



PROSMART ENTERPRISES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTH PERIODS ENDED MARCH 31, 2020

ProSmart Enterprises Inc.

Management's Discussion and Analysis

Three and six months ended March 31, 2020

Set out below is a review of the activities, results of operations and financial condition of ProSmart Enterprises Inc. (the "**Company**") for the three and six months ended March 31, 2020. The discussion below should be read in conjunction with the Company's condensed interim consolidated financial statements for the three and six month periods ended March 31, 2020 and audited consolidated financial statements for the year ended September 30, 2019. These consolidated financial statements are the responsibility of management and are prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. All dollar figures included in the following Management Discussion and Analysis ("**MD&A**") are quoted in Canadian dollars unless otherwise indicated. This MD&A has been prepared as at **October 19, 2020**. The Company is a reporting issuer in the provinces of British Columbia, Alberta, and Ontario in Canada and is listed on the TSX Venture Exchange under the symbol PROS. Additional information related to the Company, is available on SEDAR at www.sedar.com. The Company's websites are at www.prosmartinc.com, and www.rosterbot.com.

1. BACKGROUND AND CORE BUSINESS

ProSmart Enterprises Inc. ("**ProSmart**" or the "**Company**") is an investment company in the sports technology sector. The Company's investment strategy focuses on emerging technology companies, more specifically, companies with community facing products and services with revenue models that include premium subscriptions, payment processing, and targeted advertising & sponsorship within the sports industry.

The Company was incorporated under the laws of the State of Nevada on October 29, 1999. On January 27, 2009, the Company was continued from the State of Nevada to the Province of British Columbia under the Business Corporation Act. On July 12, 2017, the Company changed its name from Sora Capital Corp. to ProSmart Enterprises Inc. The Company's head office is #1500 - 1055 West Georgia Street Vancouver, BC.

The Company has completed three acquisitions of sports technology companies being; RosterBot Inc. ("**RosterBot**"), ProSmart Sports Development Inc. ("**PSD**"), and DL Hockey Consulting Limited ("**DL Hockey**").

Outlook and Future for ProSmart

During the year ended September 30, 2019, the Company ran into financial difficulties. The Company issued secured convertible debentures in an effort to re-capitalize the business, with the intention to do another round of financing shortly thereafter. The follow up financing did not materialize and the Company was forced to lay off all of its existing staff, halting all growth of the business.

On January 30, 2019, the Company received a Cease Trade Order ("**CTO**") from the BC Securities Commission. The Company is in the process of getting the CTO lifted.

Subsequent to March 31, 2020, the Company is closing a Sales Purchase Agreement ("**SPA**") for sale of the Company's three subsidiaries (DL Hockey, Rosterbot Inc. and ProSmart Sports Development Inc.) and 10% of the issued and outstanding common shares of the Company in exchange for the purchaser assuming all \$693,333 of convertible debenture debt. The closing of the transaction is subject to the Company achieving shareholder approval.

Once concluded, it is the goal of the Company to re-capitalize itself and look for future investments.

2. COMPANY HIGHLIGHTS DURING THE SECOND QUARTER OF FISCAL 2020

For the three and six months ended March 31, 2020, the Company recorded:

- Revenues of \$nil and \$nil (2019 - \$131,000 and \$177,541);
- Losses of \$3,693 and income of \$2,523 (2019 - \$91,401 and \$952,519), and;
- Loss per share of \$0.00 and \$0.00 (2019 – \$0.00 and \$0.03).

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3. FINANCIAL POSITION

	As at March 31, 2020	As at September 30, 2019
Consolidated Summary of Financial Position		
Cash and cash equivalents	\$ 1,961	\$ 14,164
Current assets	5,527	21,671
Software and platform development	2	2
Total assets	5,529	21,673
Current liabilities	2,071,739	2,062,174
Total liabilities	2,071,739	2,062,174
Shareholders' deficiency	(2,066,210)	(2,040,501)
Working capital (deficiency)	\$ (2,066,212)	\$ (2,040,503)

