemented strict cash flow management to stretch available resources as far as possible while seeking additional funds. The cash flow management program includes periodic cash flow reviews, pre-approval of all cash expenses and disbursements, and ongoing cash balance tracking and management. Management and the board

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of directors collectively prioritize necessary payments and communicate payment plans with the relevant stakeholders/vendors.

As previously discussed, the Company issued 305,202,187 common shares during the three months ended March 31, 2022 for \$3,052,022 worth of expenses. The expenses are for marketing and consulting fees. For the three and six months ended June 30, 2022, the Company expensed \$62,585 and \$367,787, respectively (2021 - \$Nil). As at June 30, 2022, \$2,684,235 remains as prepayments for future services.

In addition, the Company has structured itself with operating and revenue generating subsidiaries with internal transfer pricing to cover operating costs across the enterprise. Premiere Beverage Consortium ("PBC") is such an operating entity with a profit and loss mandate generating free cash flow to Fund the corporate entity. All capital advanced by SponsorsOne Inc. (the parent) to PBC was structured as a first secured, senior loan and is expected to be paid back to the parent company. This repayment will come from profits after all operating costs and capital needs are met. In addition to the repayment of the secured loan, Corporate will assess a support fee for executive management, financial and operational services. This will follow typical allowable transfer pricing and fees. The same structure will be applied to HS Brands Inc., as they require capital for start-up, will take in such capital under a secured loan for repayment and assessed transfer fees.

As it related to the SponsorCoin Platform developed within the MXM Nation Inc., subsidiary, the platform will be licensed internally to the operating entities (PBC and HSB) and a percentage of sale resulting from the use of the platform in the Direct to Consumer market will be assessed to each Brand division. It is the intention to operate MXM profitably and have the use of the platform fund ongoing development and innovation. To date, SPO has advanced capital to MXM under a secured loan structure and expects repayment as the platform becomes operational within the product divisions.

The Company has now finalized all the intercompany agreements, other than the Secured Loan Agreement. It is the intention to have the intercompany support agreements structured in 2023 and fully operational.

Currently the Company continues to raise both equity and debt financing and will require funding to continue operations in all operating divisions. Our plan is to first obtain cash flow positive in the operating divisions and expand this business to support the entire enterprise allowing the Company to self fund itself, including development of new brands.

The Company has focused on redesign of the product to address readily available components that are lower cost and available. In 2020 when the original development began the supply chain was robust and price was driven off quantity purchase. In 2021 and now into 2022 and 2023, the Company has focused on product redesign to reduce component costs and well as inventory optimization to ensure capital expended to buffer the supply chain. It is a balance between order lead time deliveries and supply chain performance. The focus will be on a redesign of the Doc Wydler's packaging and manufacturing to optimize price, margin and supply. This is under way in 2022. The Spirits business (Smithville) will move more to a control brand strategy where one strategic buyer could acquire the Brand and provide the capital to manage the supply chain as we look to exclusively supply this buyer.

Moving forward the Company plans to install a supply chain management system to help manage the scale and complexity of volume in the event the Company decides to retain the Brand and scale it to national and international distribution.

While we address the margin compression with redesign to onshore supplier, the pricing in the retail stores are increasing due to inflation. The Company feels that it will be able to manage the margin in the product with both redesign and price increases.

And finally, as the Direct-to-Consumer market continues to expand we sell direct with a margin of 50-60%. We expect to see this channel grow over the next 2-3 years having a positive impact on overall blended margin.

The Company's ability to develop a Brand to a sizable market exist with a sale is completely dependent on capital availability to build its market. Not all Brands will be developed to this extent so the Company will manage the expenditure to expect a market exit with some level of return for investors. This may not always be the case but managing the expense line in which marketing is the biggest expense will be proportionate to the opportunity and returns possible in the marketplace.

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Currently, we are exploring the sale of the Smithville Brand and are in discussions with multiple potential buyers. Doc Wylder's the management is intending to develop this brand further with the expectation to contribute to operating cash flows and profitability. The Company is not seeking to sell the Doc Wylder's brand currently.

The Company currently sources capital for development and expansion in the equity markets and anticipates further financing rounds to maintain its liquidity. Once the Doc Wylder's revenue is contract backed and financeable the Company will seek purchase order, invoice factoring and lines of credit to finance the supply chain and operations. The Company has done an extensive effort exploring the debt financing structure in 2021 and early 2022 and concluded at this current time equity financing is its only option.

The Company will continue to seek capital to expand the Brands it has created. Brand start-up at this stage is not financeable in the debt markets and therefore any initial inventory runs for market trials with retailers will need to be funded through equity. Other than Brand development and initial product inventory there are no other planned capital expenditures currently.

