

LIONS BAY CAPITAL INC.

Management's Discussion and Analysis

Year ended – May 31, 2020

(Expressed in Canadian dollars, unless otherwise noted)

September 28, 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 audited consolidated financial statements for the year ended May 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. The 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 year ended May 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 \$2,318,767, which includes investments with a fair market value of \$3,449,504 and cash of \$6,670.

- 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 – MAY 31, 2020

- Investment balance of \$3,449,504 as at May 31, 2020 (May 31, 2019 - \$2,434,370).
- On September 17, 2019, the Company sold its 46.49% shareholding in Consolidated Potash Corporation Limited (CPC) to Parkway Minerals NL ("Parkway Minerals"), an ASX listed company. Lions Bay received 223,094,414 new ordinary shares in Parkway Minerals, 54,534,253 partly paid shares (deemed paid to \$0.001 and \$0.019 unpaid) and 10,000,000 Davenport Resources Limited shares from Parkway Minerals, which are also listed on the ASX. The total consideration received by Lions Bay for its shares and debt in Consolidated Potash Corporation, based on market value on 17 September 2019, amounted to approximately \$1,437,505. The Company recorded a gain on disposition of \$555,249.

- On November 1, 2019, the Company appointed Mr. Anthony Balic as the Company’s new Chief Financial Officer (“CFO”). Mr. Balic has worked with Canadian and US publicly listed resource companies in a range of senior roles during the past 10 years. He is the current CFO of Goldgroup Mining where he was part of the finance team which brought their Mexican mine into commercial production.
- As at May 31, 2020 and 2019, the Company’s investments had the following cost and fair market value of:

	Cost May 31 2020	Fair Value May 31 2020	Cost May 31 2019	Fair Value May 31 2019
	\$	\$	\$	\$
Kalina Power Ltd	1,204,569	606,182	1,204,569	479,255
Fidelity Minerals Corp	1,907,835	271,477	1,712,277	1,690,657
Eurotin Inc	700,000	200,001	700,000	133,334
Elementos Ltd	744,180	430,218	159,214	131,124
Parkway Minerals	1,014,868	1,426,782	-	-
Partly Paid Parkway Minerals	49,616	149,079	-	-
Devenport Resources	373,022	365,765	-	-
Total	5,994,090	3,449,504	3,776,060	2,434,370

- 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 June 3, 2020, the Company acquired an additional 4,000,000 units of FMN at a price of \$0.025. Each unit consists of one common share and one transferable share purchase warrant with each warrant exercisable into an additional common share at \$0.05 per share until December 17, 2021.
- Subsequent to period end on August 10, 2020, the Company acquired an additional 5,015,583 units of FMN at a price of \$0.06. Each unit consists of one common share and one transferable share purchase warrant with each warrant exercisable into an additional common share at \$0.07 per share until August 10, 2021.

SUMMARY OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

	Year ended May 31,		
	2020	2019	2018
NET REALIZED AND UNREALIZED GAIN/(LOSS)			
Net realized gain/(loss) on disposal of subsidiary	\$ 555,249	\$ -	\$ -
Net realized gain/(loss) on disposal of marketable securities	(13,908)	(1,507,748)	-
Net change in unrealized gain/(loss) on marketable securities	(1,128,890)	(1,000,743)	2,373,603
Fair value gain on derivative financial instrument	(179,302)	119,560	-
OTHER INCOME			
Interest and other income	839,703	163,810	87,695
EXPENSES			
Professional fees	(122,744)	(339,728)	(344,466)
Director's fees	(174,985)	(306,162)	(85,109)
Share-based payments	-	(225,972)	(190,000)
Travel expense	(58,822)	(198,802)	(208,537)
Impairment of derivatives	-	-	(25,838)
Listing expenses recognized on acquisition	-	-	(357,227)
Research and development	-	-	(49,284)
Financing costs	(137,002)	(78,761)	(194,127)
Foreign exchange (loss) gain	(38,105)	-	-
General and administration	(29,704)	(227,864)	(102,343)
Gain on reversal of accounts payable and accrued liabilities	61,000	-	-
TOTAL EXPENSES	(500,362)	(1,377,289)	(1,556,931)
INCOME (LOSS) BEFORE TAX	(427,510)	(3,602,410)	904,367
INCOME TAX EXPENSE	(4,811)	(40,057)	(132,761)
NET (LOSS) INCOME	(432,321)	(3,642,467)	771,606
OTHER COMPREHENSIVE (LOSS) INCOME	56,712	(11,504)	(1,196)
COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	(375,609)	(3,653,971)	770,410
NET(LOSS) INCOME ATTRIBUTABLE TO:			
Owners of the Company	(403,076)	(3,533,798)	677,300
Non-controlling interest	(29,245)	(108,669)	94,306
	(432,321)	(3,642,467)	771,606
OTHER COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the Company	56,712	(11,504)	(1,196)
Non-controlling interest	-	-	-
	56,712	(11,504)	(1,196)
(Loss) Earnings Per Share - Basic and Diluted	\$ (0.00)	\$ (0.04)	\$ 0.02

