

## MANAGEMENT DISCUSSION AND ANALYSIS

RewardStream Solutions Inc. ("RewardStream" or the "Company")

For the three months ended December 31, 2018

Dated – February 28, 2019

This management's discussion and analysis (MD&A) was prepared in accordance with National Instrument 51-102, Continuous Disclosure Obligations, and should be read in conjunction with the unaudited condensed interim financial statements and accompanying notes for the three months ended December 31, 2018 and the annual audited financial statements for the year ended September 30, 2018 and related notes. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are reported in Canadian dollars.

Certain information included in this MD&A contains forward-looking statements or forward-looking information within the meaning of applicable Canadian securities laws, including, without limitation, in respect of the Company's priorities, plans and strategies and the Company's anticipated financial and operating performance and prospects. All statements and information, other than statements of historical fact, included in or incorporated by reference into this MD&A are forward-looking statements and forward-looking information, including, without limitation, statements regarding activities, events or developments that we expect or anticipate may occur in the future. Such forward-looking statements and information can be identified by the use of forward-looking words such as "will", "expect", "intend", "plan", "estimate", "anticipate", "believe" or "continue" or similar words and expressions or the negative thereof. There can be no assurance that the plans, intentions or expectations upon which such forward-looking statements and information are based will occur or, even if they do occur, will result in the performance, events or results expected.

We caution readers of this MD&A not to place undue reliance on forward-looking statements and information contained herein, which are not a guarantee of performance, events or results and are subject to a number of risks, uncertainties and other factors that could cause actual performance, events or results to differ materially from those expressed or implied by such forward-looking statements and information. These factors include: the Company's ability to raise additional financing through debt, equity or other form of financing; the ability to retain or add customers, complete product development plans, retain key staff; changes in priorities, plans, strategies and prospects; general economic, industry, business and market conditions; changes in law; the ability to implement business plans and strategies, and to pursue business opportunities; rulings by courts or arbitrators, proceedings and investigations; disruptions or changes in the credit or securities markets; inflationary pressures; challenges such as lawsuits, to the intellectual property of the Company; and various other events, conditions or circumstances that could disrupt RewardStream's priorities, plans, strategies and prospects. Readers are cautioned that all forward-looking statements and information involve risks and uncertainties. RewardStream undertakes no obligation to publicly release the results of any revisions to forward-looking statements and information that may be made to reflect events or circumstances after the above-stated date or to reflect the occurrence of unanticipated events.

## **OVERVIEW**

RewardStream is a provider of Software as a Service (“SaaS”) marketing technology through its Spark System (the “Spark System”) product. The Spark System allows RewardStream’s clients to operate marketing programs that acquire, engage, optimize, and retain customers and sales channels. The Spark System lets marketers combine all types of referrals, such as email, mobile, social or word-of-mouth, with a powerful mix of software, promotion, and management tools into customer acquisition strategies. The Spark System makes it fast and easy for companies to engage and convert customers, activate employees, and mobilize brand influencers to spread the word about offers to friends and family.

The Company was incorporated under the laws of British Columbia on March 23, 1999 and continued under the Canada Business Corporations Act on December 22, 1999. RewardStream continued to a British Columbia Corporation under the Business Corporations Act (British Columbia) and changed its name to RewardStream Solutions Inc. on October 21, 2015. The head office and records are located at 800-1199 West Hastings Street Vancouver, British Columbia, V6E 3T5.

On July 28, 2016, the Company completed an amalgamation with Musgrove Minerals Corp. (“Musgrove”) a publicly traded company on the TSX Venture Exchange (the “Exchange”), to form a single amalgamated company (the “Amalgamation”). On August 4, 2016, the Company commenced trading on the Exchange under the symbol REW.

Effective January 29, 2018, the Company completed a consolidation of its issued and outstanding shares on the basis of one new common share for every 10 old common shares. All share and share equivalent amounts have been restated to retrospectively reflect this consolidation.

On December 13, 2017, the Company incorporated a wholly-owned subsidiary, RewardStream Solutions NA Inc. (“RSNA”). On June 15, 2018, the Company completed the transfer of all of the assets of its referral and rewards business to RSNA and sold the subsidiary, RewardStream Solutions NA Inc. (“RSNA”) to Buyapowa Ltd. in consideration for an upfront cash payment of \$150,000 (the “Closing Payment”) and sliding-scale royalty payment based on license fees received from existing and active RSNA customers. The royalty commences at a 15% rate for an initial 11-month period and decreases over time, resulting in a perpetual 1% royalty after a period of 47 months. The royalty will be first applied against the Closing Payment until such fees equal \$150,000.

