

Sparc AI Inc (formally EYEfi Technologies Inc)

## Management's Discussion and Analysis

For the six months ended June 30, 2023

### **DISCLAIMER FOR FORWARD-LOOKING INFORMATION**

*Effective August 11, 2023, EYEfi Group Technologies Inc. changed its name to Sparc AI Inc. (the Company or Sparc Group) (CSE code SPAI). In this Management discussion and Analysis, the name of the entity, Sparc AI Inc., refers to the former EYEfi Group.*

*Certain statements in this Management Discussion and Analysis are forward-looking statements or information (collectively "forward-looking statements"). The Sparc Group is providing cautionary statements identifying important factors that could cause the Group's actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "may", "anticipates", "is expected to", "estimates", "intends", "plans", "projection", "could", "vision", "objective", "goals" and "outlook") are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In making these forward-looking statements, the Sparc Group has assumed that the current market will continue and grow and that the risks listed below will not adversely impact the Sparc Group. These forward-looking statements include, among other things, statements relating to the ability of the Sparc Group to generate revenue; use of funds; intentions to further develop, market and promote its operations by expansion of its merchant base and industries served in Australia; strategy for customer retention, growth, service development, market position and financial results; the success of marketing and sales efforts of the Sparc Group; the Sparc Group's efforts to continuously update its software to meet business requirements; future sales plans and strategies; the economy and other future conditions; the timeline to further develop and market future enhancements; unanticipated cash needs and the possible need for additional financing and the adoption of governance policies, committees and practices.*

*By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes may not occur or may be delayed. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to: a downturn in general economic conditions; the ability of the Sparc Group to continue to generate revenue adequate to fund its business plans and operations; the ability of the Sparc Group to expand its operations in Australia; competitive conditions in the industry which could prevent the Sparc Group from continuing to be profitable; competition from other payment process providers who are well established with the financial capacity to overwhelm the ability of the Sparc Group to operate in Australia, security risks; increasing costs of being a publicly traded company, the possibility that our services may become further regulated; the effectiveness and efficiency of advertising and promotional expenditures to generate market interest in the Company's products and services; the inability to list on a public market; volatility of the Group's share price following listing; liquidity and the inability to secure additional financing; the Sparc Group's intention not to pay dividends in the near future; claims, lawsuits and other legal proceedings and challenges; conflict of interest with directors and management and other factors beyond the Company's control.*

*These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of June 30, 2022 and, except as required by applicable law, the Sparc Group undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors and to assess in advance the impact of each such factor on the Sparc Group's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. See "Risk Factors and Risk Management".*

## **Overview**

The following Management's Discussion and Analysis ("MD&A") provides additional analysis of the operations, financial position and financial performance of Sparc AI Inc ("Sparc") as a Consolidated Entity with its wholly-owned subsidiaries, EYEfi Pty Ltd ("EYEfi") for the six months ended June 30, 2023 ("the Sparc Group" or "Consolidated Entity") and is dated August 25, 2023. These management financial statements are presented in Canadian Dollars, which is the Sparc Group's functional and presentation currency. It is supplementary information and should be read in conjunction with the Sparc Group's consolidated financial statements and accompanying notes for the six months ended June 30, 2023.

This MD&A is the responsibility of the management. The Board of Directors carries out its responsibility for the review of this disclosure principally through its audit committee which is comprised of a majority of independent directors. The audit committee reviews and, prior to its publication and pursuant to the authority delegated to it by the Board of Directors, approves this disclosure.

EYEfi was incorporated on October 4, 2018, under the laws of the Province of British Columbia, Canada by a Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (British Columbia). Its head office is located at 17/71 Victoria Crescent, Abbotsford, Victoria 3067 Australia. Its registered office is located at C/O - 390 - 825 Homer Street, Vancouver BC, V6B 2W2 Canada.

## **Sale of EYEfi Pty Ltd**

The Group consisted of Sparc AI Inc and EYEfi Pty Ltd which was a 100% owned subsidiary company. EYEfi Pty Ltd owned the Sparc Patents and Algorithms (the Assets). Effective June 30, 2023, the Assets were transferred to Sparc AI Inc and EYEfi Pty Ltd was sold to six shareholders in the group. Commercially, the agreed value for the sale was \$5,042,659. The agreed terms of the sale were that the shareholders would hand back to treasury their shares in the Company and they would be cancelled. The total number of shares involved was 18,951,061 and at the time of sale, they were worth \$0.15 (attributing a value of \$2,842,659 to remaining shareholders). There is also a deferred consideration of \$2,200,000 consisting of a Promissory note. The Promissory note has certain conditions which may or may not require payment. The Promissory note has been classified as a contingent asset and has not been recorded to the Company's statement of financial position a June 30, 2023.

