

MANAGEMENT'S DISCUSSION AND ANALYSIS  
**Engagement Labs Inc.**  
**For the three-month period ended March 31, 2018**

**DATED — MAY 29, 2018**

This Management's Discussion and Analysis (MD&A) was prepared in accordance with National Instrument 51-102, Continuous Disclosure Requirements, and should be read in conjunction with the condensed interim consolidated financial statements for the three-month period ended March 31, 2018 and audited consolidated financial statements and accompanying notes for the year ended December 31, 2017. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. Additional information with respect to Engagement Labs Inc. can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Engagement Labs Inc.'s management at the time the statements were made.

#### **OVERVIEW**

Engagement Labs Inc. ("the Company") is listed on the TSX Venture Exchange under the symbol "**TSX-V: EL**" and effective March 8, 2018 also on the OTCQB under the symbol **ELBSF**.

2017 was an important year in the development of Engagement Labs Inc. In the Fall of 2016 the Company launched TotalSocial®, the only data and analytics platform that combines online data about brand conversations that take place via social media, with offline conversation data. The platform has a proprietary 10-year database of offline conversation built by Engagement Labs, the only such source of offline data about brands. These data sets feed the company's predictive analytics engine, which uses proprietary algorithms and Artificial Intelligence/machine learning to forecast future sales and provide marketers with better insights, improved marketing ROI and increased sales.

2017 was a year of growth and development for the new TotalSocial platform. By December 31, 2017 a cumulative total of over 5.4 million of contracts had been signed with a diverse group of Fortune 500 companies and brands, proving the broad appeal of TotalSocial. (This cumulative number is \$7.4m as of the date of this report.) Clients have been signed across eight verticals, including beauty, dining, financial services, health and nutrition, media, telecom, software and sports. In the Fall of 2017, based on the success of TotalSocial to date and reflecting confidence in the future, the Company secured financing in the amount of [\$3.2 million] to be used for working capital, primarily to invest and sales and marketing to drive revenue for TotalSocial. By the end of 2017 the company announced that a President and Chief Revenue Officer had joined the Engagement Labs leadership team to oversee all aspects of revenue including strategy, marketing, business development and sales.

The development and launch of TotalSocial as the company's sole focus came following a realignment that was completed in September 2016, in which the company determined that the US offered the best market for commercial growth. The largest number of employees are now located in the company's New Brunswick NJ office, including sales, client service and product delivery, with technology development and senior finance in Montreal. The business results coming out of the Toronto office were increasingly unsustainable and draining too much cash. Consequently, Management and the Board took the decision to close its Toronto office in October 2016 and terminate or accept the resignations of all employees based there. This change in focus is important to understand when reviewing results in 2017 versus 2016 as revenue declined year-over-year, but gross margin increased, and the adjusted EBITDA loss was far smaller as a result of the significant cost reductions. Management believes it is on a firmer footing moving forward as a result of the decisions taken in 2016 and the development of TotalSocial in 2017.

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During Q1 2018 the benefits of these actions is taking hold. Revenue has increased by 24% versus Q1 2017. Gross margins also increased to 48% versus 36% in Q1 2017. Reflecting the company's investment in sales and marketing as well as product development, operating expenses increased by 28% year over year, during this time period.

**MAIN PERFORMANCE INDICATORS**

Management considers that the main indicators of the Company's performance are the following: revenue, gross profit, net income, adjusted EBITDA (as defined in summary of results) and shareholders' equity.

**OVERALL PERFORMANCE**

Engagement Labs is a social media analytics and technology company investing in R&D associated with technology development, marketing sciences and predictive analytics, and the commercialization of its software products and its suite of services. The social marketing and predictive analytics industries are rapidly growing, and TotalSocial® is a unique and disruptive product offering that gives Management confidence that Engagement Labs will be a significant player with a unique positioning at the intersection of these two growth sectors.

The financial performance described in this report is a reflection of Engagement Labs' significant investments in the development and commercialization of TotalSocial®.