As of the date of the MDA, the Company continues its search for new business opportunities.

## **MANAGEMENT CHANGES**

On August 17, 2018, Rob Goehring resigned from the board of directors and as the chief executive officer of the Company. In his place, Patrick C.T. Morris was appointed as interim president and a director to the board.

On January 24, 2019, Cam Paddock resigned from the board of directors. In his place, Geoff Balderson was appointed as a director of the Company.

## MAIN PERFORMANCE INDICATORS

As at September 30, 2018, management considers that the main indicators of the Company's performance are the following: net and comprehensive loss, EBITDA and adjusted EBITDA. EBITDA and adjusted EBITDA are provided as a supplementary earnings measure to assist readers in determining the ability of the Company to generate cash from operations and to cover financial charges. They are also widely used for business valuation purposes. These measures do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA to which the Company adds stock-based compensation and other one-time items that do not impact cash flows of the Company. The Company believes that EBITDA and adjusted EBITDA are a means to better communicate the results of operations that are more reflective of cash flows.

## SELECTED ANNUAL INFORMATION

	For the twelve months ended		
	September 30, 2018 (audited) \$	September 30, 2017 (audited) \$	September 30, 2016 (audited) \$
Revenue	-	-	-
Loss from continuing operations	(1,738,901)	(1,120,394)	(3,565,540)
Loss from discontinued operations	(453,389)	(1,237,006)	(1,153,143)
Net loss and comprehensive loss	(2,192,290)	(2,357,400)	(4,718,683)
EBITDA	(2,182,484)	(2,344,521)	(4,636,602)
Adjusted EBITDA	(2,335,074)	(2,171,626)	(1,203,991)
Basic and diluted loss per share from continuing operations	(0.16)	(0.26)	(2.20)
Basic and diluted loss per share from discontinued operations	(0.04)	(0.29)	(0.71)
Basic and diluted loss per share	(0.20)	(0.55)	(2.90)
Total assets	945,945	349,325	1,465,751
Long-term financial liabilities	-	67,565	86,430
Dividends distributed	-	-	-

Operating expenses increased by \$617,834 or 56% in 2018 compared to 2017.

Net and comprehensive loss decreased by \$165,110 or 7%, EBITDA decreased by 7% or \$162,037, Adjusted EBITDA increased by \$163,448 or 8% in the year ended September 30, 2018 compared to 2017.

Total assets increased by \$596,620 or 171% and working capital increased by \$981,610 for the year ended September 30, 2018.

### Reconciliation of EBITDA and adjusted EBITDA

	For the twelve months ended		
	September 30, 2018 \$	September 30, 2017 \$	September 30, 2016 \$
<b>Net loss and comprehensive loss</b>	(2,192,290)	(2,357,400)	(4,718,683)
Interest	9,806	12,879	82,081
<b>EBITDA</b>	(2,182,484)	(2,344,521)	(4,636,602)
Foreign exchange loss (gain)	2,201	(1,545)	-
Gain on sale of subsidiary	(125,708)	-	-
Share-based compensation	(29,083)	174,440	1,261,153
Loss on convertible debt conversion	-	-	121,055
Stock exchange listing expense	-	-	2,050,403
<b>Adjusted EBITDA</b>	(2,335,074)	(2,171,626)	(1,203,991)

#### Operating expenses

Operating expenses increased during the year ended September 30, 2018 by \$617,834 compared to 2017. Sales and marketing expenses declined by \$657,018 due to the reduction of consultants in this area. The Company reduced spending in the above area due to the challenges of raising capital to fund operations. The Company's general and administrative expenses increased by \$33,225 during the year ended September 30, 2018 as compared to 2017. The Company's consulting fees increased by \$1,445,150 during the year ended September 30, 2018 compared to 2017 due to increased consulting services as the Company searches for new business opportunities. Share-based compensation declined by \$203,523 due to less options were granted during the year ended September 30, 2018 compared to the prior year along with the reversal of stock-based compensation for options forfeited during the year.

#### Net and comprehensive loss

During the year ended September 30, 2018, the net loss and comprehensive loss decreased by \$165,110 compared to 2017. The change in net loss and comprehensive loss were due to the net changes in the factors as described above.