Weighted average number of shares outstanding – basic	97,304,478	96,415,321	47,243,299
Weighted average number of shares outstanding – basic & diluted	97,304,478	96,415,321	54,229,601

Results from Operations for the Year Ended May 31, 2020

The net loss for the year ended May 31, 2020 was \$0.4 million, or \$0.00 loss per share, compared to the net loss of \$3.6 million, or \$0.04 loss per share in 2019, and the net profit of \$0.9 million, or \$0.02 earnings per share in 2018.

During the year ended May 31, 2020, the Company recorded a realized gain of \$0.5 million related to the disposition of CPC and marketable securities, which was higher than the loss of \$1.5 million recorded in the comparative year ended May 31, 2019. The Company also recorded unrealized loss of \$1.1 million, compared to the \$1.0 million loss in the comparative period in 2019 and a net gain of \$2.4 million in 2018. The unrealized loss was triggered by the net impact of the change in fair value of the investment portfolio, but mainly from the decline in value by Fidelity Minerals Corp. (“FMN”). In addition, the Company recorded a \$0.2 million loss on derivative financial instruments related to FMN warrants, which declined in fair value as well due to decline in stock price. The Company had a higher 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 and recorded a gain of \$0.6 million on the receipt of 124,912,569 Elementos shares by way of dividend from Eurotin Inc. related to a transaction between Eurotin and Elementos.

Total expenses during the year ended May 31, 2020 were \$0.5 million compared to \$1.4 million for the comparative period in 2019 and \$1.6 million in 2018. The decrease of expenses was due to Forex variances, and professional fees associated with the investment activity of the Company in the year being lower in addition to no non-cash share-based payments and a reduction in general and administration expenses in the current period.

Consolidated quarterly loss – 8 quarters historic trend

	May 31, 2020	Feb. 29, 2020	Nov 30, 2019	August 31, 2019	May 31, 2019	Feb 28, 2019	Nov. 30, 2018	August 31, 2018
	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net realized gain and (loss)	\$ (335,855)	\$ -	\$ 894,238	\$ (17,042)	\$ (451,445)	\$ (43,293)	\$ (859,265)	\$ (153,745)
Net unrealized gain and (loss)	141,894	(33,094)	(485,115)	(752,575)	677,071	(581,616)	(1,186,018)	89,820
Fair value loss on derivative instruments	(117,437)	47,373	(34,000)	(75,238)	119,560	-	-	-
Interest and other income	599,622	1,500	13,501	225,080	28,791	36,076	55,693	43,250
Total expenses	(42,445)	(159,620)	(8,756)	(289,541)	(70,327)	(753,533)	(263,888)	(289,541)
Profit (loss) after tax	241,268	(143,841)	379,868	(909,616)	656,491	(1,342,366)	(2,046,976)	(909,616)
Basic/Diluted earnings (loss) per share	0.01	0.00	0.00	(0.01)	0.00	(0.01)	(0.02)	(0.01)
Total assets	\$ 3,737,737	\$ 3,026,482	\$ 3,106,602	\$ 3,665,336	\$ 4,312,654	\$ 4,186,952	\$ 4,904,658	\$ 3,665,336

Three months ended May 31, 2020 vs. previous quarters in 2019 and 2018

Net realized gain from investments was \$335,855 in the current quarter related to adjustments to the Consolidated Potash sale which occurred in Q2 2020.

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

Interest and other income was higher in the current period as the Company recorded a gain of \$ 584,966 on the receipt of 124,912,569 Elementos shares by way of dividend from Eurotin Inc. related to a transaction between Eurotin and Elementos.

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

Change in total assets

As at May 31, 2020, The Company had \$3.7 million in total assets. Assets have declined from fiscal 2019 due to challenging market conditions that drove the decline in value of investment although have improved in the current quarter. In addition, the Company deconsolidated \$1.5 million of exploration and evaluation assets in September 17, 2019, due to the disposition of CPC.