3.1 Statement of Loss and Comprehensive Loss

	Three Months Ended		Six Months Ended	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
REVENUES	\$ -	\$ 131,000	\$ -	\$ 177,541
Cost of Good Sold	-	(6,708)	-	(13,416)
Gross Margin	-	124,292	-	164,125
EXPENSES				
Amortization of equipment	-	1,340	-	2,680
Filing and other fees	-	4,722	472	4,722
General and administrative	1,564	315,104	6,518	682,387
Investor relations	-	-	-	79,431
Management and consulting fees	-	40,613	-	97,106
Professional fees	-	17,348	1,658	54,010
Software and platform development	-	600	-	39,886
	(1,564)	(379,727)	(8,648)	(960,222)
OTHER ITEMS				
Financing income, net	-	179,753	-	(179,753)
Foreign exchange loss	(1,539)	(6,402)	12,350	3,073
Share-based payments	(590)	(9,317)	(1,179)	(18,634)
Income (loss) and comprehensive income (loss) for the period	(3,693)	(91,401)	2,523	(952,519)
Other comprehensive income				
Foreign currency translation adjustment	(11,739)	(262)	(29,411)	(14,279)
Loss and comprehensive loss for the period	\$ (15,432)	\$ (91,663)	\$ (26,888)	\$ (966,798)
Loss per share				
- basic and diluted	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ (0.03)
Weighted average number of shares outstanding				
- basic and diluted	32,108,092	32,108,092	32,108,092	32,119,081

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3.2 Results of Operations for the three month period ended March 31, 2020

The loss for the three months ending March 31, 2020 was \$3,693 (2019 – \$91,401). The significant items contributing to the increase in the loss are as follows:

- Revenues of \$nil (2019 - \$131,000) were recorded for coaching services provided in China. Operations ceased in the period ended March 31, 2019, thus no revenues were recorded during the current period.
- General and administrative expenses were \$1,564 (2019 - \$315,104). The Company's operations were halted by March 31, 2019, thus there were minimal operations expenses during the current period.
- Management and consulting costs were \$nil (2019 - \$40,613). The Company's operations were halted by March 31, 2019, thus there were minimal operations expenses during the current period.
- Expenses associated with share-based payments were \$590 (2019 - \$9,317). All employees were terminated in the period ended March 31, 2019 and only the options for the CFO and a director were not cancelled.

3.3 Results of Operations for the six month period ended March 31, 2020

The income for the six months ending March 31, 2020 was \$2,523 (2019 – loss of \$952,519).

The income for the three months was a result of changes in the China and US foreign exchange rates in the quarter and translation of minimal assets held in the non-operational subsidiary in China to Canadian dollar equivalent.

The significant other significant income statement items are as follows:

- Revenues of \$nil (2019 - \$177,541) were recorded for coaching services provided in China. Operations ceased in the period ended March 31, 2019, thus no revenues were recorded during the current period.
- General and administrative expenses were \$6,518 (2019 - \$682,387). The Company's operations were halted by March 31, 2019, thus there were minimal operations expenses during the current period.
- Management and consulting costs were \$nil (2019 - \$97,106). The Company's operations were halted by March 31, 2019, thus there were minimal operations expenses during the current period.
- Expenses associated with share-based payments were \$1,179 (2019 - \$18,634). All employees were terminated in the period ended March 31, 2019 and only the options for the CFO and a director were not cancelled.

3.4 Cash flows for the six month period ended March 31, 2020

Cash inflows from operating activities were \$17,208 (2019 – outflow of \$352,697). The change is due to halt of business in fiscal 2019.

Cash inflows from financing activities were \$nil (2019 –\$324,182). The Company was unable to generate any cash flow from its financing activities in the current fiscal period.

Cash inflows from investing activities were \$nil (2019 – \$1,425). The prior year's inflows were due to the sale of furniture and equipment as operations were halted.