#### EBITDA

EBITDA decreased by \$162,037 for the year ended September 30, 2018 compared to the prior year. The main reason for this is due to the respective decline and increase in operating expenses as discussed above.

#### Adjusted EBITDA

Adjusted EBITDA decreased by \$163,448 for the year ended September 30, 2018 compared to the prior year. This change reflects the increase in operating expenses described above.

#### Assets

The Company's assets increased by \$596,620 during the year ended September 30, 2018. The change in assets was mainly due to the increase of cash due to the completion of private placement during the year.

## INTERIM QUARTERLY HIGHLIGHTS

For the quarter ended:	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenue	\$ -	\$ -	\$ -	\$ -
Loss from continuing operations	(330,690)	(798,451)	(752,009)	(88,886)
Income (Loss) from discontinued operations	-	125,708	(80,189)	(285,025)
Net and comprehensive loss	(330,690)	(672,743)	(832,198)	(373,911)
Loss per share from continuing operations*	(0.02)	(0.05)	(0.05)	(0.02)
Income (Loss) per share from discontinued operations*	0.00	0.00	(0.01)	(0.06)
Comprehensive loss per share*	\$ (0.02)	\$ (0.04)	\$ (0.05)	\$ (0.08)
Weighted average number of shares*	17,483,123	17,483,123	15,147,958	4,983,124

For the quarter ended:	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenue	\$ -	\$ -	\$ -	\$ -
Loss from continuing operations	(99,555)	(440,068)	(371,472)	(121,597)
Loss from discontinued operations	(213,883)	(343,670)	(213,127)	(311,675)
Net and comprehensive loss	(313,438)	(783,738)	(584,599)	(433,272)
Loss per share from continuing operations*	(0.02)	(0.09)	(0.08)	(0.03)
Loss per share from discontinued operations*	(0.04)	(0.07)	(0.05)	(0.08)
Comprehensive loss per share*	\$ (0.06)	\$ (0.16)	\$ (0.13)	\$ (0.11)
Weighted average number of shares*	4,983,124	4,772,564	4,396,107	3,913,383

\* Effective January 29, 2018, the Company completed a consolidation of its issued and outstanding shares on the basis of one new common share for every ten old common shares. All share and loss per share amounts have been restated to retrospectively reflect this consolidation.

## FOURTH QUARTER

NA

## RESULTS OF OPERATIONS

During the three months ended December 31, 2018, the Company reported a net loss from continuing operations of \$330,690 as compared to \$313,438 for the comparable period ended December 31, 2017 which consisted of \$87,368 from continued operations and \$226,070 from discontinued operations. The significant increase in expenses for the current period can be attributed to the numerous consultants that was engaged by previous management. The decline in general and administrative expenses for the current period can be attributed to the reduced operations as a result of the sale of the referral and reward business in the prior year.

The Company is currently looking for new business opportunities.

## **LIQUIDITY**

Liquidity is the risk of the Company not being able to meet its financial obligations as they become due. The Company manages its liquidity risk through budgeting, ongoing management and forecasting of operating cash flows, reviews of trade receivables, management of cash, and use of equity financings when appropriate.

Cash used in operating activities was \$342,389 for the three months ended December 31, 2018, compared to \$35,603 which was provided by the three months ended December 31, 2017. The decrease in cash is due to the disposal of the referral and reward business in the prior year.

Cash from financing activities was \$nil for the three months ended December 31, 2018 as compared to \$189,064 for the three months ended December 31, 2017, which was comprised of loans received of \$190,573 less the repayment of \$1,509 on the finance lease obligations

There was no investing activity during the three months ended December 31, 2018 and 2017.

The Company is currently reliant on the issuance of equity shares to meet its financial obligations. To further manage liquidity, the Company had also engaged in short-term borrowings. The Company currently has unpaid interest 3<sup>rd</sup> party lender. The terms of these loans are disclosed more fully in the Company's financial statements.

As at December 31, 2018, the Company had cash of \$522,578 and accounts receivable of \$63,358 as compared to a cash balance of \$864,967 and accounts receivable of \$57,670 at September 30, 2018. The Company's current liabilities at December 31, 2018 were \$66,154 and at September 30, 2018 were \$72,165. At December 31, 2018, the Company's working capital was \$543,090 as compared to \$873,780 in working capital for September 30, 2018. The Company's estimated budget for the next twelve months is its current working capital.