LIQUIDITY AND CAPITAL RESOURCES

	Year Ended		
	May 31, 2020	May 31, 2019	May 31, 2018
Cash inflow (outflow) from operating activities	\$ (272,475)	\$ 969,092	\$ (2,025,644)
Cash inflow (outflow) from investing activities	(5,962)	-	-
Cash inflow (outflow) from financing activities	236,911	(1,012,374)	1,944,776
Effect of foreign exchange on cash	33,910	-	-
Net cash flows	(7,616)	(43,282)	(80,868)
Cash balance	\$ 6,670	\$ 14,286	57,568

As at May 31, 2020, the Company’s net working capital was \$2.3 million (May 31, 2019 - \$1.7 million). The improvement was mainly driven by the investment received from the disposition of CPC common shares on September 17, 2019.

The cash outflow from operating activities for the year ended May 31, 2020 was \$0.3 million, which was a lower outflow when compared to the inflow from the prior year. In the comparative period in 2019, there was \$2.3 million proceeds from disposal of investment, compared to the \$0.1 million recorded in the current year.

Cash outflow from investing activities was \$0.01 million for the year ended May 31, 2020, this outflow was higher than prior years and the result of the deconsolidation of Consolidated Potash Corp.

Cash inflow from financing activities of \$236,911 which was higher than the outflow in 2019 and lower than the inflow from 2018. 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 May 31, 2020, there were 97,304,473 common shares, 2,358,000 share purchase warrants and 5,015,000 stock options outstanding. As at 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 May 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	0.06	

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 May 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.

	2020	2019
	\$	\$
Stock options	-	225,972

During the year ended May 31, 2020, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne, President and CEO of the Company for the provision of services of John Byrne. During the year ended May 31, 2020, total fee charged was \$168,000 (2019 - \$168,000).

On November 1, 2019, Anthony Balic was appointed as the new CFO of the Company. A company controlled by him charged \$35,000 for the year ended May 31, 2020 (2019 - \$nil). As at May 31, 2020, the amount owed was \$26,250 (May 31, 2019 - \$nil).

During the year ended May 31, 2020, the Company was charged directors fees of \$24,000 (2019 - \$24,000) by Ross MacLachlan. As at May 31, 2020, the Company had \$61,517 (2019 - \$nil) payable to Ross.

During the year ended May 31, 2020, the Company was charged directors fees of \$63,000 (2019 - \$nil) by Bahay Ozcakmak. As at May 31, 2020, the Company had \$30,037 (2019 - \$nil) payable to Bahay.

As at May 31, 2020, the Company charged management fees to Fidelity Minerals Corp. of \$30,000 (2019 - \$nil). Fidelity Minerals Corp. is a related party by virtue of a common executive and director.

Total amount accrued for Twenty-Second Yeneb Pty Limited as at May 31, 2020, which included fees and business expenses was \$588,922 (May 31, 2019 - \$361,569).

During the year ended May 31, 2019, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne advanced a loan to the Company. Interest payable at 10% per annum. As at May 31, 2020, total loan and interest outstanding is \$63,152 (May 31, 2019 - \$101,573).

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:

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

As at May 31 2019	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments	2,434,370	-	-	2,434,370
Derivative financial instrument	-	-	119,560	119,560
	2,434,370	-	119,560	2,553,930

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 year ended May 31, 2020 and May 31, 2019.

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 May 31, 2020, if interest rates were higher by 1% per annum, the potential effect to the Company would a decrease in net income of approximately \$5,000 (2019: \$3,456). If interest rates were lower by 1% per annum, the potential effect would increase in net income of approximately \$5,000 (2019: \$3,456).

Currency risk

Changes in currency rates will impact the carrying value of instruments denominated in currencies other than the Canadian dollar. As at May 2020, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$2,978,027 (2019: \$610,380), which represent approximately 79.7% (2019:14.6%) 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 \$148,910 respectively (2019: \$30,519).

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 \$344,950 (2019: \$243,437).

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 appropriate, 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 debts 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 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

Management assessed the effectiveness of the Company's internal controls over financial reporting for the year ended May 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on this assessment, management believed that, as of May 31, 2020, our internal controls over financial reporting were effective based on those criteria.

No changes in the Company's internal controls, or other factors that have materially affected, or are reasonably likely to materially affect these controls, have occurred during the year ended May 31, 2020.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any system of controls and procedures over financial reporting and disclosure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

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.