

# LIONS BAY CAPITAL INC.

## Management's Discussion and Analysis

### Period ended – August 31, 2021

(Expressed in Canadian dollars, unless otherwise noted)

October 29, 2021

*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, 2021. 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, 2021.*

*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, 2021 and May 31, 2020 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 August 31, 2021, the Company had working capital of \$10,112,293 which includes investments with a fair market value of \$9,477,911 and cash of \$194,854.

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 Corporate Limited formerly Parkway Minerals NL (resources, water), South Harz Potash Ltd. (SHP) formerly Davenport Resources Ltd. (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, 2021

- Investment balance of \$9,477,911 as at August 31, 2021 (May 31, 2021 - \$11,456,240).
- As at August 31, 2021 and May 31, 2021, the Company's investments had the following cost and fair market value:

	<b>Cost August 31 2021 \$</b>	<b>Fair Value August 31 2021 \$</b>	<b>Cost May 31 2021 \$</b>	<b>Fair Value May 31 2021 \$</b>
Kalina Power Ltd (i)	1,245,352	910,692	1,171,860	1,092,121
Fidelity Minerals Corp (ii)	3,145,565	2,135,947	3,064,174	2,932,715
Eurotin Inc	115,000	200,001	115,000	200,001
Elementos Ltd (iii)	1,257,446	3,160,386	1,282,783	3,808,551
Parkway Corporate Limited (iv)	551,075	2,101,420	551,075	2,096,407
Partly Paid Parkway Corporate Limited (iv)	-	-	42,963	199,979
South Harz Potash Ltd. (iv)	463,379	833,988	463,379	900,003
Kalina Power Ltd. – warrants (i)	11,400	18,406	11,400	26,055
Meryllion Resources Corp. (v)	48,750	60,000	48,750	86,250
First AU Lid - listed options (vi)	95,730	57,071	95,730	114,158
<b>Total</b>	<b>6,893,697</b>	<b>9,477,911</b>	<b>6,847,114</b>	<b>11,456,240</b>

- On June 16, 2021, the Company entered into a loan and option agreement with Salamander Mining International Ltd. ("Salamander").

Under the terms of the agreement the Company will:

- Loan Salamander USD \$1 million over the next four months secured by a first charge over its assets; (USD \$510,000 funded to date)
  - Receive interest of 15% on the outstanding balance.
  - The loan will be repaid on a monthly basis from the free cash flow from the Joyce tailings project commencing five months from the loan initiation with total term of the loan being 18 months;
  - Receive a raising fee entitling the Company to 25% of the free cash flow of the Joyce tailings project in Zimbabwe;
  - Be granted a 9-month option to acquire 100% of Salamander in return for the issuance of 100 million the Company's common shares;
  - Be mandated to secure a public listing of Salamander on an appropriate recognized international stock exchange; and
  - Receive a 12-month option to acquire 20% of Salamander for \$2 million.
- On June 30, 2021, the Company amended the secured loan facility ("Loan Facility") with Riverfort Global Capital Ltd. on behalf of Riverfort Global Opportunities PCC Ltd. (the "Lender"). The Loan Facility has amended the previously announced secured facility and amended on July 4, 2019 to increase the Loan Facility to USD \$2.0 million. Concurrent with the amendment the Company has arranged for the advancement of USD \$250,000 (received) for a total of USD \$750,000 advanced on the Loan Facility. As part of the new advance, the Company issued 1,438,686 warrants exercisable at \$0.095 for a period of 18 months to the Lender.

The additional advance has an 18-month term, with 70% of the advance payable in 12 months with 5% of the advance payable monthly in each of the last 6 months. The additional advance bears interest at 12% per annum and is subject to an implementation fee of 7%. The advance is secured by a guarantee from the Company and its wholly owned subsidiary, Pan Andean Capital Pty Ltd. ("Pan Andean") and a pledge by Pan Andean of certain of the investments held by Pan Andean.

