

LIONS BAY CAPITAL INC.

Management's Discussion and Analysis

Year ended – May 31, 2023

(Expressed in Canadian dollars, unless otherwise noted)

September 28, 2023

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, 2023. 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, 2023.

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, 2023 and May 31, 2022 are also referred to as "fiscal 2023" and "fiscal 2022", 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 May 31, 2023, the Company had working capital of \$6,205,409 which includes investments with a fair market value of \$5,395,442 and cash of \$67,045.

The Company's ability to continue as a going concern is dependent upon the Company's ability to generate proceeds 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.

Recent global issues, including the ongoing COVID-19 pandemic and geo-political conflicts have adversely affected workplaces, economies, supply chains, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of these issues and their effects on the Company's business or results of operations 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, potash, rare earths, 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 (resources, water), South Harz Potash Ltd. (potash), Heavy Rare Earths Limited (rare earths), all listed on the Australian Securities Exchange. Further investments comprise public trading shares on the TSX-V, namely, Fidelity Minerals Corp. (gold), Arctic Star (diamonds), warrants that are listed and quoted on an exchange in addition to Bishop Resources which is a privately listed company. During the year ended May 31, 2023, the Company added a debt investment (GnT Mining Proprietary Limited) and exploration investment (Greensand Australia Pty Ltd) to its portfolio of debt and exploration investments.

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, 2023

- As at May 31, 2023 and May 31, 2022, the Company's investments had the following cost and fair market value:

	Cost	Fair Value	Cost	Fair Value
	May 31	May 31	May 31	May 31
	2023	2023	2022	2022
	\$	\$	\$	\$
Kalina Power Ltd	1,727,004	542,472	1,716,904	1,106,292
Fidelity Minerals Corp	4,529,030	3,434,595	4,411,194	4,345,214
Elementos Ltd	747,716	368,357	1,050,928	2,837,865
Parkway Corporate Limited	253,810	886,196	531,551	1,657,552
South Harz Potash Ltd.	-	-	258,854	742,276
Kalina Power Ltd. – warrants	-	-	15,741	15,113
Meryllion Resources Corp.	34,786	9,105	37,250	52,000
First AU Ltd - listed options	95,730	20,640	95,730	57,422
HRE Corporation	101,958	59,123	13,818	13,453
Arctic Star	16,000	4,000	16,000	24,000
Bishop Resources	75,073	70,954	75,073	72,881
Total quoted securities	7,581,107	5,395,442	8,223,043	10,924,068
Debt investments	1,740,520	1,740,520	1,074,359	1,074,359
Related party receivable	292,673	292,673	-	-
Total monetary investments	9,614,300	7,428,635	9,297,402	11,998,427

- On December 22, 2022, the Company announced that it has arranged a subsequent advance of USD \$373,118.28, inclusive of a deemed advance of USD \$191,000 which was currently owed and outstanding and restructured into the current advance, from Riverfort Global Capital Ltd. on behalf of Riverfort Global Opportunities PCC Ltd. (the "Lender") on the company's amended secured loan facility.

The total 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 the Company and Pan Andean of certain of the investments held.

As part of the advance, the Company has agreed to grant the Lender an option to purchase 3,500,000 shares of Fidelity Minerals Corp. that the Company currently holds at a price of USD \$0.07 per share for a period of 24 months.

- Subsequent to May 31, 2023, on June 16, 2023, the Company entered into an agreement to purchase a USD \$2.1 million loan note ("Loan Note") from Salamander Mining International Limited ("Salamander"). The Loan Note is owed by GnT and its subsidiary Bosveld Mines Propriety Limited ("Bosveld"). The Loan Note has priority ranking over shareholder and other debt and is secured by the Bosveld tailings project. GnT is a private company and owns 70% of Bosveld which in turn owns the Klipwal gold mine in KwaZulu -Natal, South Africa. The mine is currently on care and maintenance and will restart upon completion of financing and refurbishment.

The Loan Note is interest free until May 2025 at which point interest is charged at LIBOR plus 4%.