The Company is not able to provide guidance on profitability at this time as it is still in the development stages of each Brand. Once order and supply chain predictability are obtained the Company will be able to guide the investment community on profitability timing.

As previously described, the Company may also actively seek buyers for the Brands created internally which would include the sale of all supplier relationships, inventory (finished and unfinished), branding assets, intellectual property and all content, web sites and social media sites.

**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**

The authorized share capital of the Company consists of an unlimited number of common shares.

As at May 30, 2022, the Company had outstanding 1,993,742,722 common shares, 56,260,000 stock options, 23,500,000 DSUs and 240,841,653 common share purchase warrants.

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#### Transactions with Related Parties

For the three and six months ended June 30, 2022, the Company incurred the following compensations to officers, directors and key management personnel. Management compensation has been included in the marketing, general and administrative account:

	Three months ended		Six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Myles Bartholomew President and CEO	-	50,850	16,950	102,100
Gary Bartholomew Chairman	-	101,700	45,200	252,065
Charles Sung CFO	25,000	-	25,000	-
Sandy Kokkinis Former CFO	-	-	-	105,880
Ron Miranda Related Party PBC	-	-	15,200	-
	25,000	152,550	102,350	460,045

As at, June 30, 2022, included in accounts payable and accrued liabilities is \$54,609 (December 31, 2021 – \$37,672) due to related parties for consulting services.

During the year ended December 31, 2021, the Company issued 39,175,816 shares to settle amounts due to related parties of \$391,758. None during the six months ended June 30, 2022.

During the year ended December 31, 2021, the Company issued 18,000,000 stock options and 6,000,000 DSU's to officers and directors of the Company. None during the six months ended June 30, 2022.

#### Financial Instruments

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). Marketable securities are classified as Level 1.

#### Accounting Policies & Critical Accounting Estimates and Judgements

Accounting policies followed by the Company in preparation of its financial statements are summarized in Note 2 to the Unaudited Condensed Interim Consolidated Financial Statements for the three and six months ended June 30, 2022 and Audited Consolidated Financial Statements for the year ended December 31, 2022 as filed on SEDAR.

#### Standards adopted during the period

No new accounting standards were adopted during the year.

#### Standards issued but not adopted during the period

Changes and amendments to the following accounting standards applicable for the Company will be effective in future years and are not expected to have a significant impact:

IAS 1 — Presentation of Financial Statements

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IAS 8 — Accounting Policies, Changes in Accounting Estimates and Errors

IAS 12 — Income Taxes

IAS 16 — Property, Plant and Equipment

IAS 37 — Provisions, Contingent Liabilities and Contingent Assets

### **Capital Management**

The Company's objectives when managing capital, defined as shareholders' equity, are to safeguard the Company's ability to continue as a going concern (Note 1) in order to maintain a flexible capital structure that optimizes the cost of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Board of Directors has not yet established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities of 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. There have been no changes to the Company's approach to capital management during the six months ended June 30, 2022. The Company is not subject to externally imposed capital requirements.

### **Regulatory Matters**

The Company's wholly owned subsidiary, Premier Beverage Consortium ("PBC"), operates under Federal and State Liquor Licensing Boards and maintains its Federal License and State License in California where it operated. PBC maintains federal and state licenses for Alcohol Sales to licensed distributors and retailers. The Federal Permit is issued by the US Department of Treasury - The Alcohol and Tobacco Tax and Trade Bureau and an annual fee is paid to maintain this permit. For the State of California where PBC operates, PBC has a State Alcohol, Beer and Wine License which is subject to monthly reporting of sales and payment of taxes on product sold. The license is maintained through monthly reporting and not subject to an annual renewal fee. In addition to sell Liquor across state borders, the company maintain licenses in Nevada, Texas, Arizona, New Jersey, Michigan, Georgia, Florida. These licenses are renewed annually. PBC has engaged an external management company to manage its licenses and regulatory requirements in each state it operates.

Under the 2018 Farm Bill and the Farm Act of 2018 the USDA Final Rule published on January 19, 2021 and became effective March 22, 2021, the Company, HS Brands Inc., incorporated under the Laws of the State of Delaware and is a wholly owned subsidiary of S1 Brands Inc., is required to provide a Certificate of Authentication verifying the Total Potential THC (Delta 9) is under 0.3% by weight. The grower of this agricultural commodity and the producer of the final product has the regulatory requirement to be certified and licensed as well as to produce the COA from an independent certified laboratory. The Company's licensing obligation is to have a valid business license which it does, have a retail license, which it will have based on its final place of operation which has not been decided yet. And must provide a QR Code on the packaging linking back to the COA which was provided by the independent certified lab commissioned by the grower and manufacturer. In the case of HS Brands, it acts as a master distributor and a direct-to-consumer retailer and intends to have all the specific licenses in place based on the state it intends to operate. The Company intends to determine this in 2023 once it finally decides to launch the product commercially in the USA and potentially for export to international markets.

