

# LIONS BAY CAPITAL INC.

## Management's Discussion and Analysis

### Period ended – August 31, 2020

(Expressed in Canadian dollars, unless otherwise noted)

October 14, 2020

*This Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Lions Bay Capital Inc. ("Lions Bay" or the "Company") together with its subsidiaries as of the date of this report, and is intended to supplement and complement the Company's unaudited condensed interim consolidated financial statements for the three months ended August 31, 2020. Readers are cautioned that this MD&A contains forward-looking statements and that actual events may vary from management's expectations. The Company's public disclosure documents are available on SEDAR at [www.sedar.com](http://www.sedar.com). The condensed interim consolidated financial statements and MD&A are presented in Canadian Dollars, except where noted, and have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the period ended August 31, 2020.*

*The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. The years ended May 31, 2020 and May 31, 2019 are also referred to as "fiscal 2020" and "fiscal 2019", respectively. All amounts are presented in Canadian dollars, the Company's reporting and presentation currency, unless otherwise stated. Statements are subject to the risks and uncertainties identified in the "Risks and Uncertainties" and "Cautionary Note Regarding Forward-Looking Statements" sections of this document.*

## CORPORATE OVERVIEW

### Overview

The Company's primary objective is to increase shareholder value through the identification of and investment in securities of primarily publicly listed and/or private corporations offering capital appreciation potential. Investments will be acquired and held for short-term gains or long-term capital appreciation, dependent upon the specific investment.

### Going Concern

At the reporting date the consolidated entity had working capital of \$4,436,590, which includes investments with a fair market value of \$5,260,259 and cash of \$22,486.

- A significant portion of the Company's accounts payable and borrowings are owed to a related party.
- The Company has a significant holding in investments listed on the TSXV and ASX, which can be converted to cash to meet the ongoing cash flow needs of the Group.

The Company's ability to continue as a going concern is dependent upon the Company's ability to generate returns from its investments or obtaining investor financing to meet its on-going levels of corporate overhead and investment objectives. These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge liabilities in the normal course of business. In the past, the Company has been successful in obtaining financing, although there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in these consolidated financial statements. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time

## **Business Strategy**

The Company's focus is on strategic stakes in companies in the resource, energy and resource related technology sectors.

Lions Bay has a current portfolio of investments that cover, gold, energy, water and resources, including Electric Vehicle (EV) and battery material exposure in tin.

The investment portfolio comprises public trading shares in Kalina Power Limited (energy), Elementos Limited (EV, tin), Parkway Minerals NL (resources, water), Davenport Resources Limited (DAV), all listed on the Australian Securities Exchange. Further investments comprise public trading shares on the TSX-V, namely, Fidelity Minerals Corp. (gold) and Eurotin Inc.

The Company will focus on investments in growth resources not greenfield exploration and is targeting significant annual returns from management of its portfolio. This will be achieved in the following manner:

### *Invest in Quality Management*

We recognize that the most important ingredient in building a successful company is management. Less than 10% of junior mining companies are successful. The skills required to find a mineral resource are different from those required to develop it and a different set of skills are required to operate. Understanding the complexities is vital to success. Lions Bay is not a passive investor and is prepared to intervene if necessary, to ensure appropriate management is in place with a plan that it can execute.

### *Identify New and Disruptive Technologies*

We are in a rapidly changing world with new technologies having profound impacts on metal and energy trends. The electric car is here and fossil fuels are under pressure. The power grid as we know it is changing and renewables are here. The emphasis on battery metals and light weight stronger alloys has just begun. Lions Bay is active across this space. Its investment in Elementos is focused on this area while our strategic shareholding in Kalina provides access to an experienced team of power industry professionals.

### *Restructuring of Undervalued Assets*

There are many instances in the resource and related technology areas where companies simply run out of capital and the market has lost faith in the ability of management to deliver. The resource underpinning the company is often proven but the funding and experience is not there to execute. These are ideal situations in which Lions Bay is interested in becoming the cornerstone underwriter for a new business plan.

### *Funding to Support New Discoveries*

Lions Bay is not an exploration company but is alert to trends in the business that will influence commodity prices and hence may turn deposits previously uneconomic into commercial propositions. We are, however, risk averse and will tend to seed opportunities with a view to minimise any exploration risk.