Revenue increased by 24%, from \$805,820 for Q1 2017 to \$998,536 for Q1 2018, and it increased by \$8,983 or 1% from Q4 2017. The gross profit increased by 64%, from \$293,038 in Q1 2017 to \$479,297 in Q1 2018, and it increased by \$91,888 or 24% from Q4 2017. As a percentage of revenue, the gross margin increased by 33%, from 36% for Q1 2017 to 48% for Q1 2018, and it increased by 23% from 39% in Q4 2017. Adjusted EBITDA loss increased by 28%, from -\$725,132 for Q1 2017 to -\$925,769 for Q1 2018, and it improved by 12% from -\$1,049,207 for Q4 2017. Excluding extraordinary items, operating expenses increased by 28%, from \$1,321,612 for Q1 2017 to \$1,685,723 for Q1 2018, and it remained stable from \$1,690,600 for Q4 2017. Excluding extraordinary items and future income taxes, the net loss for Q1 2018 increased to \$1,424,217, up 12% or \$155,645 from \$1,268,572 for Q1 2017, and it decreased by 8% or \$125,826 from \$1,550,043 for Q4 2017.

Basic and diluted loss per share was (\$0.01) for Q1 2018, compared to (\$0.02) for Q1 2017 and (\$0.01) for Q4 2017. Engagement Labs' total assets, as of March 31, 2018, amounted to \$7,390,927 compared to \$8,132,636 as of December 31, 2017.

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The following table sets out selected financial information, presented in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). The information contained herein is drawn from financial statements of the Company for each of the three-month periods.

<b>For the three-month periods ended:</b>	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Revenue	\$ 998,536	\$ 805,820
Gross profit	479,297	293,038
Net loss	-1,373,475	-1,215,502
Basic and diluted earnings per share	-0.01	-0.02
EBITDA*	-1,073,291	-890,443
% EBITDA of revenue	-107%	-111%
Adjusted EBITDA *	\$ -925,769	\$ -725,132
Total assets	2,439,125	9,036,611
Long term financial liabilities	\$ 3,437,582	\$ 3,746,956

\*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 including the grant of stock options and restricted shares units, as these expenses do not result in any use of operating cash flows by the Company, severance payments, impairment loss on goodwill, write-off of intangible assets, change in fair value of investment in shares, expenses related to acquisition or disposal of business, and loss on extinction of debt and equity components of convertible debentures, which are extraordinary and non-recurrent expenses, and Board remuneration, which is paid in shares units. EBITDA and Adjusted EBITDA are provided as a supplementary earning measure to assist readers in determining the ability of ENGAGEMENT LABS INC. 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.

**Reconciliation of Adjusted EBITDA**

<b>For the three-month periods ended:</b>	<b>March 31, 2018</b>	<b>March 31, 2017</b>
<b>Net loss</b>	<b>\$ -1,373,475</b>	<b>\$ -1,215,502</b>
Financial	209,020	236,773
Future income taxes	-50,738	-53,070
SRED credit tax	-38,350	-
Depreciation and amortization	180,252	141,356
<b>EBITDA</b>	<b>-1,073,291</b>	<b>-890,443</b>
Share-based compensation	44,047	56,142
Restricted Share Units (RSU)	45,042	36,309
Restricted Share Awards (RSA)	4,555	-
Severance payments	4,378	16,860
Board remuneration paid in shares	49,500	56,000
<b>Adjusted EBITDA</b>	<b>\$ -925,769</b>	<b>\$ -725,132</b>

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**OPERATING RESULTS**

**Consolidated Results**

The consolidated financial statements for three-month period ended March 31, 2018 are consolidated from:

- 100% of Engagement Labs Inc. ("Elabs")
- 100% of Keller Fay Group, LLC

**Revenue**

Revenue of \$998,536 for Q1 2018 has increased by 24% from \$805,820 in Q1 2017, and increased by 1%, from \$989,553 for Q4 2017.