The de consolidation of the subsidiary company occurred effective June 30, 2023. Following the sale of EYEfi Pty Ltd. the Company does not have any continuing business and will be required to further develop the SPARC technology. The sale of EYEfi Pty Ltd. has not been presented as a discontinued operation and it represented the entire business of the Company prior to disposition and management has determined that it would be misleading to present the operating results as a single line item as required by IFRS 5, Assets held for sale and discontinued operations.

## **Business of the Company**

The Company is a software and electronics engineering company that has developed, patented and commercialized an innovative spatial, predictive, approximation and radial convolution technology called SPARC and associated product suite that turns any sensor, camera or smartphone device (fixed, mobile, airborne, portable or handheld) into a target co-ordinate acquisition system. SPARC solves critical problems for government and industry customers operating in infrastructure and asset management, emergency management and incident response markets.

It has also developed an Industrial Internet of Things (IIoT) hardware sensor (EYEfi Sensor) product and Cloud application called smart waste for waste bins and Smart Drain for stormwater pits and is rolling out this technology in Australia and New Zealand.

### **Overall Performance during the six months ended June 30, 2023**

As outlined above, Sparc AI Inc transferred the patent assets from the balance sheet of its operating subsidiary company onto its balance sheet, and then sold the subsidiary. This occurred as at 30 June 2023. The net loss for the period to June 30, 2023 for the group was \$391,499, of which \$271,847 related to the subsidiary company that was sold.

The Company has cash at bank of \$3,144 as at June 30, 2023.

### **The Sparc AI Inc Business**

During the last year, the Company continued to develop its product suite and channel partner relationships.

Sparc AI Group's office of operations is at Level 8, 90 Collins street Melbourne Victoria 3067 Australia.

The primary business objectives for the Sparc AI Group over the next twelve (12) months is to grow our current business in Australia and New Zealand and identify and secure more large resellers that can provide access to new customers and markets ("Distributors and Resellers") in US, Canada and Europe; and eventually, other regions around the world. The Company has already signed up two major distributors and our target is to sign six (6) in total in the next six months. As such, our continued business development activities focus on:

- (i) growing our existing customers and Distributors and Resellers;
- (ii) new growth opportunities, such as securing new Distributors and Resellers in US, Canada and Europe;
- (iii) employment of Business Development Managers (streamlined salesforce) and consultants in Australia, NZ and North America to help secure and develop our Distributors and Resellers, and to assist these partners in identifying and closing targeted sales opportunities;
- (iv) launching of our latest (2022) product releases, including EYEfi Cloud Connect (launched in August 2022) and SpatialEye in Q4;
- (v) exploring acquisition opportunities to help build scale and distribute Sparc AI's products; and
- (vi) Optimizing product launch activities and timing to grow revenue opportunities.

**Intellectual Property**


*Sparc AI's International Patents*

Sparc AI has registered patents in USA, Canada, China, Japan, South Korea, Australia and New Zealand. Sparc AI has also established large global resellers for its products. It is well positioned to expand its reseller network into new markets and also established licensing of its technology to large customers.

PATENT NUMBER	COUNTRY	APPLICANT/ASSIGNEE	TITLE	FILING/EXP DATE	STATUS
9,058,689	USA	EYEfi Pty Ltd	SPATIAL PREDICTIVE APPROXIMATION AND RADIAL CONVOLUTION	16 June 2009/ 16 June 2029	Granted on 16 June 2015
2,727,687	Canada	EYEfi Pty Ltd	SPATIAL PREDICTIVE APPROXIMATION AND RADIAL CONVOLUTION	16 June 2009/ 16 June 2029	Granted on 14 November 2017
ZL 20098013199.4	China	EYEfi Pty Ltd	SPATIAL PREDICTIVE APPROXIMATION AND RADIAL CONVOLUTION	16 June 2009/ 16 June 2029	Granted on 25 December 2013
5575758	Japan	EYEfi Pty Ltd	SPATIAL PREDICTIVE APPROXIMATION AND RADIAL CONVOLUTION	16 June 2009/ 16 June 2029	Granted on 11 July 2014
10-1663669	South Korea	EYEfi Pty Ltd	SPATIAL PREDICTIVE APPROXIMATION AND RADIAL CONVOLUTION	16 June 2009/ 16 June 2029	Granted on 30 September 2016
2009260182	Australia	EYEfi Pty Ltd	SPATIAL PREDICTIVE APPROXIMATION AND RADIAL CONVOLUTION	16 June 2009/ 16 June 2029	Granted on 10 March 2016
590428	New Zealand	EYEfi Pty Ltd	SPATIAL PREDICTIVE APPROXIMATION AND RADIAL CONVOLUTION	16 June 2009/ 16 June 2029	Granted on 4 March 2014