- On August 20, 2021, the Company drew down an additional USD \$100,000 on the Riverfort facility and issued 592,939 warrants exercisable at \$0.095 for a period of 18 months to the Lender.
- On August 23, 2021, the Company entered into an option agreement, which if exercised, enables the Company to enter into a joint venture (“JV”) on rare earth exploration licenses in Western Victoria, Australia which are held by Savic Pty Ltd. (“Savic”). Under the terms of the option agreement, the Company will pay an option fee of AUD \$200,000 (CAD \$183,000) (paid) to enable it to carry out a 4-month evaluation of the area. At the end of the option period the Company has the right to enter a JV agreement under which it can earn a 50% interest in the Savic areas by spending AUD \$5.0 million (CAD \$4.57 million) over 3 years. At the end of the 4-month period, if the Company has exercised its right to enter a JV, Savic will have the right to put 100% of the areas to the Company in return for 50 million common shares of the Company. This right can only be put if the Company’s share price has averaged more than \$0.25 for the previous five trading days.
- Subsequent to year end, on September 14, 2021, the Company announced that it has closed a non-brokered private placement and issued a total of 7,048,889 units (each, a “Unit”) at \$0.08 per Unit for gross proceeds of \$563,911. Each Unit consists of one common share and one half of a transferable share purchase warrant with each full warrant exercisable into an additional common share at \$0.10 per share for a period of 2 years.
- Subsequent to year end, on August 27, 2021, the Company granted 1,400,000 incentive stock options (the “Options”) to a consultant of the Company pursuant to the Company’s previously approved Stock Option Plan. The Options are exercisable at a price of \$0.10 per share for a period of 2 years.

## SUMMARY OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

For the three months ended 31 August	2021 \$	2020 \$
<b>NET REALISED AND UNREALISED GAIN/(LOSS)</b>		
Net realized gain/(loss) on disposal of marketable securities	301,458	-
Net change in unrealized gain/(loss) on marketable securities (note 7)	(1,782,565)	1,609,299
Unrealized fair value gain on derivative financial instrument (note 6)	125,693	534,570
<b>OTHER INCOME</b>		
Interest and other income	11,027	11,029
Finance expense – accretion	(58,568)	-
<b>Expenses</b>		
Professional fees	(42,540)	(38,700)
Directors fees	(65,875)	(36,000)
Travel expenses	-	(490)
Financing costs	(26,584)	(23,853)
Forex variance	(40,204)	75,626
General and administrative	(1,003)	(14,210)
<b>Total expenses</b>	<b>(139,079)</b>	<b>(37,627)</b>
<b>Profit/(loss) before tax</b>	<b>(1,579,161)</b>	<b>2,117,271</b>
Current income tax (expense)/recovery	(81,394)	-
Deferred income tax (expense)/recovery	216,130	-
<b>Profit/(loss) after tax</b>	<b>(1,444,425)</b>	<b>2,117,271</b>
<b>Other comprehensive income/(loss) net of tax</b>	<b>(12,684)</b>	<b>554</b>
<b>Net income/(loss) and total comprehensive income</b>	<b>1,457,109</b>	<b>2,117,825</b>
<b>Profit/(loss) per common share</b>		
- Basic	(\$0.01)	\$0.02
- Diluted	(\$0.01)	\$0.02
<b>Weighted average number of common shares</b>		
- Basic	135,056,963	97,304,478
- Diluted	135,056,963	97,304,478

### Results from Operations for the Period Ended August 31, 2021

The loss after tax for the period ended August 31, 2021 was \$1.4 million, or \$0.01 loss per share, compared to profit of \$2.1 million, or \$0.02 income per share in 2020.

During the period ended August 31, 2021, the Company recorded a realized gain of \$0.3 million related to the sale of Parkway and Elementos shares from the investment portfolio compared to a realized loss of \$nil in 2020. The Company recorded an unrealized loss of \$1.8 million on its investment portfolio in 2021 compared to an unrealized gain of \$1.6 million in 2020. The unrealized loss in the current period was triggered by the net impact of the change in fair value of the investment portfolio. In addition, the Company recorded a \$0.1 million gain on derivative financial instruments related to warrants, which increased in fair value. The Company had a lower other income balance in the current period compared to prior year due to recording \$58,568 in expenses related to the amortization of transaction costs on the Riverfort debt.

Total expenses during the period ended May 31, 2021 were \$139,079 compared to \$37,627 million for the comparative period in 2020. The increase from 2020 was due to change in foreign exchange expenses of \$115,830 between periods.