In comparison to Q1 2017, the revenue from US market increased by 47% or \$291,801, from \$615,596 for Q1 2017 to \$907,397 for Q1 2018. For the same comparative periods, the revenue from UK market decreased by 43% or \$68,317, from \$159,456 for Q1 2017 to \$91,139 for Q1 2018.

In comparison to Q4 2017, the revenue from US market increased by 8% or \$64,744, from \$842,653 for Q4 2017 to \$907,397 for Q1 2018. For the same comparative periods, the revenue from UK market decreased by 38% or \$55,761, from \$146,900 for Q4 2017 to \$91,139 for Q1 2018.

Management is pleased with the US growth, as the US is our major area of focus. With regard to the UK, it is clear that trading conditions have grown more challenging and management is taking steps to reduce costs in light of the reduction in revenue and is actively exploring alternatives for returning to a growth path.

**Cost of sales ("COS") & gross margin**

COS decreased to \$519,239 in Q1 2018, down 14% or \$82,905 from \$602,144 in Q4 2017. The decrease is attributable to an adjustment to the amortization of TotalSocial® in Q4 2017 for a net decrease of 61,437 for the comparative periods, an increase in employee costs for \$34,611, and a decrease of \$54,554 in subcontractor costs.

The COS increased to \$519,239 in Q1 2018, up 1% or \$6,457 from \$512,782 in Q1 2017. The small increase is mainly the result of an increase in amortization of TotalSocial® for \$44,354, and a decrease in subcontractor costs for \$40,441.

As a percentage of revenue, the gross margin increased to 48% in Q1 2018, up 33% from 36% in Q1 2017, and up 23% from 39% in Q4 2017. Excluding amortization of TotalSocial®, gross margin increased by 44%, from 36% in Q1 2017 to 52% in Q1 2018, and it increased by 4% from 50% in Q4 2017.

**Total operating expenses**

Total operating expenses, before extraordinary items, remained stable from \$1,690,600 in Q4 2017 to \$1,685,723 in Q1 2018. They increased by 28% or \$364,111 from \$1,321,612 in Q1 2017 to \$1,685,723 in Q1 2018. The increase from Q1 2017 is fully attributable to an increase of \$417,875 in Sales and Marketing expenses. This increase reflects management's intention to invest in TotalSocial® technology sales growth.

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**Research and Development expenses**

In 2017, after discussion with the auditors, the Company took the decision to implement a new capitalization policy, in accordance with International Financial Reporting Standards ("IFRS"), and to capitalize the resources affected for development of its unique TotalSocial® technology.

Research and Development expenses decreased to \$129,348 in Q1 2018, down 46%, or \$111,322 from \$240,670 in Q4 2017. The decrease is mainly attributable to an adjustment in capitalized subcontractor fees in Q4 2017. The salaries decreased by \$98,026, the subcontractor fees decreased by \$89,573, the share-based compensation cost increased by \$11,600, the furniture increased by \$11,271, and the SRED credit tax decreased by \$52,700. As a percentage of revenue, Research and Development expenses decreased to 16% for Q1 2018 from 24% for Q4 2017.

Research and Development expenses decreased to \$129,348 in Q1 2018, down 5% or \$6,146 from \$135,494 in Q1 2017. This decrease is attributable to an increase in salaries for \$16,762, an increase in furniture for \$13,860, and a SRED credit tax of \$38,350 accounted in Q1 2018. This credit tax is related to 2016 and was recently approved by Canada Revenue Agency. As a percentage of revenue, Research and Development expenses decreased to 13% for Q1 2018 from 17% for Q1 2017.

**Sales and Marketing expenses**

Sales and Marketing expenses increased to \$973,719 in Q1 2018, up 24% or \$191,615 from \$782,104 in Q4 2017. This increase reflects management's intention to invest in TotalSocial® technology sales growth. The expenses in marketing increased by \$112,875, the salaries increased by \$124,038, the share-based compensation cost decreased by \$27,953, the subcontractor fees decreased by \$28,164, and the travelling expenses increased by \$11,247. As a percentage of revenue, Sales and Marketing expenses increased to 98% for Q1 2018 from 79% for Q4 2017.