*EYEfi's Trademarks*

TRADEMARK NUMBER	MARK	CLASS	DESCRIPTION	FILING DATE	STATUS
1103375	EYEFi®	CLASS 9 and 38	Class: 9 Camera system - mounted on pole, trailer, in ground or any other suitable structure, permanent or semi-permanent installation connected to network by wireless, Wi-Fi, mobile data network and/or fixed line or any other suitable communications network, standalone or hosted video switching control	14 March 2006	Registered

			software with remote user access and content management service.  Class: 38 Communications by fibre (fibre) optic networks; net casting (broadcasting over a global computer network); providing telecommunications connections to a global computer network; providing user access to a global computer network (service providers); switching network services (telecommunications); telecommunications security (providing secure connections and access including to computers and the global computer network); web portal services (providing user access to a global computer network); webcasting (broadcasting over a global computer network)		
1103370		CLASS 9 and 38	Class: 9 Camera system - mounted on pole, trailer, in ground or any other suitable structure, permanent or semi-permanent installation connected to network by wireless, Wi-Fi, mobile data network and/or fixed line or any other suitable communications network, standalone or hosted video switching control software with remote user access and content management service.  Class: 38 Communications by fibre (fibre) optic networks; net casting (broadcasting over a global computer network); providing telecommunications connections to a global computer network; providing user access to a global computer network (service providers); switching network services (telecommunications); telecommunications security (providing secure connections and access including to computers and the global computer network); web portal services (providing user access to a global computer network); webcasting (broadcasting over a global computer network)	14 March 2006	Registered
1553152	Spatialeye®	EYEfi Pty Ltd	Global positioning system (GPS) apparatus; Application software; Computer programmes (programs) and recorded software distributed online; Computer programs (downloadable software); Computer software downloaded from the internet; Personal computer application software; Target location apparatus (electronic); Distance measuring apparatus; Electronic distance measuring apparatus; Coordinate measuring apparatus	3 May 2013	Registered

The company is working on further developing its patents, core Intellectual Property (IP) and various algorithms and trade secrets and will be registering further trademarks as it commercialises products with Channel Partners in various regions around the globe.

### **Results of Operations**

The consolidated entity made an operating loss of \$391,499 for the half year. Of this , \$271,847 was attributable to the subsidiary company which was sold (and the \$271,847 loss was taken with the sold subsidiary). The \$119,652 attributable to the holding company related to share based payments and accounting fees.

### **Summary of Quarterly Information**

As outlined above, the sale of the subsidiary company has resulted in a de consolidation of the revenue and expenses of the operating group. Whilst this will be re activated in the listed entity, the deconsolidation occurred at June 30, 2023 which has resulted in the comparison to prior years not meaningful. The numbers are presented here for record purposes only.

	Q2	Q1	Q2	Q1	Q4	Q3	Q2	Q1
	2023	2023	2022	2022	2021	2021	2021	2021
	\$	\$	\$	\$	\$	\$	\$	\$
Sales from rendering services	1,724	193,758	88,259	157,408	122,849	81,928	64,394	232,604
Other income	0	0	26,954	-	5,763	2	3	-
Government Grants	0	0	93,805	95,442	27,218	86,932	179,119	83,528
Total Sales and other income	1,724	193,758	209,018	252,850	155,830	168,862	243,516	316,132
Exchange differences on translation income / (loss)	0	0	2,791	6,728	21,240	(31,516)	(29,457)	(11,408)
Net Comprehensive Income (Loss)	(258,490)	(133,009)	(238,908)	(250,529)	(426,032)	(335,215)	(567,729)	(94,671)
Per Share*	(0.028)	(0.005)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	0.00
Per Share diluted*	(0.028)	(0.005)	(0.01)	(0.01)	(0.02)	(0.01)	(0.02)	0.00

### **Liquidity and Financial Position and Capital Resources**

The Company has net equity of \$32,280 at the end of June 2023 with cash reserves of \$3,133

#### **Loan facility.**

On June 30, 2023, the Company signed a loan agreement with related parties which allows for a maximum of \$200,000 to be drawn as required. There is no interest to be paid on the loan funds drawn, and the funds are to be repaid 12 months from the signing of the agreement (unless both parties agree to extend the term of the loan). Under the terms of the agreement, 520,000 warrants were issued. The warrants have a 3 year term with an exercise price of \$0.15 each.

#### **Related Party Transactions**

There was no related party transaction with the Company for the period, other than the loan facility mentioned above.

#### **Internal Controls**

##### **Disclosure controls and procedures**

Management of Sparc AI is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators.

### **Internal controls over financial reporting**

Management of Sparc AI is responsible for designing internal controls over financial reporting for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators.