## HIGHLIGHTS – AUGUST 31, 2020

- Investment balance of \$5,260,259 as at August 31, 2020 (May 31, 2020 - \$3,449,504).
- As at August 31, 2020 and May 31, 2019, the Company’s investments had the following cost and fair market value:

	<b>Cost August 31 2020 \$</b>	<b>Fair Value August 31 2020 \$</b>	<b>Cost May 31 2020 \$</b>	<b>Fair Value May 31 2020 \$</b>
Kalina Power Ltd	1,204,569	568,932	1,204,569	606,182
Fidelity Minerals Corp (i)	2,015,721	1,798,981	1,907,835	271,477
Eurotin Inc	700,000	200,001	700,000	200,001
Elementos Ltd	744,180	771,823	744,180	430,218
Parkway Minerals	1,014,868	1,493,065	1,014,868	1,426,782
Partly Paid Parkway Minerals	49,616	52,483	49,616	149,079
Devenport Resources	373,022	374,974	373,022	365,765
<b>Total</b>	<b>6,101,976</b>	<b>5,260,259</b>	<b>5,994,090</b>	<b>3,449,504</b>

- Subsequent to period end on September 14, 2020, the Company announced that it has entered into a heads of agreement with Salamander Mining International Limited (“Salamander”), which is conditional on Salamander reaching an agreement with the Business Rescue Practitioner and certain other creditors. Should this transaction proceed, the Company will have the right, subject to various conditions, to acquire an interest in a South African gold mine and milling complex. The companies that currently own the mines and mills are under bankruptcy protection and Salamander is a major creditor. Salamander has submitted a proposal to the administrator under which operations would resume and Salamander would acquire the assets. The operations were put into protection following an accident in 2016. The mines were operating profitably at the time at a gold price of USD \$1,300 an ounce. Under the heads of agreement, the Company will be mandated to arrange the funding required to acquire and restart the mines. It is anticipated that the amount required over 6 months will be less than USD \$5 million. To secure the funding mandate, the Company will be obliged to arrange a USD \$1 million loan.
- Subsequent to period end on October 8, 2020, the Company announced they have been advised that Salamander’s proposal to acquire the group of gold assets in South Africa currently under the control of a Business Rescue Practitioner has been distributed to the creditors for consideration. The assets are owned by subsidiaries of Vantage Goldfields Ltd (“Vantage”). Vantage was listed on the Australian Stock Exchange up until early 2015 and its annual reports and presentations are on the public record. A number of South African subsidiaries of Vantage were placed in business rescue in 2016 following a tragic accident at one of the mines that resulted in the death of three employees.

In December 2017, Salamander entered into an agreement with the Business Rescue Practitioner which provided for Salamander to re-treat residues from the mines. The Business Rescue Practitioner and the companies he administers were unable to perform under the terms of the agreement and as a consequence Salamander instituted a multi million dollar post commencement claim for expenses incurred and damages suffered. Salamander is in a position to significantly increase the quantum of damages claimed and approach the South African High Court for relief. Salamander has said it is prepared to waive these damages if its offer is accepted.

Any offer will ultimately require support from various parties and could result in protracted legal action. There is no certainty that Salamander will be successful in its endeavors and there are a number of potential outcomes.

## SUMMARY OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

For the three months ended 31 August	2020 \$	2019 \$
<b>NET REALISED AND UNREALISED GAIN/(LOSS)</b>		
Net realized gain/(loss) on disposal of marketable securities	-	(17,042)
Net change in unrealized gain/(loss) on marketable securities	1,609,299	(752,575)
Unrealized fair value gain on derivative financial instrument	534,570	(75,538)
<b>OTHER INCOME</b>		
Interest and other income	11,029	225,080
<b>Expenses</b>		
Professional fees	(38,700)	(18,784)
Directors fees	(36,000)	(111,236)
Travel expenses	(490)	(6,870)
Loss from equity accounted investment	-	-
Financing costs	(23,853)	(29,714)
Forex variance	75,626	(122,765)
General and administrative	(14,210)	(172)
<b>Total expenses</b>	<b>(37,627)</b>	<b>(289,541)</b>
<b>Profit/(loss) before tax</b>	<b>2,117,271</b>	<b>(909,616)</b>
Income tax (expense)/recovery	-	-
<b>Profit/(loss) after tax</b>	<b>2,117,271</b>	<b>(909,616)</b>
Share of non-controlling interest loss	-	29,591
	2,117,271	(880,025)
<b>Other comprehensive income/(loss) net of tax</b>	<b>554</b>	<b>117,373</b>
<b>Net income/(loss) and total comprehensive income</b>	<b>2,117,825</b>	<b>(762,652)</b>
<b>Profit/(loss) per common share</b>		
- Basic	\$0.02	(\$0.01)
- Diluted	\$0.02	(\$0.01)
<b>Weighted average number of common shares</b>		
- Basic	97,304,478	97,304,478
- Diluted	97,304,478	97,304,478

**Results from Operations for the Period Ended August 31, 2020 and 2019**

The net profit for the period ended August 31, 2020 was \$2.1 million, or \$0.02 per share, compared to the net loss of \$0.8 million, or \$0.01 loss per share in 2019.