The Company recorded an income tax recovery during the period ended August 31, 2021 of \$134,736 compared to \$nil for the comparative period in 2020. The net recovery during the period is related to current tax expense of \$81,394 related to the realized gain on sale and investments and \$216,130 in deferred tax recovery related to the decreased value of investments.

### Consolidated quarterly loss – 8 quarters historic trend

	August 31, 2021	May 31 2021	Feb. 28 2021	Nov. 30, 2020	August 31, 2020	May 31, 2020	Feb. 29, 2020	Nov 30, 2019
	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Net realized gain and (loss)	\$ 301,458	\$ 22,605	\$ 1,001,312	\$ -	\$ -	\$ (335,855)	\$ -	\$ 894,238
Net unrealized gain and (loss)	(1,782,565)	137,406	3,634,534	1,365,634	1,609,299	141,894	(33,094)	(485,115)
Fair value gain (loss) on derivative instruments	125,693	(255,993)	213,560	(17,367)	534,570	(117,137)	47,373	(34,000)
Interest and other income	11,029	-	-	2,373	11,029	599,622	1,500	13,501
Total expenses	(47,541)	(384,333)	(73,922)	(381,638)	(37,627)	(42,445)	(159,620)	(8,756)
Profit (loss) after tax	(1,444,425)	(1,599,816)	4,647,569	969,002	2,117,271	241,268	(143,841)	379,868
Basic/Diluted earnings (loss) per share	(0.01)	(0.02)	0.04	0.01	0.02	0.01	0.00	0.00
Total assets	\$11,802,689	\$12,867,202	\$13,103,553	\$7,756,810	\$6,250,496	\$ 3,737,737	\$3,026,482	\$ 3,106,602

### Three months ended August 31, 2021 vs. previous quarters

Net realized gain from investments was \$301,454 in the current quarter upon the disposal of Elementos and Parkway shares for proceeds of \$349,997. The net realized gain fluctuates between period to period based on decisions that Company makes on dispositions.

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

Interest and other income was \$11,029 in the current quarter and the comparative quarters saw the Company record a gain of \$0.6 million 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. In addition, the

loans receivable balance has been decreased as the loans have been repaid and converted into investments and therefore the interest income is lower. The current period also recorded a \$58,568 accretion expense related to the amortization of transaction costs associated to the Riverfort debt.

Total cash expenses fluctuate with the changes in foreign exchange as the debt is denominated in USD which causes large foreign exchange fluctuations.

Loss after tax was \$1.4 million in the current quarter and higher than all comparative quarters except for Q4 2021. The increase in loss was the result of an unrealized loss on investments due to the decreased portfolio value in the current quarter.

Earnings per shares fluctuates based on the net income/(loss) and the number of common shares outstanding.

### *Change in total assets*

As at August 31, 2021, the Company had \$11.8 million in total assets which is lower than Q4 2021 and Q3 2021 and higher than the remainder of comparative quarters as the investment portfolio fluctuated in value.

## LIQUIDITY AND CAPITAL RESOURCES

	August 31, 2021	August 31, 2020
Cash inflow (outflow) from operating activities	\$ 131,888	\$ (313,707)
Cash inflow (outflow) from investing activities	(545,633)	-
Cash inflow (outflow) from financing activities	438,223	329,523
Net cash flows	24,478	15,816
Cash balance	\$ 194,855	\$ 22,486

As at August 31, 2021, the Company's net working capital was \$10.1 million (May 31, 2021 - \$12.2). The reduction was mainly driven by the decrease in the fair value of investments.

The cash outflow from operating activities for the period ended August 31, 2021 was \$0.1 million, which was higher than the outflow in the prior period and due to proceeds received on sale of investments.

Cash outflow from investing activities was \$0.5 million in current period compared to \$nil in the comparative period. The increase in the outflow was the result of the Company advancing a loan receivable and capitalizing costs related to an exploration asset.

Cash inflow from financing activities of \$0.4 million which was higher than the inflow in the comparative period. The Company borrowed more money on a net basis during the 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, 2021, there are 135,056,963 common shares and 23,389,759 warrants outstanding. As at the date of this report there are 142,105,852 common shares, 26,914,124 warrants and 1,400,000 options outstanding.