Since the Company will not be able to generate cash from its operations, it will be dependent on outside financing to continue operations until it is able to achieve positive cash flow. The Company has historically been able to secure financing from outside parties (see above). However, there is no guarantee that cash generated from external financing or operations will be sufficient to sustain the Company's operations for the foreseeable future. In order to maintain sufficient liquidity, the Company may be required to issue additional shares, incur more debt or further reduce operating costs.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not have any off balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

Related party transactions not otherwise described in these financial statements are shown below.

The remuneration of the Company's directors and other members of key management, individuals who have the authority and responsibility for planning, directing and controlling the activities of the Company, for the three months ended December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Wages and benefits	\$ -	\$ 303,876
Consulting fees	10,000	21,684
Share-based compensation	-	12,829
	\$ 10,000	\$ 338,389

Wages and benefits of \$303,876 for December 31, 2017 are included in the following expenses:

	December 31, 2018	December 31, 2017
Sales and marketing	\$ -	\$ 116,902
General and administrative	-	164,474
Research and development	-	22,500
	\$ -	\$ 303,876

## FINANCIAL INSTRUMENTS

The type and nature of financial instruments are disclosed in the financial statements of the Company. All of these financial instruments are currently reported at their carrying value as the Company believes that this approximates their fair value due to their short-term nature. As discussed in the financial statements, the Company is exposed to certain risks associated with these financial instruments. These include credit, liquidity and market risk. The Company does not anticipate any significant credit risk at December 31, 2018 as the Company had no accounts receivable related to customers. Liquidity risk and its management has been previously discussed above (see Liquidity). Market risk includes interest rate and foreign currency risk. Due to the short-term nature of its borrowing, the Company does not believe that it is exposed to significant interest rate risk and has therefore, not undertaken any action to mitigate this risk. The Company is exposed to foreign currency risk to the extent of expenditures incurred or funds received, and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily United States dollars ("USD")). To mitigate this risk, the Company has not historically used or entered into any foreign currency contracts. However, should the need arise, the Company will consider the use of such contracts. The changes in foreign currency with respects to the financial instruments are recorded in the Company's statement of comprehensive loss under foreign exchange gain. The Company does not have significant exposure to foreign currency rate fluctuations.

## ACCOUNTING STANDARD AND AMENDMENTS ADOPTED

### Accounting Standard and Amendments adopted on October 1, 2018:

#### IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers. The five steps in the model are as follows:

- a. Identify the contract with the customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligations in the contracts.
- e. Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on the topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The adoption of IFRS 15 did not have an impact on the Company's condensed interim financial statements.

#### IFRS 9 *Financial Instruments*

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurements*. The standard contains requirement in the following areas:

- a. **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- b. **Impairment.** The 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- c. **Hedge accounting.** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- d. **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The adoption of IFRS 9 has not had a significant impact on the Company's policies related to financial assets and liabilities.



### Accounting Standards and Amendments Issued But Not Yet Effective

The following new standard and interpretations are not yet effective and have not been applied in preparing these financial statements. The Company is currently evaluating the potential impacts of these new standards.

IFRS 16 *Leases* replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a services contract on the basis of whether the customer controls the assets begin leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that have also adopted IFRS 15. The Company believes the adoption of this standard will not have a material effect on the financial statements.

### **DISCLOSURE OF OUTSTANDING SHARE DATA**

Effective January 29, 2018, the Company completed a consolidation of its issued and outstanding shares on the basis of one new common share for every 10 old common shares. All share and share equivalent amounts have been restated to retrospectively reflect this consolidation. As at September 30, 2018, the Company had 17,483,123 common shares, 13,553,619 warrants and Nil stock options. Conversion of these warrants and stock options would result in 31,036,742 outstanding common shares.

As at the date of this MD&A, the Company had 17,483,123 common shares, 13,553,619 warrants and Nil stock options. Conversion of these warrants and stock options would result in 31,036,742 outstanding common shares.

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management and have been examined and approved by the Board of Directors. The financial statements were prepared by management in accordance with generally accepted Canadian accounting principles and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of a majority of non-management directors.

This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the audit committee meets annually with the external auditors, with or without the Company's management, to review their respective audit

plans and discuss the results of their examination. This committee is responsible for recommending the appointment of the external auditors or the renewal of their engagement.

**SUBSEQUENT EVENTS**

NA