During the period ended August 31, 2020, the Company recorded unrealized gain of \$1.6 million compared to the \$0.8 million unrealized loss in the comparative period in 2019. The unrealized gain in the current period was triggered by the net impact of the change in fair value of the investment portfolio, but mainly from the increase in value by Fidelity Minerals Corp. (“FMN”). In addition, the Company recorded a \$0.5 million gain on derivative financial instruments related to FMN warrants, which increased in fair value as well due to the increase in stock price. The Company had a lower other income balance in the current period compared to prior year due to a gain in recognition of loan receivable for a balance of \$0.2 million with FMN recorded in the prior year and not repeated in the current year.

Total expenses during the period ended August 31, 2020 were \$0.1 million compared to \$0.3 million for the comparative period. The decrease of expenses was due to Forex variances, and directors fees of the Company being lower in the current period.

**Consolidated quarterly loss – 8 quarters historic trend**

	August 31, 2020	May 31, 2020	Feb. 29, 2020	Nov 30, 2019	August 31, 2019	May 31, 2019	Feb 28, 2019	Nov. 30, 2018
	Q1 2020	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Net realized gain and (loss)	\$ -	\$ (335,855)	\$ -	\$ 894,238	\$ (17,042)	\$ (451,445)	\$ (43,293)	\$ (859,265)
Net unrealized gain and (loss)	<b>1,609,299</b>	141,894	(33,094)	(485,115)	(752,575)	677,071	(581,616)	(1,186,018)
Fair value loss on derivative instruments	<b>534,570</b>	(117,437)	47,373	(34,000)	(75,238)	119,560	-	-
Interest and other income	<b>11,029</b>	599,622	1,500	13,501	225,080	28,791	36,076	55,693
Total expenses	<b>(37,627)</b>	(42,445)	(159,620)	(8,756)	(289,541)	(70,327)	(753,533)	(263,888)
Profit (loss) after tax	<b>2,117,271</b>	241,268	(143,841)	379,868	(909,616)	656,491	(1,342,366)	(2,046,976)
Basic/Diluted earnings (loss) per share	<b>0.02</b>	0.01	0.00	0.00	(0.01)	0.00	(0.01)	(0.02)
Total assets	<b>\$6,250,496</b>	\$ 3,737,737	\$3,026,482	\$ 3,106,602	\$ 3,665,336	\$ 4,312,654	\$ 4,186,952	\$ 4,904,658

**Three months ended August 31, 2020 vs. previous quarters**

Net realized gain from investments was \$nil in the current quarter as there were no dispositions of investments recorded.

Net unrealized gains and losses fluctuate throughout the year dependent on investment’s price performance. There was a increase in the gain on derivative instruments recorded as there was a increase in the share price of Fidelity Minerals Corp. causing the warrant value to increase.

Interest and other income was lower in the current period as the Company recorded a gain of \$584,966 in Q4 2020 on the receipt of 124,912,569 Elementos shares by way of dividend from Eurotin Inc. related to a transaction between Eurotin and Elementos and in Q1 2020 the Company recorded a gain in recognition of loan receivable for a balance of \$0.2 million with FMN which was not repeated in the current period.

Total expenses have declined over the past couple fiscal years as investment activities have slowed.

***Change in total assets***

As at August 31, 2020 the Company had \$6.2 million in total assets. Assets have declined from fiscal 2019 to Q4 2020 due to challenging market conditions that drove the decline in value of investment although have improved in the current quarter which increased total assets to the highest value in the comparative periods.

**LIQUIDITY AND CAPITAL RESOURCES**

	August 31, 2020	August 31, 2019
Cash inflow (outflow) from operating activities	\$ (313,707)	\$ (124,759)
Cash inflow (outflow) from investing activities	-	-
Cash inflow (outflow) from financing activities	329,523	167,213
Net cash flows	15,816	42,454
Cash balance	\$ 22,486	\$ 56,740

As at August 31, 2020, the Company’s net working capital was \$4.4 million (May 31, 2020 - \$2.3 million). The improvement was mainly driven by the increase in the fair value of investments.

