



# BEACN

## BEACN WIZARDRY AND MAGIC INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the year ended December 31, 2021

### INTRODUCTION

This is Management's Discussion and Analysis ("MD&A") for BEACN Wizardry and Magic Inc. (formerly Germinate Capital Ltd.) ("Beacn" or the "Company") and has been prepared based on information known to management as of May 2, 2022. This MD&A is intended to help the reader understand the consolidated financial statements of Beacn.

The following information should be read in conjunction with the audited consolidated financial statements and the related notes for the year ended December 31, 2021 and for the period from incorporation on February 7, 2020 to December 31, 2020 and the related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A provides a review of the performance of the Company for the year ended December 31, 2021.

Management is responsible for the preparation and integrity of the audited consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management also ensures that information used internally or disclosed externally, including the consolidated financial statements and MD&A, is complete and reliable.

All currency amounts are expressed in Canadian dollars unless otherwise noted.

### FORWARD LOOKING STATEMENTS

Certain statements contained in the following MD&A and elsewhere constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors that 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 such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth in the Company's filings and herein.

Forward looking statements that have been made in this MD&A include:

- Budgets or estimates with respect to future activities;
- Estimates of how long the Company expects its working capital to last;
- Expectations regarding the ability to raise capital and to continue supplying tech peripherals for content creators on the internet; and
- Management expectations of future activities and results.

## **BACKGROUND**

Beacn Wizardry and Magic Inc. (formerly Germinate Capital Ltd.) (“Beacn” or the “Company”) was incorporated and domiciled in Canada under the Business Corporations Act (British Columbia) as a “Capital Pool Company” as defined in the TSX Venture Exchange’s (the “Exchange”) Listing Policy 2.4.

On October 29, 2021, the Company completed the share exchange transaction with Beacon Hill Innovations Ltd. (“Beacon”) which constituted the Company’s Qualifying Transaction (“QT”). Beacon was incorporated under the Business Corporations Act (British Columbia) on February 7, 2020 and its principal business focus is to be a supplier of tech peripherals for Gamers, YouTubers, Podcasters and anyone creating content on the internet. Upon completion of the QT, the Company began trading under its new name on the Exchange with the symbol “BECN” on November 2, 2021. Beacon Hill Innovations Ltd. is a wholly owned subsidiary of BEACN Wizardry & Magic Inc. and any reference herein to BEACN or Company includes Beacon.

## **OVERVIEW**

Beacon was founded in February 2020 to be a supplier of tech peripherals for Gamers, YouTubers, Podcasters, and anyone creating content on the internet. The Company is in the start-up phase, focused on research and development and the production and sale of its first products.

Beacon’s founders have many years of experience with audio engineering and hardware manufacturing coupled with many years of experience and success in the streaming and gaming industry. In early 2020, they conceived of the idea to form a company focusing on the audio and technical needs of online content creators and gamers.

The Company has focused on creating solutions to resolve the pain points for these creators, including the quality of incoming audio via microphones and management of multiple audio sources coming from their computers. New, innovative, and user-friendly products are completed, currently in mass production and anticipating near term sales. Beacn expects to see broad adoption of these products in the quickly expanding content creator market.

Since February 2020 Beacon’s founders and angel investors have contributed \$2,747,510 in equity at various prices, \$275,000 in shareholder loans, raised \$500,000 by way of a convertible loan, and completed a reverse takeover as the QT for Germinate Capital Ltd. Beacon’s experienced team, familiar with audio engineering, “hit the ground running” on research & development resulting in three innovative products: a microphone with powerful, built in, processing built to take the load of the users CPU and two audio controllers which give simplified high levels of control over audio without 3rd party software, complicated settings, or constant adjustment to changing Windows settings. Everything about Beacon products is designed and engineered from the ground up, without off-the-shelf products or pre-existing software. Beacon components are created specifically for use in Beacon’s products and are anticipated to be valuable components in future Beacon products.

Product manufacturing began during 2021 and has progressed well during the year ended December 31, 2021. The microphones are being manufactured in China and the audio controllers in British Columbia. Beacon is pleased to have Canadian manufacturing as part of its program and began product deliveries on January 31, 2022.