The purchase of the Loan Note with a face value of USD \$2.1 million is to be satisfied by the forgiveness of the USD \$1,077,928 debt that Lions Bay has owing from Salamander and the payment of USD \$200,000 by Lions Bay to Salamander over the next 8 months of which USD \$55,000 has been paid to date.

SUMMARY OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

	Year ended May 31,		
	2023	2022	2021
NET REALIZED AND UNREALIZED GAIN/(LOSS)			
Net realized gain/(loss) on disposal of marketable securities	\$ 765,208	\$ 3,517,602	\$ 1,023,917
Net change in unrealized gain/(loss) on marketable securities	(4,872,998)	(1,701,286)	6,746,873
Fair value gain on derivative financial instrument	(463,240)	(507,269)	474,770
EXPENSES			
Professional fees	(426,688)	(411,597)	(383,997)
Director's fees	(264,462)	(264,581)	(181,347)
Interest and other income	191,847	101,277	13,401
Financing costs - interest	(43,768)	(118,110)	(84,602)
Financing costs - accretion	(123,459)	(249,848)	(19,293)
Foreign exchange (loss) gain	(3,284)	(136,302)	14,230
General and administration	(217,855)	(136,276)	(70,850)
Impairment of exploration investments	(450,656)	-	-
Modification gain	67,186	-	-
Loss on fair value change of Fidelity option	(55,187)	-	-
Loss on shares for debt settlement and settle of accounts payable	-	-	(151,661)
Share-based payments	-	(97,147)	-
TOTAL EXPENSES	(1,326,326)	(1,312,584)	(877,520)
INCOME (LOSS) BEFORE TAX	(5,897,356)	(3,537)	7,381,441
INCOME TAX RECOVERY (EXPENSE)	942,522	(94,299)	(1,247,415)
NET (LOSS) INCOME	(4,954,834)	(97,836)	6,134,026
OTHER COMPREHENSIVE (LOSS) INCOME	6,205	(26,512)	12,231
COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD	\$ (4,948,629)	\$ (124,348)	\$ 6,146,257
NET INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the Company	(4,951,773)	(97,836)	6,134,026
Non-controlling interest	(3,061)	-	-
	(4,954,834)	(97,836)	6,134,026
OTHER COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the Company	6,205	(26,512)	12,231
Non-controlling interest	-	-	-
	6,205	(26,512)	12,231
(Loss) Earnings Per Share - Basic and Diluted	\$ (0.03)	\$ (0.00)	\$ 0.05
Weighted average number of shares outstanding – basic & diluted	142,105,852	140,058,777	116,242,403

Results from Operations for the Year Ended May 31, 2023

The net loss for the year ended May 31, 2023 was \$4.9 million, or \$0.03 loss per share, compared to net loss of \$0.1 million, or \$0.00 loss per share in 2022 and the net income of \$6.1 million, or \$0.05 income per share in 2021.

During the year ended May 31, 2023, the Company recorded a realized gain of \$0.7 million related to the sale of shares from the investment portfolio compared to a realized gain of \$3.5 million in 2022 and a realized gain of \$1.0 million in 2021. The Company recorded an unrealized loss of \$4.8 million on its investment portfolio in 2023 compared to an unrealized loss of \$1.7 million in 2022 and unrealized gain of \$6.7 million in 2021. 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 \$0.5 million loss on derivative financial instruments in the current period related to decrease in fair value due to the decrease in stock price of the warrants held. The Company had a higher interest income balance in the current period compared to 2022 and 2021 as the Company had a higher debt investment balance in the current year. In the current year, the Company recorded \$123K in expenses related to the amortization of transaction costs on the Riverfort debt, loss of \$451K related to impairment on exploration investment, gain of \$67K on modification of Salamander loan and \$55K loss on fair value of Fidelity options granted to Riverfort where Riverfort has the option to purchase 3,500,000 FMN shares that the Company currently holds in its investment portfolio for USD \$0.07 per share. General and administrative expenses of \$217K were higher than the comparative years and increased as a result of increased corporate activity.