Sales and Marketing expenses increased to \$973,719 in Q1 2018, up 75% or \$417,875 from \$555,844 in Q1 2017. The expenses in marketing increased by \$266,293, the salaries increased by \$137,458, the travelling expenses increased by \$21,371, the subcontractor fees decreased by \$26,223, and the share-based compensation cost increased by \$18,397. As a percentage of revenue, Sales and Marketing expenses increased to 98% for Q1 2018 from 69% for Q1 2017.

**General and Administrative expenses**

General and Administrative expenses decreased to \$582,656 in Q1 2018, down 13% or \$85,170 from \$667,826 in Q4 2017. The decrease is mainly attributable to a decrease in financing expenses for \$55,792, and a decrease in foreign exchange loss for \$22,301. As a percentage of revenue, General and Administrative expenses decreased to 58% for Q1 2018 from 67% for Q4 2017.

General and Administrative expenses decreased to \$582,656 in Q1 2018, down 8% or \$47,618 from \$630,274 in Q1 2017. The decrease is attributable to a decrease in severance for \$12,482, a decrease in share-based compensation cost for \$19,319, and a decrease in office expenses for \$16,208. As a percentage of revenue, General and Administrative expenses decreased to 58% for Q1 2018 from 78% for Q1 2017.

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**Adjusted EBITDA**

Adjusted EBITDA loss improved by % or \$123,438, from -\$1,049,207 (-106% of revenue) for Q4 2017 to -\$925,769 (-93% of revenue) for Q1 2018. This improvement in Adjusted EBITDA loss is attributable to an increase in revenue for \$8,983, a decrease in subcontractor fees for \$189,500, an increase in marketing expenses for \$112,875, a decrease in financing expenses for \$55,792, an increase in travel expenses for \$30,861, a decrease in total salaries for \$18,418, an increase in office expenses for \$11,153, and a decrease in furniture expenses for \$5,238.

Adjusted EBITDA loss increased to -\$925,769 (-93% of revenue) for Q1 2018, up 28% or -\$200,637 from -\$725,132 (-90% of revenue) for Q1 2017. The increase in Adjusted EBITDA loss is mainly attributable to the increase in revenue for \$192,716.

**TECHNOLOGY RISK**

TotalSocial® is partially dependent on data provided by social networks and third parties. Should a social network “turn off” or change access provisions to data sets, this could affect the nature of the Company’s offerings. The Company’s mitigation plan is to create more partnerships so as to not be reliant on any single social network data provider, and to develop new proprietary databases through owned assets.

**CREDIT RISK**

Credit risk is the risk that a counter party fails to discharge an obligation to the Company. The Company’s maximum exposure to credit risk is limited to the carrying amounts of financial assets recognized as of March 31, 2018.

The Company provides credit to its clients in the normal course of its operations. On a continuing basis, it carries out credit checks on its clients and maintains provisions for contingent credit losses. The Company does not normally require a guarantor. The Company determines, on a continuing basis, the probable losses, and sets up a provision for losses based on the estimated realized value.

Concentration of credit risk arises when a group of clients that has similar characteristics, such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. For the Company, significant concentrations of credit risk are related to particular industries.

As at March 31, 2018, one clients represent 35% of the trade accounts receivable (one client represented 21% of the trade accounts receivable as at December 31, 2017).

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**LIQUIDITY RISK**

Liquidity risk is the risk of the Company not being able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its working capital ratio and debt coverage ratio. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets.

As at March 31, 2018, the Company was holding cash of \$1,456,421 (\$2,677,049 as at December 31, 2017) and cash in escrow for \$235,508 (\$237,575 as at December 31, 2017). In order to maintain or adjust its capital structure, the Company may be required to issue new shares, raise debt or refinance existing debt.