Marketing and sales efforts began in early 2020, because an integral piece of Beacon's agile design and development approach includes ongoing communication with end-users to maximize the effectiveness of the Company's products. Beacon has continued building long-term relationships with potential customers, content creators and influencers and added thousands of contacts to the Beacon mailing list during the year ended December 31, 2021. A similar number of followers have been added to Beacon's twitter following during that period and the Company is pleased that the numbers are higher than anticipated. The content "creator" space is large, with supporting computer/tech accessory sales in the billions of dollars and strong year-over-year growth. Beacon has made significant progress as it continues to gear up its marketing plans and sales strategy, for example:

- A Shopify-powered website, combined with modern, digitally connected third party logistics (3PL) will allow the Company to provide products at competitive prices with comprehensive shipping, returns and customer service in nearly every market in the world, without having to manage employee overhead or maintain inventory in unnecessary locations. As various worldwide markets show growth, expansion of products into those markets can happen dynamically, resulting in reduced costs over the long term by only keeping inventory where it is necessary.
- Amazon is a strong sales channel for technology products that provides Beacon direct access to the millions of consumers who already utilize that platform. Utilizing Beacon's 3PL (ShipCalm) to handle freight to Amazon's Fulfillment program (FBA) the Company anticipates providing consumers with an Amazon Prime level customer experience in the United States upon launch, with the expectation of offering this service level to the European Union and United Kingdom in the future.

On October 29, 2021, the Company and the Beacon completed their previously announced the QT. The QT was completed by way of share exchange pursuant to which the Company acquired all of the issued and outstanding shares in the capital of Beacon in exchange for the issuance of 32,151,003 common shares in the capital of the Company to the former shareholders of Beacon. The Company also issued 3,150,000 stock options to directors, officers, employees and consultants of the Company, which can be exercised at a price of \$0.30 per share until October 29, 2026.

The Subscription Receipts converted automatically for no additional consideration into Units upon the occurrence of the following events (collectively, the "Escrow Release Conditions"): (i) all conditions to the Exchange's conditional approval of the Transaction having been satisfied or waived; (ii) all conditions to the Exchange's conditional approval for the listing of the Shares to be issued pursuant to the Private Placement and the Shares underlying the Warrants having been satisfied or waived; and (iii) the closing of the transactions contemplated by the Share Exchange Agreement.

In connection with the QT, the Company completed a concurrent financing (see next page) totaling \$1,500,000.

Upon completion of the QT and the closing of the concurrent financing, the Company has 42,784,336 common shares issued and outstanding.

In accounting for the acquisition as a reverse takeover, no goodwill or intangible asset in respect to the Beacon's stock exchange listing has been recorded. For accounting purposes, Beacon, the legal subsidiary, has been treated as the accounting acquirer, and the Company, the legal parent, has been treated as the accounting acquiree in these consolidated financial statements. Beacon's assets and liabilities are included in these consolidated financial statements at their carrying values, which were considered to represent their current fair values.

The QT did not constitute a business combination under IFRS 3. The QT is accounted for in these consolidated financial statements as a continuation of the financial statements of Beacon, subject to a deemed issuance of shares and re-capitalization of the resulting issuer's equity. The excess of the estimated fair value of Beacon's pre-transaction common shares over the current carrying value of its net identifiable assets was allocated to listing expense. The acquisition was measured based on the current fair value of Beacon's 4,800,000 common shares outstanding deemed reissued at \$0.30 per share, allocated to its net identifiable assets as follows:

Cash	\$ 191,796
Receivables	5,808
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Total fair value of net assets acquired by Beacon	197,604
Listing expense	<u>1,242,396</u>
Fair value of Beacon's pre-transaction common shares	<u>\$ 1,440,000</u>

## **MATERIAL FINANCIAL AND OPERATIONS INFORMATION**

### Capital Resources

On February 8, 2021, the Company closed a non-brokered private placement of 5,400,003 common shares at a price of \$0.15 per share for gross proceeds of \$810,000.

On May 25, 2021, the Company closed a non-brokered private placement of 5,000,000 common shares at a price of \$0.20 per share for gross proceeds of \$1,000,000.

On September 14, 2021, the Company entered into a \$500,000 convertible loan agreement ("Loan") with two parties ("Lenders"). The Loan is convertible, at the option of the lenders, into the units of the Company. Each unit is convertible into one common share of the Company and one-half of one share purchase warrant ("Warrant") of the Company at a rate of \$0.30 per unit. Each Warrant is exercisable into a common share of the Company at \$0.60 for a period of 2 years. The Loan, if not converted, has a maturity date of April 29, 2023, is subject to an interest rate of 5% per annum, and a one-time setup fee of \$1,250. Upon completion of the QT, on October 29, 2021, \$250,000 worth of convertible loan was converted into common shares (Note 10(b)).

On September 23, 2021, the Company completed its non-brokered private placement of 5,000,000 subscription receipts of the Company (the "Subscription Receipts") at a price of \$0.30 per Subscription Receipt for gross proceeds of \$1,500,000 (the "Private Placement"). Each Subscription Receipt issued pursuant to the Private Placement is automatically convertible for no additional consideration into one unit of the Company (a "Unit") upon satisfaction of the

Escrow Release Conditions (Note 11). Each Unit is comprised of one common share in the capital of the Company (a "Share") and one-half of one Share purchase warrant (each full warrant, a "Warrant"). Each Warrant is exercisable to acquire one Share at a price of \$0.60 for a period of two years from the date of issuance. The warrants were ascribed a value of \$62,300 under the Black-Scholes valuation model with the residual being allocated to share capital. The Company paid to certain arm's length finders an aggregate cash finder's fee in connection with the Private Placement of \$23,243 and 77,475 non-transferrable warrants ("Finder Warrants") at the time of closing of the Transaction. Each Finder Warrant will entitle the holder to acquire one Share at a price of \$0.30 for a period of two years from closing of the QT.