The cash outflow from operating activities for the period ended August 31, 2020 was \$313,707 million, which was higher than the outflow in the prior year and due to the purchase of \$250,000 in FMN investments.

Cash outflow from investing activities was \$nil in both periods.

Cash inflow from financing activities of \$329,523 which was higher than the inflow in 2019. The Company borrowed more money on a net basis in the current period.

The Company’s ability to continue as a going concern is dependent on the Company’s ability to raise funds and generate interest income.

**SHAREHOLDERS’ EQUITY**

As at August 31, 2020 and the date of this report, there were 97,304,473 common shares and 5,015,000 stock options outstanding.

The following table discloses the number of options and vested options outstanding as at August 31, 2020 and the date of the report:

Number of options	Vested ('000s)	Exercise price	Expiry Date
150,000	150,000	\$ 0.20	November 23, 2020
4,865,000	4,865,000	\$ 0.06	February 20, 2024
5,015,000	5,015,000		

## REGULATORY DISCLOSURES

### *Off-Balance Sheet Arrangements*

As at the date of this report, the Company did not have any off-balance sheet arrangements.

### *Proposed Transactions*

The Company does not have any proposed transactions as at August 31, 2020 and the date of the report, other than as disclosed elsewhere in this document.

### *Related Party Transactions*

The key management personnel of the Company are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including Directors and management.

On November 1, 2019, Anthony Balic was appointed as the new CFO of the Company. A company controlled by him charged \$15,000 for the period ended August 31, 2020 (2020 - \$nil). As at August 31, 2020, the amount owed was \$47,250 (May 31, 2020 - \$nil).

During the period ended August 31, 2020, the Company was charged directors fees of \$6,000 (2020 - \$6,000) by Ross MacLachlan. As at August 31, 2020, the Company had \$67,517 (2020 - \$61,517) payable to Ross.

During the period ended August 31, 2020, the Company was charged directors fees of \$nil (2020 - \$nil) by Bahay Ozcakmak. As at August 31, 2020, the Company had \$30,037 (2020 - \$30,037) payable to Bahay.

During the period ended August 31, 2020, the Company charged management fees to Fidelity Minerals Corp. of \$9,500 (2020 - \$18,000). Fidelity Minerals Corp. is a related party by virtue of a common executive and director.

During the period ended August 31, 2020, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne, President and CEO of the Company charged the Company for the provision of services of John Byrne. During the year ended August 31, 2020, total fee charged was \$42,000 (2020 - \$42,000).

Total amount accrued for Twenty-Second Yeneb Pty Limited as at May 31, 2020, which included fees and business expenses was \$639,365 (May 31, 2020 - \$588,922).

Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne has a loan to the Company. Interest payable at 10% per annum. As at August 31, 2020, total loan and interest outstanding is \$409,742 (May 31, 2020 - \$63,152).

### *Financial Instruments*

The following tables summarize the valuation of the Company's financial assets and liabilities reported at fair value by the fair value hierarchy levels:

<b>As at August 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Investments	5,260,259	-	-	5,260,259
Derivative financial instrument	-	-	862,250	862,250
	<b>5,260,259</b>	<b>-</b>	<b>862,250</b>	<b>6,122,509</b>

<b>As at May 31 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Investments	3,449,504	-	-	3,449,504
Derivative financial instrument	-	-	34,631	34,631
	<b>3,449,504</b>	<b>-</b>	<b>34,631</b>	<b>3,484,135</b>

Transfers between levels of the fair value hierarchy are deemed to have occurred at the date of the event or change in circumstance that caused the transfer. There were no transfers between the various levels of the fair value hierarchy for the period ended August 31, 2020.

### **Risk Associated with Financial Instruments**

The Company's business activities expose to a variety of financial risks: market risk (which includes interest rate risk, currency risk, and price risk), credit risk and liquidity risk. The following is a description of these risks and how they are managed.

#### *Market risk*

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in the interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such changes in equity prices, commodity prices or credit spreads.

#### *Interest rate risk*

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include change in net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in value of financial instruments whose cash flows are fixed in nature.

As at August 31, 2020, if interest rates were higher by 1% per annum, there would be no impact as all the debt is at a fixed rate.

#### *Currency risk*

Changes in currency rates will impact the carrying value of instruments denominated in currencies other than the Canadian dollar. As at August 31, 2020, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$3,167,708 (2020: \$2,978,027), which represent approximately 50.7% (2020: 79.7%) of total assets. The Company does not currently hedge its foreign currency exposure. If the Canadian dollar strengthened or weakened by 5% in relation to the foreign currencies, the investments would decrease or increase in value by approximately \$158,385 respectively (2020: \$148,910).

