

BUCEPHALUS CAPITAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DATE OF MD&A

This MD&A was prepared on May 20, 2021.

Basis of Presentation

The following discussion and analysis of Bucephalus Capital Corp.'s (the "Corporation's" or "Bucephalus Capital's") financial condition as at March 31, 2021 should be read in conjunction with the Corporation's unaudited financial statements as at March 31, 2021. These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are expressed in Canadian dollars unless otherwise indicated. See "Risk Factors" for a discussion of the risks inherent in the business of the Corporation, which may also affect its continuing financial condition, cash flows and operating results.

Bucephalus Capital's principal business is providing a range of merchant banking services to micro and small-cap companies in North America in both the public and private markets.

Overall Performance

Overview of the Business

Bucephalus Capital has its principal offices located at 40 King Street West Suite 1700, Toronto, ON M5H 3Y2.

Effective December 31, 2015, Bucephalus Capital completed a reverse takeover transaction with Bucephalus Financial Corp. ("Bucephalus Financial"). The composition of the Board of Directors became Chris Carmichael, Jason Ewart, Michael Allen and Alec Regis and Chris Carmichael was appointed as Chief Executive Officer.

In March 2016, Bucephalus Capital listed its 20,215,887 Subordinate Voting Shares on the Canadian Securities Exchange (the "CSE") under the symbol BCA. The Bucephalus Capital Multiple Voting Shares will not be listed on an exchange but they are convertible into Bucephalus Capital SV Shares on a one for one basis.

Bucephalus's principal business is providing a range of merchant banking services to micro and small-cap companies in North America in both the public and private markets. Using a disciplined and systematic investment strategy, Bucephalus provides private and public companies with working capital in the form of common equity, preferred shares, convertible debt and bridge loans (asset backed/collateralized financing) ranging from \$100,000 to \$500,000 to companies across many industries such as oil and gas, mining, real estate, manufacturing, retail, financial services, technology and biotechnology.

On February 23, 2018, Lucas Ewart was appointed the Chief Executive Officer and as a Director of the Company. Lucas Ewart is has extensive experience in finance, senior management and

corporate development of public and private companies. He has served as Chairman, CEO as well as Chief Restructuring Officer of numerous companies on an international scale having worked in Canada, USA, Australia, Mexico, and South East Asia (Hong Kong, Singapore, Philippines and China). In addition he served as a Principal to GC-Global Capital Corp. for 10 years which specialized in securitized bridge loans.

On April 22, 2019, the Company announced that it had changed its name to Bucephalus Capital Corp. after receiving shareholder approval at its Annual and Special Meeting held on June 12, 2018.

On March 2, 2021, the Company appointed John A. McMahon to serve as Chairman and Chief Executive Officer and the addition of Tim Diamond to the Board. The Company also sold its ownership in Marathon Mortgage Corp. (“MMC”) for \$670,000. In 2019, the Company adjusted the fair value of its MMC shares to \$Nil.

On March 19, 2021, the Company closed a \$1,250,000 private placement financing at a price of \$0.05 per unit with each unit consisting of one subordinate voting share (“SVS”) and one warrant. Each warrant converts into one SVS at a price of \$0.25 with an expiry date of thirty six months.

On April 23, 2021, the Company closed a \$1,500,000 private placement financing at a price of \$0.15 per unit with each unit consisting of one subordinate voting share (“SVS”) and one warrant. Each warrant converts into one SVS at a price of \$0.25 with an expiry date of thirty six months.

April 28, 2021, the Company announced that it has entered into a service agreement with Ninepoint Partners (“Ninepoint”) through its Ninepoint Digital Asset Group division. Through this partnership, Ninepoint will provide Bucephalus ongoing marketing and strategic advice, assist with the corporate development of planned investment opportunities and provide introductions to certain parties that may further the business of the corporation. Ninepoint is among the largest independent asset management firms in Canada, with over \$8 billion in assets under management and institutional contracts. Ninepoint manages unique alternative investment solutions that offer investors the benefits of better diversification. It manages investment strategies that are uncorrelated from traditional asset classes, such as equities and bonds, with the goal of lowering overall portfolio risk. In consideration for services, Ninepoint will paid a \$25,000 per month advisory fee and be issued 5,000,000 performance warrants exercisable at a price of \$0.35 to purchase common shares of the Company for a period expiring on the earlier of 3 years or a date that is 90 days after Ninepoint ceases to provide services to the Company.