Total expenses during the year ended May 31, 2023 were \$1.3 million which were similar to the \$1.3 million recorded in 2022 and \$0.8 million for the comparative period in 2021. The increase over 2021 is the result of increased corporate activity and higher interest and accretion expense in the current year along with the recording of \$451K related to impairment on exploration investment.

The Company recorded an income tax recovery during the year ended May 31, 2023 of \$0.9 million compared to an expense of \$0.1 million in 2022 and expense of \$1.2 million in 2021. The recovery in the current year is related to current tax expense of \$0.1 million related to the realized gain on sale of investments and a recovery of \$1.0 million in deferred tax related to the change in fair value of investments.

Consolidated quarterly loss – 8 quarters historic trend

	May 31, 2023	February 28, 2023	November 30, 2022	August 31, 2022	May 31, 2022	February 28, 2022	November 30, 2021	August 31, 2021
	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net realized gain and (loss)	\$ 499,840	\$ -	\$ 877	\$ 264,491	\$1,444,310	\$ 80,651	\$ 1,691,183	\$ 301,458
Net unrealized gain and (loss)	262,853	(602,705)	(1,471,488)	(3,061,658)	12,557	452,987	(384,265)	(1,782,565)
Fair value gain (loss) on derivative instruments	(182,787)	(96,685)	(70,485)	(113,283)	76,021	12,927	(721,909)	125,693
Interest income	42,571	62,724	43,849	42,703	39,123	26,912	24,213	11,029
Total expenses	(539,663)	(573,890)	(208,108)	(196,512)	(576,282)	(282,142)	(315,082)	(139,079)
Profit (loss) after tax	826,898	(1,210,555)	(1,709,215)	(2,861,962)	1,348,663	200,047	(202,121)	(1,444,425)
Basic/Diluted earnings (loss) per share	0.01	(0.01)	(0.01)	(0.02)	0.01	0.00	(0.00)	(0.01)
Total assets	\$8,126,697	\$7,822,876	\$8,111,040	\$10,227,333	\$13,691,997	\$13,148,045	\$12,788,165	\$11,802,689

Three months ended May 31, 2023 vs. previous quarters

Net realized gain from investments was \$0.5 million in the current quarter related to sales realized in the current period.

Net unrealized gains and losses fluctuate throughout the year dependent on investment’s price performance. There was a loss on derivative instruments recorded as there was a decrease in the share price of the warrants held.

Interest and other income was \$42K in the current quarter related to the interest receivable recorded on the Salamander loan and fluctuates based on the loan balance and foreign exchange rate.

Total cash expenses fluctuate with the changes in foreign exchange as the debt is denominated in USD which causes large foreign exchange fluctuations. The increase over the comparative periods is the result of increased corporate activity and higher interest and accretion expense in the current year along with increased professional and director’s fees in the current year.

Profit after tax was \$0.8 million in the current quarter which was higher than all comparative quarters except Q4 2022. The profit was the result of realized and unrealized gain on investments and derivatives due to the increased portfolio value in the current quarter and a deferred income tax recovery recorded in the current period.

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

Change in total assets

As at May 31, 2023, the Company had \$8.1 million in total assets which is lower than all comparative quarters except Q2 and Q3 2023. The lower total assets is the result of the decrease in investment portfolio fair value in the current period.

LIQUIDITY AND CAPITAL RESOURCES

	Year Ended		
	May 31, 2023	May 31, 2022	May 31, 2021
Cash inflow (outflow) from operating activities	\$ (102,268)	\$ 40,018	\$ (1,547,823)
Cash inflow (outflow) from investing activities	-	-	-
Cash inflow (outflow) from financing activities	(417,139)	294,678	1,721,554
Effect of foreign exchange on cash	32,722	36,705	1,928
Net cash flows	(486,685)	371,401	175,659
Cash balance	\$ 67,045	\$ 553,730	\$ 182,329

As at May 31, 2023, the Company’s net working capital was \$6.2 million (May 31, 2022 - \$12.2 million, May 31, 2021 - \$12.2 million). The decrease was mainly driven by the decrease in the fair value of investments.