Contractual maturities of financial liabilities (including capital and interests) are as follows:

<b>March 31, 2018</b>				
	<b>Current</b>			<b>Non-current</b>
	<b>0 – 6 months</b>	<b>6 – 12 months</b>	<b>Total</b>	<b>1 – 5 years</b>
Trade and other payables	1,054,944	-	1,054,944	-
Long-term debt	17,710	16,858	34,568	6,090,633
	1,072,654	16,858	1,089,512	6,090,633
<b>December 31, 2017</b>				
	<b>Current</b>			<b>Non-current</b>
	<b>0 – 6 months</b>	<b>6 – 12 months</b>	<b>Total</b>	<b>1 – 5 years</b>
Trade and other payables	910,485	-	910,485	-
Long-term debt	24,091	24,492	48,583	7,025,011
	934,576	24,492	959,068	7,025,011

The working capital ratio of the Company as at March 31, 2018 was 1.57 and was 2.45 as at December 31, 2017. The objective of the Company is to maintain the ratio above 1.0.

The Company's working capital was \$883,238 as of March 31, 2018 (\$2,017,948 as at December 31, 2017). The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meets its liabilities for the ensuing year, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

To maintain or adjust its capital structure, the Company may be required to issue new shares, raise debt or refinance existing debt. To maintain sufficient liquidity, Management's objectives are to:

- reduce the day's revenue outstanding of account receivables;
- focus on operations and profitability by signing new customer contracts and being fiscally responsible;
- generate new funds by share issuances;
- refinance existing debt and raise additional debt.

There are no legal restrictions on the ability of subsidiaries to transfer funds to the Company.

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**FINANCING SOURCES**

The Company has convertible debentures of \$921,564 (par value of \$1,665,000), bearing interest at a rate of 2%. Each Debenture Unit was issued at a price of \$1,000 per Debenture Unit consisting of one secured convertible debenture ("Debenture") in the aggregate principal amount of \$1,000 maturing on September 28, 2020 convertible into common shares of the Corporation at a price of \$0.12 per common share, subject to automatic conversion provisions.

The Company has convertible debentures of \$2,178,098 (par value of \$4,194,975), bearing interest at a rate of 1%. Each Debenture Unit was issued at a price of \$1,000 per Debenture Unit consisting of one secured convertible debenture ("Debenture") in the aggregate principal amount of \$1,000 maturing on September 28, 2020 convertible into common shares of the Corporation at a price of \$0.20 per common share. Each Unit also consists of 5,000 common share purchase warrants ("Warrants"), with each Warrant entitling the holder to acquire an additional common share at \$0.20 per share for a period of four years from closing.

During the three-month period ended March 31, 2018, 7,033,327 common shares were issued as a result of the exercise of the conversion option by some of the debenture holders, for a total par value of \$904,000.

**OFF-BALANCE SHEET AGREEMENTS**

As at December 31, 2017, the commitments of the Company under leases and contractual obligations amounted to \$503,157. Payments under these leases and obligations for the next five years will be made as follows:

2018	94,699
2019	127,744
2020	129,102
2021	89,864
2022	61,748

The following is the nature of these commitments:

- Premises lease for the Montreal office ending May 31, 2021 with a monthly payment of \$5,400 until May 2018 and a monthly payment of \$5,700 until May 2021. A security deposit of \$12,000 was paid on signing the Lease;
- Premises lease for the New Jersey office ending June 30, 2023, with a monthly payment US\$3,684 until June 2019, a monthly payment of US\$3,771 from July 2019 to June 2020, a monthly payment of US\$3,859 from July 2020 to June 2021, a monthly payment of US\$3,947 from July 2021 to June 2022, and a monthly payment of US\$4,035 from July 2022 to June 2023. A security deposit of US\$6,666 was paid on signing the Lease;
- Lease for a printer/copier machine in the Montreal office for a period of 55 months ending July 31, 2021 with a monthly payment of \$139.