In the USA the Company plans to market its Hemp Smokes product direct to consumer and at this time has not executed on the launch. Regulatory requirements are being explored now and will be implemented before the product is available in the market. The Company has no plans to market the product in Canada.

The Company has an extensive Compliance and Policy guide it has adopted internally as well as a delegation authority matrix for operational compliance. The internal finance department does the compliance reviews quarterly and as the Company is starting to expand operations further training and implementation across all operations will be

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implemented. The Company has retained Canadian and USA legal counsel for all securities related matters, both of which are on retainer with the Company.

The Company maintains compliance in all jurisdictions it operates, including Liquor license in all operating US states. There are no notices of non-compliance in the jurisdictions the Company and its subsidiaries operate.

The Company has not pursued or obtained formal legal opinions on all regulatory matters relating to its securities offerings, Spirits or Hemp business. Legal counsels on all regulatory issues are actively involved guiding the Company on such matters. The Company will seek a legal opinion if it is deemed necessary before commercialization.

### **Intellectual Property**

The Company does not own any patents as of now. The Company applied for patents in the past but the applications were denied due to the "marketing related" nature of the patents. The Company may acquire or apply for patents as we weigh the cost-benefits for the Company.

### **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 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 SponsorCoin 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.

#### *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

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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 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.

#### *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



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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 can 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 much of the content of its Sponsorcoin 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 several 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 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.

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#### *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*

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.

#### *Laws and Regulations*

The Company operates in a highly regulated industry with requirements regarding the production, distribution, marketing, advertising, and labelling of alcohol and spirits. These regulatory requirements may inhibit or restrict the Company's ability to maintain or increase strong consumer support for and recognition of its brands and may adversely affect the Company's business strategies and results of operations.

Federal and states impose excise, other taxes, and mark-ups on beverage alcohol products which have been subject to change. Significant increases in excise and other taxes on beverage alcohol products could materially and adversely affect the Company's financial condition or results of operations. Federal and state governmental agencies extensively regulate the beverage alcohol products industry concerning such matters as licensing, trade practices, permitted and required labelling, advertising, and relations with consumers and retailers. Certain federal and provincial regulations also require warning labels and signage. New or revised regulations, increased licensing fees, requirements, taxes, or

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mark-ups could also have a material adverse effect on the Company's financial condition or results of operations.

#### *Reliance on Third Party Suppliers/Distillers*

The Company purchases glass, bottles, labels and other components used for bottling and packaging. The Company also rely on third party distillers for the alcohol and spirits products. Any interruption in supply or the third party distillers and/or hemp product manufacturer in the future could have an adverse impact on the Company's ability to supply its markets. The Company is trying to reduce its dependence on suppliers and distillers through the development of relationships with several producers of glass/bottles and other components and through carrying increased inventory of selected bottles.

#### **Financial Risk and Management**

##### *Credit Risk*

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its payment obligations. The Company is exposed to credit risk with respect to its cash. The Company's credit risk is primarily attributable to cash. Management believes that the credit risk with respect to cash is remote as it maintains accounts with highly rated financial institutions.

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to capital markets is hindered, whether as a result of a downturn in stock market conditions, generally, or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

The Company's financial liabilities classified as current liabilities have contractual maturities of less than one year and are subject to normal trade terms. The Company cannot ensure there is enough capital in order to meet short-term business requirements, after considering cash flows from operations and the Company's cash holdings. The Company is currently implementing its business plan to generate recurring revenue and is concurrently seeking additional sources of funding to settle short-term liabilities, and short-term cash requirements. As at June 30, 2022, the Company had a cash balance of \$426 (December 31, 2021 - \$4,487) to settle current liabilities of \$3,208,393 (December 31, 2021 - \$2,325,728).

##### *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risks.

##### *Interest rate risk*

Interest rate risk consists of a) the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, and b) to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities.

Due to the short-term nature of the Company's financial instruments paired with fixed interest rates for which are imposed on the Company, fluctuations in market rates do not have a significant impact on the estimated fair values.

##### *Foreign currency risk*

The Company's functional currency is the Canadian Dollar and major purchases are transacted in Canadian and US dollars. The Company funds certain operations and administrative expenses in the United States on a cash basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada and maintains a checking account in the US that is funded primarily with transfers from its Canadian accounts. Management believes the foreign

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exchange risk derived from currency conversions is not significant to its operations and therefore does not hedge its foreign exchange risk. Sensitivity to a plus or minus 5% change in the foreign exchange rate of the US dollar compared to the Canadian dollar would affect the Company's equity by \$22,554 (December 31, 2021 – \$21,822) with all other variables held constant.

*Other price risks*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risks.