The cash outflow from operating activities for the period ended May 31, 2023 was \$102,268, which was higher than the inflows in 2022 and lower than the outflows in 2021 and due to a net sales in investments during the current year netted by outflows from investment purchases, exploration investments and debt investments made in the current year.

Cash outflow from financing activities of \$0.4 million which was higher than the inflow in 2022 and lower than the inflow in 2021 and due to net repayment in borrowings and related party advances in the current year.

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, 2023, there are 142,105,852 common shares and 3,524,445 warrants outstanding and 1,400,000 options outstanding. As at the date of this report there are 142,105,852 common shares outstanding.

Subsequent to May 31, 2023 the 1,400,000 options and 3,524,445 warrants expired unexercised.

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, 2023 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 year ended May 31, 2023, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne, provided President and CEO services to the Company. During the year ended May 31, 2023 total fee charged was \$240,000 (2022 - \$240,000). Total amount accrued for Twenty-Second Yeneb Pty Limited as at May 31, 2023, which included fees and business expenses was \$nil (May 31, 2022 - \$25,724).

During the year ended May 31, 2023, a company controlled by Anthony Balic charged fees for CFO services of \$105,000 (2022 - \$90,000). As at May 31, 2023, the amount owed was \$18,375 (May 31, 2022 - \$nil).

During the year ended May 31, 2023, the Company was charged directors fees of \$24,000 (2022 - \$24,000) by Ross MacLachlan. As at May 31, 2023, the Company had \$62,178 (2022 - \$38,178) payable to Ross.

During the year ended May 31, 2023, the Company paid Kalina Power Ltd. \$34,509 (2022 - \$36,084) for management services. As at May 31, 2023 the Company had accounts payable of \$37,660 (2022 - \$16,628) outstanding to Kalina Power Ltd. which is considered a related party by virtue of a common director.

During the year ended May 31, 2023, Twenty-Second Yeneb Pty Limited, a company controlled by John Byrne advanced a loan to the Company with interest payable at 10% per annum. As at May 31, 2023, total loan and interest outstanding is \$13,673 (May 31, 2022 - \$31,180).

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, 2023	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Investments	5,324,488	70,954	-	5,395,442
Derivative financial instrument	-	-	213,294	213,294
Debt investment	-	1,740,520	-	1,740,520
Liabilities				
Option on Fidelity shares	-	-	(189,633)	(189,633)
	5,324,488	1,811,474	23,661	7,159,623

As at May 31, 2022	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Investments	10,837,734	86,334	-	10,924,068
Derivative financial instrument	-	-	631,594	631,594
Debt investment	-	-	1,074,359	1,074,359
	10,837,734	86,334	1,705,953	12,630,021

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. During the year ended May 31, 2022, the Partly Paid Parkway Corporate Limited warrants ceased to be traded on a quoted market and the warrants moved from investments fair valued at level 1 to derivative financial instruments fair valued at level 3. For the year ended May 31, 2023 the Company transferred its Salamander debt investment from level 3 to level 2. Subsequent to May 31, 2023, the Company derecognized this financial instrument in exchange for receipt of another loan receivable from GnT, and this subsequent transaction between market participants was used to support the fair value of the Salamander debt investment as at May 31, 2023.

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, 2023, if interest rates were higher by 1% per annum, the potential effect to the Company would change in net income (loss) of approximately \$4,724 (May 31, 2022: \$5,290).

Currency risk

Changes in currency rates will impact the carrying value of instruments denominated in currencies other than the Canadian dollar. As at May 31, 2023, the Company is primarily exposed to foreign exchange risk through Australian dollar denominated investments of \$1,947,751 (May 31, 2022: \$6,502,854), which represent approximately 36.1% (May 31, 2022: 59.5%) 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 \$97,388 respectively (May 31, 2022: \$325,298).

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 \$539,544 (May 31, 2022: \$1,092,717).

The fair value of the Company's investments and derivative financial instruments 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.
- As at May 31, 2023, the Company has an investment in the un-listed securities of Bishop Resources.

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, deleveraged 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, 2023 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 ahead 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 in 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

During the period ended May 31, 2023, 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, 2023 (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, 2022. 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.