#### *Price risk*

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company's investments are susceptible to price risk arising from uncertainties about their future values. If the fair value for these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net gain of approximately \$526,026 (2020: \$344,950).

The fair value of the Company's marketable securities and investments are determined as follows:

#### *Listed securities*

The fair value of securities traded on active markets are based on quoted market prices at the close of trading on the reporting date. The Company uses the last traded market price where the last trade price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The fair value

of securities that are subject to trading restrictions are recorded at a value that takes into account the length and nature of the restrictions.

*Unlisted securities*

For investments that are not publicly traded, subsequent to initial recognition, the fair value of these investments is determined by the Company using the most appropriate valuation methodology in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio.

For unlisted equity instruments:

- Investments are valued at cost for a limited period after the date of acquisition, if the purchase price remains representative of the fair value at the reporting date; otherwise, investments are valued using one of the other methodologies detailed below.
- Investments in which there has been recent or in-progress funding round involving significant financing from external investors are valued at the price of the recent funding, whereby the various shareholder categories rights are taken into account in the valuation. The price is adjusted, where appropriate, if an external investor is motivated by strategic considerations.
- Investments in which there has been a recent financing round involving only existing investor participating proportionally to their existing investment are examined as to whether specific conditions exist that could reduce the reliability of this financing round as an indication of real value. An internal financing with investors at a lower price than the valuation at the previous reporting date may indicated a decrease in value and is taken into consideration.
- Investments that have achieved an exit after the valuation date but before finalization of the financial statements are valued based on the exit valuation, if the exit valuation was reasonably evident at the measurement date.
- Investment in which there has been a recent private secondary market trade of meaningful volume and the transaction is undertaken by sophisticated, arm's length investor are valued at the price of the recent trade and are adjusted, as appropriated, if the purchaser is motivated by strategic considerations.
- Investments in early-stage companies not generating sustainable revenue or earnings and for which there has not been any recent independent funding are valued using alternative methodologies. The Company considers investee company performance relative to plan, going concern risk, continued funding availability, comparable peer group valuations, exit market conditions and general sector conditions and calibrates its valuation of each investment as appropriate.
- For public company warrants (i.e., the underlying security of which is traded on a recognized stock exchange), valuation models such as the Black-Scholes model are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security. To the extent that the market inputs are insufficient or unreliable, the warrants are valued at their intrinsic value, which is equal to the higher of the closing price of the underlying security less the exercise price of the warrant, or nil. For private company

warrants, the underlying security is not traded on a recognized stock exchange, therefore fair value is determined consistent with other investments that do not have an active market, as described above.

Fair values for unlisted debt instruments are determined as follows:

- Loans, debentures and promissory notes issued by investees are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The Company may employ discounted cash flow analysis, market comparable analysis, market comparable analysis of listed debt instruments with similar credit quality or liquidation value analysis to determine the fair value of the debt instrument.

The Company may apply a further illiquidity discount to the fair value of an investment if conditions exist that could make it challenging to monetize the investment in the near term at a price indicated by the valuation models. The amount of illiquidity discount applied requires considerable judgment and is based on the facts and circumstances of each investment.

### **Management of Capital**

The Company's objectives in managing capital are to maintain a capital structure that allows the Company to meet its growth objectives and build long-term shareholder value, while satisfying its financial obligations and meeting its working capital needs.

The Company's capital consists of shareholder's equity and borrowings. The Company's management is responsible for the management of capital. The Company's Board of Directors is responsible for reviewing and approving the Company's capital policy and management.

The Company continued to prudently manage its liquidity and capital and, where desirable, deleverage its statement of financial position.

The Company does not have any externally imposed capital requirements.

### ***Significant Accounting Policies***

Please refer to the audited annual consolidated financial statements for the year ended May 31, 2020 which was filed on SEDAR.

### ***Risk and uncertainties***

#### *Overview*

The Company manages risks on corporate investments through its approach to planning, setting of investment criteria, performance of due diligence on investment opportunities and oversight responsibilities with existing investee companies and by conducting activities in accordance with investment policies that are approved by the Board of Directors. The Company seeks to mitigate company specific business risk by investing, where possible, in the highest ranked securities in the capital structure, so as to rank a head of the common shares of the issuer. The Company seeks to mitigate credit risk by investing, where possible, in senior debt securities and /or by limiting the amount of debt that may rank ahead of, or *pari passu* to, the securities being purchased.