On October 29, 2021, the Company and Beacon completed their previously announced QT. The QT was completed by way of share exchange pursuant to which the Company acquired all of the issued and outstanding shares in the capital of Beacon in exchange for the issuance of 32,151,003 common shares in the capital of the Company to the former shareholders of Beacon.

On October 29, 2021, upon completion of the QT, \$250,000 worth of convertible loan was converted into 833,333 common shares and 416,666 warrants (Note 7). Each warrant is exercisable to acquire one Share at a price of \$0.60 for a period of two years from the date of issuance. The warrants were ascribed a value of \$10,383 under the Black-Scholes valuation model with the residual being allocated to share capital.

Subsequent to December 31, 2021, 50,000 stock options expired unexercised.

Subsequent to December 31, 2021, 50,000 stock options were granted at an exercise price of \$0.32 per share until January 21, 2027.

Due to the Company's current treasury and the expected future cash flows from product sales management anticipates there will be sufficient cash flow for its efforts to continue as planned throughout 2022. If the market conditions change, the Company will make adjustment to budgets accordingly.

### Liquidity

As at December 31, 2021, the Company's working capital was \$2,732,708 (December 31, 2020 - \$336,700). Cash totaled \$2,039,515 as at December 31, 2021, an increase of \$1,703,735 from \$335,780 as at December 31, 2020. The increase was due to financing activities of \$3,746,756 while being offset by investing activities of \$78,787 and operating activities of \$1,964,234.

As of the date of this MD&A, the Company has an outstanding promissory note of \$275,000 with a shareholder of the Company with a maturity date of December 31, 2024. The Note was without interest until December 31, 2020, and thereafter incurs interest at a rate of 4% per annum, payable quarterly. The Company can repay all or part of the Note at any time without penalty. The Company also has an outstanding convertible loan of \$250,000 with a shareholder of the Company with a maturity date of April 29, 2023. The Loan incurs interest at a rate of 5% per annum, payable quarterly.

## Operations

### **For the year ended December 31, 2021 compared with the period from incorporation on February 7, 2020 to December 31, 2020:**

The Company incurred losses of \$2,713,756 (\$0.09 per share) and \$779,196 (\$0.06 per share) respectively for the year ended December 31, 2021 and for the period from incorporation on February 7, 2020 to December 31, 2020.

Excluding the non-cash share-based compensation of \$197,810 (2020 - \$Nil) and amortization of \$45,249 (2020 - \$8,734), the Company's general and administrative expenses amounted to \$1,489,152 (2020 - \$770,462), an increase of \$718,690. The change in the expenses was mainly due to increases in: (a) consulting and marketing fees (2021 - \$193,270; 2020 - \$92,252); (b) office and miscellaneous expenses (2021 - \$70,146; 2020 - \$44,522); (c) professional fees (2021 - \$174,196; 2020 - \$32,056); (d) salaries and benefits (2021 - \$813,286; 2020 - \$554,006); (e) prototype costs (2021 - \$91,116; 2020 - 29,923) and (f) travel and related expenses (2021 - \$28,036; 2020 - \$1,204) as the Company has been developing its products, pursuing the QT, and preparing to start sales in Q1 2022.

### **For the three months ended December 31, 2021 compared with the three months ended December 31, 2020:**

The Company incurred losses of \$2,053,436 (\$0.05 per share) and \$278,385 (\$0.02 per share) respectively for the three months ended December 31, 2021 and for the three months ended December 31, 2020.

Excluding the non-cash share-based compensation of \$197,810 (2020 - \$Nil) and amortization of \$29,873 (2020 - \$8,734), the Company's general and administrative expenses amounted to \$573,748 (2020 - \$269,651), an increase of \$304,097. The change in the expenses was mainly due to increases in: (a) advertising (2021 - \$31,344; 2020 - \$1,735); (b) pre-production costs (2021 - \$36,498; 2020 - \$21,874); (c) professional fees (2021 - \$83,765; 2020 - \$10,875) and (d) salaries and benefits (2021 - \$236,859; 2020 - \$179,545) as the Company has been developing its products, pursuing the QT, and preparing to start sales in Q1 2022.

## **RISKS AND UNCERTAINTIES**

The risks and uncertainties below must be taken into account, as they may affect the Company's ability to achieve our strategic goals. Investors are therefore advised to consider the following items in assessing the Company's future prospects as an investment.