On April 28, 2021, the Company announces the entering into of a non-binding letter of intent to acquire a 100% interest in Layer2 Blockchain Inc., a company which manages capital, technology and infrastructure in the decentralized finance (DeFi) cryptocurrency sector, with a focus on scalable layer two DeFi protocols. Layer2 is led by Andrew Young, Jake Hannah and Julian Wilson, a seasoned team of blockchain and DeFi entrepreneurs with a proven track record as investors, technologists, and business builders in this emerging industry, having successfully launched a top DeFi protocol. (the “Proposed Transaction”). The Proposed Transaction is subject to the parties completing its respective due diligence and negotiating and entering into a definitive agreement and other ancillary documents necessary to complete the Proposed Transaction.

As of March 31, 2021, Bucephalus had cash of \$1,123,081 (Dec 31, 2020 - \$18,424), bridge loans of \$114,512 (Dec 31, 2020 - \$36,020) with associated accrued interest receivable of \$26,077 (Dec 31, 2020 - \$24,811), accounts receivable of \$26,077 (Dec 31, 2020 - \$17,653) and portfolio investments of \$206,403 (Dec 31, 2020 - \$258,866).

Bucephalus Capital's philosophy and strategy is to follow a disciplined and systematic approach to investment and be guided by four core principles which will be applied consistently across all industries:

- Capital Preservation;
 - Secure Generation of Income;
 - Risk Management; and
 - Shareholder Value.
- (1) **Capital Preservation:** This principle is at the core of Bucephalus Capital's investment guidelines. Bucephalus Capital secures its bridge loans through a variety of instruments, including by taking a first charge on company assets and marketable securities and/or guarantees, which generally provide Bucephalus Capital with two to three times asset coverage.
 - (2) **Secure Generation of Income:** Investments that provide cash flows in the form of dividends, interest payments and/or distributions will be a factor in each of Bucephalus Capital's investment requirements. Bucephalus Capital's goal is to have the ability to payout a dividend to its shareholders on an annual basis.
 - (3) **Risk Management:** Bucephalus Capital's management will take on an active role in each of its investments by requiring Bucephalus Capital Board representation as well as weekly reporting of an investee company's operations.
 - (4) **Shareholder Value:** The principal driver of Bucephalus Capital's corporate initiatives and investment decisions is the objective of creating and enhancing long-term value for its shareholders.

The Corporation supplements its active investment business by making investments with its unallocated cash in a diversified portfolio of high-yielding marketable securities such as bonds, preferred shares and royalty and income trusts, thus increasing its overall yield. Bucephalus Capital seeks to maximize income and preserve capital with these investments. Investment of Bucephalus Capital's funds are chosen on a fundamental basis with emphasis on the track record of management and quality of assets as well as competitive and sustainable business advantages.

Bucephalus Capital works with management of operating companies in order to create and enhance value for businesses in which Bucephalus Capital assumes a position. These activities include equity financings, developing mergers and acquisitions, providing operational management support and structuring and negotiating debt and equity placements. Bucephalus

Capital may also acquire positions in private companies at valuations that incorporate conservative earnings multiples and stable cash flows.

Loan Portfolio

As at March 31, 2021, Bucephalus Capital has three (Dec 31, 2020 – two) bridge loans outstanding for a total of \$114,512 (Dec 31, 2020 - \$86,615) with accumulated interest and fees of \$26,077 (Dec 31, 2020 - \$31,058). The interest rate for the loans held in 2021 is between prime and 12% (Dec 31, 2020 – 12%).

Investment Portfolio

As at March 31, 2021, Bucephalus Capital owned common shares of companies with a value of \$206,403 (December 31, 2020 - \$258,866).

During the three months ended March 31, 2021, the Company incurred change in the value of portfolio investments of \$693,508 (March 31, 2020 – (\$8,977)) due to the sale of the Company's ownership of its Marathon Mortgage Corp.