On April 22, 2021, the Company drew down USD \$500,000 from the Riverfort loan. The advance has a 12-month term, bears interest at 12% per annum and is subject to an implementation fee of 7%. The advance is secured by a guarantee from the Company and its wholly owned subsidiary, Pan Andean Capital Pty Ltd. ("Pan Andean") and a pledge by Pan Andean of certain of the investments held by Pan Andean. As part of the draw down, the Company issued 2,560,991 warrants exercisable at \$0.11 for a period of 12 months.

During the period ended August 31, 2021, the Company made two additional drawdowns on the loan of USD \$250,000 on June 30, 2021 and issued 1,438,686 warrants exercisable at \$0.095 expiring December 28, 2022 and USD \$100,000 on August 20, 2021 and issued 592,939 warrants exercisable at \$0.095 expiring February 18, 2023.

Subsequent to year end, on September 14, 2021, the Company announced that it has closed a non-brokered private placement and issued a total of 7,048,889 units (each, a "Unit") at \$0.08 per Unit for gross proceeds of \$563,911. Each Unit consists of one common share and one half of a transferable share purchase warrant with each full warrant exercisable into an additional common share at \$0.10 per share for a period of 2 years.

Subsequent to year end, on August 27, 2021, the Company granted 1,400,000 incentive stock options (the "Options") to a consultant of the Company pursuant to the Company's previously approved Stock Option Plan. The Options are exercisable at a price of \$0.10 per share for a period of 2 years.

The following table discloses the number of warrants as at the date of this report:

Number of warrants	Exercise price per warrant	Expiry date
18,797,143	\$0.085	June 22, 2022
2,560,911	\$0.11	April 22, 2022
1,438,686	\$0.095	December 28, 2022
592,939	\$0.095	February 18, 2023
3,524,445	\$0.10	September 14, 2023
26,914,124		

The following table discloses the number of options as at the date of this report:

Number of warrants	Exercise price per warrant	Expiry date
1,400,000	\$0.10	August 27, 2023
1,400,000		

## 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, 2021 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.

During the period ended August 31, 2021, a company controlled by Anthony Balic charged fees for CFO services of \$15,000 (2021 - \$15,000). As at August 31, 2021, the amount owed was \$nil (May 31, 2021 - \$nil).

During the period ended August 31, 2021, the Company was charged directors fees of \$6,000 (2021 - \$6,000) by Ross MacLachlan. As at August 31, 2021, the Company had \$20,000 (May 31, 2021 - \$14,000) payable to Ross.

During the period ended August 31, 2021, the Company charged management fees to Fidelity Minerals Corp. of \$nil (2021 - \$9,500). Fidelity Minerals Corp. is a related party by virtue of a common executive and director.

During the period ended August 31, 2021, 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 period ended August 31, 2021, total fee charged was \$60,000 (2021 - \$42,000).

Total amount accrued for Twenty-Second Yeneb Pty Limited as at August 31, 2021, which included fees and business expenses was \$nil (May 31, 2021 - \$nil).

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, 2021, total loan and interest outstanding is \$59,647 (May 31, 2021 - \$59,417).

### **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, 2021</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	9,477,911	-	-	9,477,911
Derivative financial instrument	-	-	1,557,350	1,557,350
	<b>9,477,911</b>	<b>-</b>	<b>1,557,350</b>	<b>11,035,261</b>

<b>As at May 31, 2021</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	11,456,240	-	-	11,456,240
Derivative financial instrument	-	-	1,186,148	1,186,148
	<b>11,456,240</b>	<b>-</b>	<b>1,186,148</b>	<b>12,642,388</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, 2021.

### **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, 2021, if interest rates were higher by 1% per annum, the potential effect to the Company would a decrease in net income of approximately \$9,106 (May 31, 2021: \$5,142). If interest rates were lower by 1% per annum, the potential effect would increase in net income of approximately \$9,106 (May 31, 2021: \$5,142).

### *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, 2021, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$7,173,666 (May 31, 2021: \$8,261,287), which represent approximately 75.7% (May 31, 2021: 72.1%) of total investments. 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 \$358,683 respectively (May 31, 2021: \$413,064).

### *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 \$947,791 (May 31, 2021: \$1,145,624).

The fair value of the Company's 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 issue. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debts 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 debts 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 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, 2021 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](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, 2021, 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, 2021 (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, 2021. 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.