### Future operations

The Company began generating revenue from sale of its products, however, future revenues are not guaranteed to be sufficient to meet operating and capital expenses and therefore the Company may continue to incur operating losses as it has since inception.

There is substantial doubt about the Company's ability to continue as a going concern as the continuation of the business may be dependent upon obtaining further financing, successful and sufficient market acceptance of current products and any new products that may be introduced,

the continuing successful development of product and related technologies, and, finally, achieving a profitable level of operations. The issuance of additional equity securities by the Company could result in a significant dilution in the equity interests of the current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase the Company's liabilities and future cash commitments.

There are no assurances that the Company will be able to obtain further funds required for continued operations. The Company is pursuing various financing alternatives to meet its long-term financial requirements. There can be no assurance that additional financing will be available to the Company when needed or, if available, that it can be obtained on commercially reasonable terms. If the Company is not able to obtain the additional financing on a timely basis, it will be forced to scale down or perhaps even cease the operation of its business.

#### Supply chain interruptions

The Company is exposed to potential supply chain disruptions due to fire, flood, shipping delays, and ongoing pandemic, affecting our contract manufacturing facility, suppliers, and warehouse. Interruptions in the supply chain may also lead to the Company's inability to secure the necessary parts to manufacture its products. Supply chain issues may lead to price fluctuations and this could cause our profits to decrease if we cannot pass along the extra cost to consumers.

#### Competition and technological obsolescence

The markets for the Company's products experience ongoing technological changes and the Company must compete with existing technology and service providers, new companies and advancing technologies. In order to remain fully competitive, the Company must continue to innovate and respond with advanced generations of software, products and services. The inability to react in a timely fashion to technological and competitive changes could have a negative impact on the Company and its ability to attract and retain customers. Moreover, the highly competitive market in which the Company operates could cause the Company to reduce its prices and offer other favorable terms in order to compete successfully with its rivals. These practices could, over time, limit the prices that the Company can charge for its products. If the Company was unable to offset such potential price reductions from products, it could negatively impact the Company's profit margins and operating results.

#### Possible dilution to present and prospective shareholders

Business negotiations related to the Company's search for new business opportunities may result in the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

#### Dependence of key personnel

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term.

## TRANSACTIONS WITH RELATED PARTIES

Amounts due to:	Service	Year ended December 31, 2021	For the Period from February 7 to December 31, 2020	Balance due	
				As at December 31, 2021	As at December 31, 2020
Craig Fraser, officer and	Salaries and benefits	\$ 95,000	\$ 80,385	\$ -	\$ -
Daniel Davies, officer and	Salaries and benefits	95,000	80,385	-	-
Mark Brown, director	Expense reimbursement	-	-	1,838	-
Pacific Opportunity Capital Ltd., a company controlled by Mark T. Brown, a director	Accounting and management services	28,500	-	37,800	-
<b>TOTAL:</b>		<b>\$ 218,500</b>	<b>\$ 160,770</b>	<b>\$ 39,638</b>	<b>\$ -</b>

Amounts owing to/from related parties are non-interest bearing, unsecured, and have no fixed terms of repayment. The changes during the period were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

## DISCLOSURE OF OUTSTANDING SHARE DATA

The authorized share capital of the Company consists of an unlimited number of common shares without par value. As at December 31, 2021, the Company's share capital is \$5,744,667 representing 42,784,336 common shares.

As of the date of this MD&A, there are 42,784,336 common shares issued and outstanding. In addition, there are 3,600,000 incentive stock options and 3,244,141 warrants outstanding as of the date of this MD&A.

## FINANCIAL INSTRUMENTS

The fair values of the Company's cash and accounts payable and accrued liabilities, due to related parties, convertible loan, and promissory note approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk and liquidity risk.

### a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The Company's bank accounts are held with major banks in Canada; accordingly, the Company believes it is not exposed to significant credit risk.

### b) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company controls liquidity risk by ensuring that it has sufficient cash resources to pay for its financial obligations. As at December 31, 2021, the Company had a cash balance of \$2,039,515 to settle current liabilities of \$309,205.

## **MANAGEMENT OF CAPITAL RISK**

The Company's capital consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## **SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, 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, but are not limited to, the following:

### Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- the determination that the Company will continue as a going concern for the next year; and
- the determination that the functional currency of the Company is Canadian dollar.

## INFORMATION ON THE BOARD OF DIRECTORS AND MANAGEMENT

### **Directors:**

*Craig Fraser*

*Daniel Davies*

*Mark T. Brown*

*Sarah Weber*

### **Audit Committee members:**

*Mark T. Brown (Chair), Sarah Weber, and Daniel Davies*

### **Management:**

*Craig Fraser – Chief Executive Officer*

*Daniel Davies - Chief Technology Officer*

*Robert Doyle – Chief Financial Officer and Corporate Secretary*