Operating Results as at March 31, 2021

Revenues

For the quarter ended March 31, 2021, Bucephalus Capital had interest income on its bridge loans of \$2,684 (March 31, 2020 - \$4,311), change in value of portfolio investment of \$693,508 (March 31, 2020 – (8,977)), a foreign exchange loss of \$618 (March 31, 2020 – gain of \$9,213) dividend income of \$Nil (March 31, 2020 - \$439) and a discount on note for (\$71,074) (March 31, 2020 - \$Nil) for total revenue of \$624,500 (March 31, 2020 – \$4,986).

Expenses

Bucephalus Capital incurred \$14,455 (March 31, 2020 - \$4,000) for audit and legal costs, \$20,000 (March 31, 2020 - \$Nil) in promotional fees, \$7,607 (March 31, 2020 - \$5,147) in filing fees, \$180,000 in consulting fees (March 31, 2020 - \$69,000) for fees to the Company's CEO, CFO and consultants, \$28,071 (March 31, 2020 - \$Nil) in salaries, \$248,780 (March 31, 2020 - \$Nil) in stock based compensation and \$163 (March 31, 2020 - \$367) in office expenses for total expenses of \$499,076 (March 31, 2020 - \$78,514). The Company anticipates higher fees, filing fees, legal fees, promotional fees, salaries and office expenditures in 2021.

Net income (loss) for the period was \$125,424 (March 31, 2020 – (\$73,528)) or \$0.00 per share (March 31, 2020 – (\$0.00)).

Summary of Quarterly Results

For the quarters ended	Mar 31/21	Dec 31/20	Sept 30/20	Jun 30/20
Total revenue	\$ 624,500	\$ (60,305)	\$ 1,207	\$ 646
Net income (loss) for the period	125,424	(142,214)	(77,529)	(82,062)
Net income (loss) per share ⁽¹⁾	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.00)

For the quarters ended	Mar 31/20	Dec 31/19	Sept 30/19	Jun 30/19
Total revenue	\$ 4,986	\$ (867,747)	\$ (56,300)	\$ (35,426)
Net income (loss) for the period	(73,528)	(972,372)	(139,678)	(129,679)
Net income (loss) per share ⁽¹⁾	\$ (0.00)	\$ (0.04)	\$ (0.005)	\$ (0.005)

(1) Net income (loss) per share has been calculated using the weighted average number of common shares during each period. Diluted income (loss) per share was not calculated as it would be anti-dilutive.

Liquidity

As at March 31, 2021, Bucephalus had \$1,123,081 (December 31, 2020 - \$18,424) in cash and short-term investments. The Corporation had working capital of \$1,373,244 (December 31, 2020 - (\$173,841)).

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Corporation believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Bucephalus's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Corporation's operations in the long-term. However, Bucephalus may procure debt or equity financing from time to time to fund its operations.

Capital Resources

Management is not aware of any significant commitments or expected fluctuations with respect to its capital resources at the date of its financial statements.

Off-balance Sheet Arrangements

There are no off-balance sheet arrangements.

Subsequent Events

On April 23, 2021, the Company closed a non-brokered private placement issuing 9,999,999 units at a price of \$0.15 per Unit for gross proceeds of \$1,500,000. Each Unit consisted of one subordinated voting common share of the Company and one Common Share purchase warrant. Each full warrant entitles the holder to acquire one additional Common Share for a period of thirty-six months expiring on April 23, 2024 at an exercise price of \$0.25. Finder's fees of \$61,220 were paid and 491,466 finders warrants entitling certain eligible persons to acquire a Unit exercisable at a price of \$0.25 for a period of thirty-six months from closing were issued in relation to the Private Placement. All securities issued under the Private Placement are subject to a four month hold period in accordance with applicable securities laws.

On April 27, 2021, the Company entered into a service agreement with Ninepoint Partners GP Inc. who will receive a \$25,000 per month advisory fee and were issued 5,000,000 performance warrants exercisable at a price of \$0.35 to purchase common shares of the Company for a period expiring on the earlier of 3 years or a date that is 90 days after the advisory ceases to provide services to the Company.