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**RELATED PARTY TRANSACTIONS**

The following table summarizes the information on related party transactions during the three-month periods ended March 31, 2018 and 2017:

	<b>March 31, 2018</b>	March 31, 2017
	\$	\$
Legal fees to a law firm of which a partner was also a senior officer or a director of the Company		
Other legal fees	<b>80,325</b>	607

These transactions were carried out in the ordinary course of business.

Key management personnel are defined as members of the Board of Directors, the Chief Financial Officer and the President and the Chief Executive Officer of the Company. For the three-month periods ended March 31, 2018 and 2017 their compensation includes the following:

	<b>March 31, 2018</b>	March 31, 2017
	\$	\$
Short-term benefits	<b>322,806</b>	194,834
Restricted share units compensation	<b>23,342</b>	20,095
Restricted share awards compensation	<b>2,059</b>	-
Share-based compensation	<b>22,305</b>	5,663
	<b>370,512</b>	220,592

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**QUARTERLY INFORMATION FROM CONTINUING OPERATIONS**

Figures are presented in thousand \$ except for earnings (loss) per share.

	2018		2017			2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	999	990	879	796	805	1,315	905	1,144
Gross profit	479	387	477	330	293	679	129	133
Comprehensive (loss)	-1,373	-667	-1,091	-1,189	-1,215	-610	-4,400	-1,916
Basic and diluted earnings (loss) per share	-0.01	-0.01	-0.01	-0.02	-0.02	-0.01	-0.06	-0.03
EBITDA	-1,073	-546	-591	-680	-890	-886	-4,285	-1,862
Adjusted EBITDA	-926	-1,049	-385	-525	-725	-623	-1,332	-1,181

**RECONCILIATION OF ADJUSTED EBITDA (CONTINUING OPERATIONS)**

Figures are presented in thousand \$.

	2018		2017			2016		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Comprehensive (loss)	-1,373	-667	-1,091	-1,189	-1,215	-610	-4,400	-1,916
Financial	209	258	337	344	237	201	211	162
Future income taxes	-51	-243	1	-	-53	-626	-305	-275
SRED credit tax	-38	-91	-	-	-	-	-	-
Depreciation and amortization	180	197	162	165	141	149	209	167
<b>EBITDA</b>	<b>-1,073</b>	<b>-546</b>	<b>-591</b>	<b>-680</b>	<b>-890</b>	<b>-886</b>	<b>-4,285</b>	<b>-1,862</b>
Stock-based compensation	44	56	33	40	56	4	308	247
Restricted Share Units	45	24	56	55	36	42	565	65
Restricted Share Awards	5							
Severance payments	4	5	61	-	17	10	314	45
Impairment loss on goodwill	-	-	-	-	-	-	1,375	-
Write-off of intangible assets	-	-	-	-	-	-	85	-
Change in fair value of investment in shares	-	-	-	-	-	-	142	9
Business disposal costs	-	-	-	-	-	4	61	-
Loss (gain) on extinction of debt and equity components of convertible debentures	-	-640	-	-	-	149	35	244
Board remuneration paid in shares	49	52	56	60	56	54	68	71
<b>Adjusted EBITDA</b>	<b>-926</b>	<b>-1,049</b>	<b>-385</b>	<b>-525</b>	<b>-725</b>	<b>-623</b>	<b>-1,332</b>	<b>-1,181</b>

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**DISCLOSURE OF OUTSTANDING SHARE DATA**

As at March 31, 2018, there were 150,617,974 outstanding common shares, 7,892,300 outstanding stock options and 65,843,801 outstanding warrants with an average exercise price of \$0.16. Assuming a full conversion of outstanding options and warrants, there would have been 224,354,075 outstanding common shares as at March 31, 2018.

As at May 29, 2018, there were 150,626,055 outstanding common shares, 7,892,300 outstanding stock options and 55,092,875 outstanding warrants with an average exercise price of \$0.12. Assuming a full conversion of outstanding options and warrants, there would have been 213,611,230 outstanding common shares as at May 29, 2018.