### **Outstanding Share Data**

As mentioned above, as part of the sale of the subsidiary company, one of the terms of the sale was for the purchasers to hand back their shares in Sparc AI Inc to treasury and the shares would be cancelled. The total number of shares that were handed to treasury were 18,951,061. Shares on issue at 30 June, 2023 totalled 9,094,539.

All Options and warrants that were issued at the date of sale were also cancelled and new securities were issued:

### **Options**

700,000 options issued at 30 June, 2023 having a 3 year term with an exercise price of \$0.15 each.

### **Warrants.**

520,000 warrants issued at 30 June, 2023 having a 3 year term with an exercise price of \$0.15 each.

### **Contingent Asset**

As part of the sale of the subsidiary company, there was a Promissory Note issued by EYEfi Pty Ltd to Sparc AI Inc. This note was to the value of CAD 2,200,000. The maturity date of this note is contingent on the following:

- A sale of the issued shares of EYEfi Pty Ltd by any shareholders (except where the sale is between related entities);
- The issue and sale from treasury of Company shares, unless this is done to raise funds ( if this is the case, 50% of the funds raised are to be applied to the repayment of the Promissory Note);
- A sale of the main undertaking or the majority of the assets of the company.

Having regard to the contingent nature of the maturity date, directors have resolved to treat the Promissory Note as a contingent asset and not book this to the balance sheet

### **Events after the reporting period**

No other matter or circumstance has arisen since June 30, 2023 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

## ***Risk Factors and Risk Management***

### ***Negative Cash Flows and Going Concern.***

The Company has re positioned itself for growth with transfer of the assets to its balance sheet and is exploring distribution opportunities. At this stage of the Company's growth, cash flow is a risk and needs to be managed, which the directors are actively doing.

The Company's financial statements have been prepared on a going concern basis. The going concern basis of the presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities in the normal course of operations. The Company incurred a loss of \$391,499 for the six months period ended June 30, 2023, and as of that date has an accumulated deficit of \$1,714,867. To date, the Company has funded operations through private placement and revenue from operations. The Company's ability to continue as a going concern is dependent upon its ability to achieve profitable operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the company's ability to continue as a going concern. The financial statements do not reflect adjustments that would be necessary if the going assumption was not appropriate. These adjustments could be material.

### **Risk Management**

Any start-up or established business must continuously manage the risks by recognizing and mitigating the ambiguities and risks both in internal and external business environments that surround a company. The Sparc AI Group's management team manages risks proactively. Here are some of the risks that the Company faces:

#### **Technology Risk**

The Sparc AI Group is dependent upon network communication or internetworking for product connectivity. The network communication defines a set of protocols allowing application programs to talk to each other without regard to the hardware and operating systems where they are run. A disruption in the internetworking would have a serious impact on the SPARC Group's services to its customers.

#### **Cybersecurity Risk:**

EYEfi Cloud is a public cloud application and is subject to threats and attacks and data breaches that could affect for example delivery of service and supply lines. Security data is controlled by the cloud provider which could make it difficult to distinguish between everyday computing events and security events. The EYEfi Group is constantly monitoring for security events. The Sparc AI Group is also subject to attacks by ransomware and the encrypting of data and hardware attacks that could affect computer chips.

#### **Competitive Risks**

There are other well established companies who are competitors to the Sparc AI Group providing services and products to the same kind of customers the Sparc AI Group Company is targeting. A discussion of these competitors is contained earlier in this section of the Prospectus.

#### **Legal and Regulatory Risks**

Some of the possible legal or regulatory issues are continuous reporting requirements by the Regulatory Authorities and Exchange, tax complications, user and privacy policy, customer complaints, etc. The Sparc AI Group has retained professional advisors with the requisite experience to deal with these matters and will consult with them to keep it informed of possible complications before they arise.

#### **Intellectual Property**

The ability of the Sparc AI Group to maintain or increase sales will depend in part on its ability to maintain and grow its brand equity through the use of its registered domain names and intellectual property. A loss of any of these may result in the Sparc AI Group's brand equity being diminished and thus a loss of potential



customers. As protection, the Sparc AI Group usually requires its employees and independent contractors to enter into confidentiality agreements, however, it cannot be assured that the obligations therein will be maintained and honored. In spite of confidentiality agreements and other methods of protecting trade secrets, the EYEfi Group's proprietary information could become known to or independently developed by competitors.

***Date and Other Available Information***

Unless otherwise indicated, the information contained in this MD&A is as of August 25, 2023.

***Signed***

A handwritten signature in black ink, consisting of a stylized 'T' shape with a horizontal line extending to the right and a vertical line extending downwards from the left side of the horizontal line.

CEO