On April 27, 2021, the Company entered into of a non-binding letter of intent to acquire a 100% interest in Layer2 Blockchain Inc., a company which manages capital, technology, and infrastructure in the decentralized finance (DeFi) cryptocurrency sector, with a focus on scalable layer two DeFi protocols.

On April 28, 2021, the Company granted an aggregate of 2,150,000 options to purchase common shares of the Company exercisable at a price of \$0.42 per share for a period of 3 years to directors, officers and consultants of the Company.

Transactions with Related Parties

During 2018, the Company loaned US\$303,000 to a company who has a common director with the Company. As at March 31, 2021 the remaining principal amount of the loan is US\$129,029 or C\$162,254 (December 31, 2020 - C\$164,280). US\$105,000 or C\$132,038 (December 31, 2020 - C\$133,686) was syndicated to other lenders and therefore the net amount of the loan to the Company is US\$24,029 or C\$30,216 (December 31, 2020 - C\$30,594). As at March 31, 2021 a net amount of C\$11,920 (December 31, 2020 - C\$8,768) in interest has been accrued.

Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the three months ended March 31, 2021 and 2020 as follows:

	Mar 31, 2021	Mar 31, 2020
Salaries and benefits	\$ 161,500	24,000
Share based compensation	71,080	-
	<u>232,580</u>	<u>24,000</u>

Proposed Transactions

There were no proposed transactions as at the date of the Corporation's financial statements.

Critical Accounting Estimates

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Financial statement items subject to significant management judgment include:

Credit losses – Management exercises judgement to determine the expected credit losses on loans (note 3 (B)).

Valuation of portfolio investments – Where investments are not traded in an active market, management exercises judgement to determine the fair value of these assets. These assumptions include observation of recent private sales on the underlying securities (if available) and estimating the inputs to the the Black-Scholes option pricing model (note 3 (B)).

The Black-Scholes option pricing model is used to determine the fair value of the share-based payments and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate (note 3 (H)).

While management believes that the estimates and assumptions are reasonable, actual results may differ materially from those estimates.

Changes in Accounting Policies

IFRS 16, *Leases*

IFRS 16 – Leases introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The adoption of this standard effective January 1, 2019 did not materially impact the financial statements.

Risks and Uncertainties

Risk Management

The success of Bucephalus is dependent upon its ability to assess and manage all forms of risk that affect its operations. Like other financial institutions, Bucephalus is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Bucephalus. The Bucephalus

Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Bucephalus's most prominent risks follows.

Market Risk

Bucephalus is exposed to certain market risk that the value of, or future cash flows from, Bucephalus's financial assets will significantly fluctuate due to changes in market prices. The value of the financial assets can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. Bucephalus is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, Bucephalus is required to mark to market its fair value through profit or loss investments at the end of each reporting period. This process could result in significant write-downs of Bucephalus's investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on Bucephalus's financial position. Bucephalus manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers. The Bucephalus Board monitors changes in the market on an ongoing basis and adjusts Bucephalus's lending practices and policies when necessary to reduce the impact of the above risks.

Liquidity Risk

Liquidity risk is the risk that Bucephalus will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from making loan advances and receiving loan repayments. The goal of liquidity management is to ensure that adequate cash is available to honour all future investments. As well, effective liquidity management involves determining the timing of such commitments to ensure cash resources are optimally utilized.

As at March 31, 2021, Bucephalus had \$1,123,081 (December 31, 2020 - \$18,424) in cash and short-term investments. The Corporation had working capital of \$1,373,244 (December 31, 2020 - (\$173,841)).

Subsequent to year end, the Company completed \$2,750,000 in private placement financings.

Bucephalus Capital does not have any bank indebtedness. In managements' opinion, Bucephalus Capital has sufficient resources to meet its current cash flow requirements.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. Bucephalus believes that cash flow from continuing operations and existing cash resources will be sufficient to meet Bucephalus Capital's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support Bucephalus Capital's operations in the long-term. However, Bucephalus Capital may procure debt or equity financing from time to time to fund its operations.

Currency Risk

Bucephalus Capital is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. At times Bucephalus Capital intends to take advantage of foreign exchange contracts to manage the risk of currency fluctuations. As of March 31, 2021, Bucephalus Capital did not hold any such contracts.