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3.5 Summary of Quarterly results

000's of dollars, except per share figures	Quarter ended							
	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Total revenue	\$ -	\$ -	\$ -	\$ 36	\$ 131	\$ 47	\$ 174	\$ 74
Loss and comprehensive loss	(3,693)	6,216	-	(45)	(91)	(502)	(9,713)	(1,492)
Loss per share - basic and diluted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.02)	\$ (0.36)	\$ (0.06)

3.6 Financial Position as at March 31, 2020

As at March 31, 2020, the Company had exhausted all of its financial resources and was seeking additional financing. The convertible debt holders had called their loans and was seeking a settlement. Subsequent to March 31, 2020, the Company was closing an agreement with the convertible debt holders in exchange for the shares of its subsidiaries and 10% of the Company's issued and outstanding shares. As at the date of the MD&A, the settlement agreement had not been approved by the shareholders and no new capital has been received by the Company.

4. LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2020, the Company had a working capital deficiency of \$2,066,212 and cash on hand of \$1,961 as compared to a working capital deficiency of \$2,040,503, and cash on hand of \$14,164 at September 30, 2019. The detrition of working capital is due to the Company exhausting its capital and being unable to access additional funds, forcing it to cease operations.

The Company's continued operations is contingent upon its ability to raise sufficient financing both in the short and long-term. There are no guarantees that additional sources of funding will be available to the Company; however, management is committed to pursuing all possible sources of financing in order to restructure the Company and seek additional investments in the future.

5. RELATED PARTY TRANSACTIONS

For the six months ended March 31, 2020, the remuneration of the key management personnel, comprised of the directors and officers is as follows:

Paid or accrued salaries for the

- CEO of the Company in the amount of \$nil (2019 - \$109,426),
- COO of the Company in the amount of \$nil (2019 - \$64,991) and;

Paid or accrued professional fees of:

- \$nil (2019 – \$67,200) to a company of which the CFO of the Company is an owner, and;
- \$nil (2019 – \$5,541) to a law firm of which a former director is a partner.

Paid or accrued share-based payments of \$1,179 (2019 - \$18,634) to directors and officers of the Company.

As at March 31, 2020, \$236,286 (2019 - \$236,286) is due to related parties and former related parties and included in accounts payable and accrued liabilities.

6. CAPITAL EXPENDITURES

At present the Company is not anticipating any capital expenditures due to the lack of funding.

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7. STOCK ISSUANCES

During the period ended March 31, 2020, the Company has not issued any additional share capital.

8. OUTSTANDING SHARE DATA

At the date of this report, the Company has 32,108,092 issued and outstanding common shares and 75,000 outstanding stock options.

In addition, there are 23,454,133 common shares held under a voluntary pooling agreement that are restricted from trading.

9. PROPOSED TRANSACTIONS

The Company has no proposed transactions.

10. CRITICAL ACCOUNTING ESTIMATES

The preparation of the March 31, 2020 condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

Critical accounting estimates

- i. Stock-based compensation is subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.
- ii. The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Critical accounting judgments

- i. The determination that the Company will continue as a going concern for the next year.
- ii. The application of the Company's accounting policy for software and platform development expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive loss in the period the new information becomes available.
- iii. When testing intangible assets for impairment, the Company considers software in development and web platform to be one cash-generating unit in its estimate of fair value and future cash flows of the assets.

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11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities, short-term loans payable and convertible debt approximated their fair value because of the short-term nature of these instruments.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables mainly consist of Goods and Service Tax receivable from the government of Canada.

Liquidity risk

The Company's approach to managing liquidity risk is to try and have sufficient liquidity to meet liabilities when due. As at March 31, 2020, the Company had a cash and cash equivalents balance of \$1,961 to settle current liabilities of \$2,071,739. All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. To maintain liquidity, the Company is currently investigating alternative financing opportunities.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and cash equivalents balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at March 31, 2020, the Company did not have any investments in investment-grade short-term deposit certificates.

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies. The Company has minimal financial assets outside of Canada and therefore considers this low risk.

12. RISK FACTORS

Readers of the MD&A should refer to the Risk Factors as outlined in the MD&A for the year ended September 30, 2019.

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13. OFF BALANCE SHEET ARRANGEMENTS

At March 31, 2020, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

14. INFORMATION REGARDING FORWARD LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contain certain forward-looking statements. Forward-looking statements include but are not limited to those with respect to anticipated timing for financing, and other funding instruments as well as the future anticipated capital expenditures. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and uncertainties include, among others; the actual results of web platform and software development activities and expenditures. While the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.