The Company seeks to mitigate interest rate risk by investing relatively short duration convertible debentures and conventional debt – typically no longer than three years in term. The Company considers exposure to foreign currency assets as a hedge against the possible decrease in the value of the Canadian dollar.

For further discussion of the additional risks and uncertainties which may have an impact on the Company, readers are referred to the Company's Filing Statement dated September 28, 2017 and other documents relating to the Company which can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) by searching under the Company's name.

*COVID-19 Pandemic*

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business at this time

*The Company does not intend to pay dividends for the foreseeable future.*

The Company has never declared or paid any cash dividends on the Company's common shares and does not intend to pay any cash dividends in the foreseeable future. The Company anticipates that it will retain all of its future earnings for use in the development of its business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of the Company's board of directors. In addition, from time to time the Company may enter into agreements that restrict its ability to pay dividends.

*The price of the Company's common shares may be volatile.*

The trading price of the Company's common shares has been and may continue to be subject to material fluctuations and may increase or decrease in response to a number of events and factors, including: changes in the market price of hospitality management systems and number of market competitors offering same or similar products; current events affecting the economic situation and exchange rates in Canada, the United States, and internationally; changes in financial estimates and recommendations by securities analysts; acquisitions and financings; quarterly variations in operating results; the operating and share price performance of other companies that investors may deem comparable; the issuance of additional equity securities by the Company or the perception that such issuance may occur; and purchases or sales of blocks of the Company's common shares. Part of this volatility may also be attributable to the current state of the stock market, in which wide price swings are common. This volatility may adversely affect the price of the Company's common shares regardless of the Company's operating performance and could cause the market price of the Company's common shares to decline.

*The Company may issue additional equity securities which may reduce the Company's earnings per share.*

The Company has in the past issued and may continue to issue equity securities to finance its activities, including in order to finance working capital requirements, capital expenditures and acquisitions. If the Company issues additional common shares, a shareholder's percentage ownership of the Company will decrease, and they may experience dilution in the Company's earnings per share. Moreover, as the Company's intention to issue any additional equity securities becomes publicly known, the common share price may be materially and adversely affected.

*Holders of the Company's common shares may experience dilution when outstanding options and warrants are exercised, or as a result of additional securities offerings.*

There are a number of outstanding options and warrants pursuant to which additional common shares of the Company may be issued in the future. Exercise of such options and warrants may result in dilution to the Company shareholders. In addition, if the Company raises additional funds through the sale of equity securities, shareholders may have their investment further diluted.

***Internal Controls Over Financial Reporting***

During the period ended August 31, 2020, there has been no significant change in the Company's internal control over financial reporting since last year.

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. They are also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A and the Company's annual financial statements for the year ended May 31, 2020 (together the "Annual Filings"). The

Chief Executive Officer and Chief Financial Officer of the Company have filed the Venture Issuer Basic Certificate with the Annual Filings on SEDAR at <http://www.sedar.com>.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the venture issuer basic certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

#### **Cautionary note regarding forward-looking information**

Certain statements and information contained in this MD&A and the documents incorporated by reference in this MD&A constitute "forward-looking information" within the meaning of applicable Canadian securities laws. Forward-looking information are statements and information regarding possible events, conditions or results of operations that are based upon assumptions about future economic conditions and courses of action. All statements and information other than statements of historical fact may be forward-looking information. In some cases, forward-looking information can be identified by the use of words such as "seek", "expect", "anticipate", "budget", "plan", "estimate", "continue", "forecast", "intend", "believe", "predict", "potential", "target", "may", "could", "would", "might", "will" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A and the documents incorporated herein by reference include, but are not limited to, statements and information regarding: a continuing or increased need for software solutions for the hospitality industry in difficult economic times, the attainment of certain subscription targets and company performance, the demand for its products continuing to increase, a sufficient stable and healthy global economic and business environment, and other factors contained in the section entitled "Risks and Uncertainties" in the MD&A for the year ended May 31, 2020. Although the Company has attempted to identify important factors that could cause actual results or events to differ materially from those described in the forward-looking statements, you are cautioned that this list is not exhaustive and there may be other factors that the Company has not identified. Furthermore, the Company undertakes no obligation to update or revise any forward-looking information included in, or incorporated by reference in, this MD&A if these beliefs, estimates and opinions or other circumstances should change, except as otherwise required by applicable law.