Other Risks

Dependence on Key Personnel

Bucephalus Capital is dependent upon the personal efforts, performance and commitment of its senior officers and directors, who are responsible for the development of Bucephalus Capital's business. Investors will be relying upon the business judgment, expertise and integrity of Bucephalus Capital's senior officers and directors. To the extent that the services of any of the senior officers or directors would be unavailable for any reason, a disruption to the operations of Bucephalus Capital could result, and other persons would be required to manage and operate Bucephalus Capital. Bucephalus Capital's future success will also depend in large part upon its ability to attract and retain highly skilled personnel. There can be no assurance that Bucephalus Capital will be successful in attracting and retaining such personnel.

Possible Volatility of Stock Price

The market price of the Subordinate Shares could be subject to wide fluctuations in response to factors such as actual or anticipated variations in Bucephalus Capital's results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the Subordinate Shares.

Competition

Bucephalus Capital operates in an increasingly competitive environment. Both large and small competitors compete with Bucephalus Capital. Some of these competitors may have longer operating histories, greater name recognition and greater financial and marketing resources than Bucephalus Capital. Bucephalus Capital believes that its ability to compete effectively is dependent upon the quality of its product and client service. There can be no assurance that Bucephalus Capital will be able to compete effectively and retain its existing clients or attract and retain new clients. Bucephalus Capital's current and potential competitors may develop and market new products or services that render Bucephalus Capital's existing and future products and services less marketable or competitive.

Maintenance of Client Relationships

The ability of Bucephalus Capital to attract and maintain clients requires that it provide a competitive offering of products and services that meet the needs and expectations of its clients.

Bucephalus Capital’s ability to satisfy the needs or demands of its clients may be adversely affected by factors such as the inability or failure to identify changing client needs or expectations or the inability to adapt in a timely and cost-effective manner to innovative products and services offered by competitors.

Strategic Relationships

Bucephalus Capital anticipates that, from time to time, it will enter into strategic relationships to syndicate certain bridge loans where appropriate, as part of its strategy to diversify and manage risks associated with its bridge loan portfolio. Syndication will afford Bucephalus Capital the opportunity to participate in much larger transactions. There can be no assurance that Bucephalus Capital will be able to enter into such relationships in the future, and its inability to do so may adversely affect its ability to continue to service its existing and prospective clients.

Share Data

Bucephalus Capital’s issued and outstanding share capital is as follows:

Outstanding Shares

	May 20, 2021	Mar 31, 2021	Dec 31, 2020
Subordinate Shares	63,863,912	51,255,886	23,809,395
Multiple Shares	<u>2,450,328</u>	<u>4,758,355</u>	<u>5,704,846</u>
Total Shares Outstanding	<u>66,314,240</u>	<u>56,014,241</u>	<u>29,514,241</u>

Outstanding Warrants

	May 20, 2021	Mar 31, 2021	Dec 31, 2020
Number of warrants	41,479,999	26,750,000	-
Price	\$0.05 - \$0.25	\$0.05 - \$0.25	-
Expiry date	March to April 2024	March 2024	-

Outstanding Options

	May 20, 2021	Mar 31, 2021	Dec 31, 2020
Number of options	3,550,000	1,800,000	1,900,000
Price	\$0.34	\$0.22	\$0.07
Expiry date	March to April 2024	May 27, 2021 to March 2024	May 27, 2021

Forward-Looking Information

These materials include certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Other than statement of historical fact, all statements in

this material, including, without limitation, statements regarding disclosure of contingent liabilities at the date of the consolidated financial statements and financial statement items subject to significant management judgment include revenue recognition; loan impairment and losses; the valuation of accounts receivable, the valuation of bridge loans and development and rental properties, future income tax assets, estimated asset retirement obligations, and future plans and objectives of the Company, are forward-looking statements that involve various known and unknown risks, uncertainties and other factors. There can be no assurance that such statements will prove accurate. Actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of these materials. Important factors that could cause actual results to differ materially from the Company's expectations include, without limitation, the level of bridge loans completed, the nature and credit quality of the collateral security, estimated asset retirement obligations, as well as those factors discussed in the Company's documents filed from time to time with the Canadian Securities Exchange, Canadian securities regulators and other regulatory authorities. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice.