



**BEACN WIZARDRY AND MAGIC INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
For the nine months ended September 30, 2023**

## **INTRODUCTION**

This Management's Discussion and Analysis ("MD&A") for BEACN Wizardry and Magic Inc. (formerly Germinate Capital Ltd.) TSXV: BECN ("BEACN" or the "Company") has been prepared based on information known to management as of November 23, 2023.

This MD&A is intended to help the reader understand, and should be read in conjunction with, the unaudited condensed consolidated interim financial statements and related notes for the nine months ended September 30, 2023 and the audited consolidated financial statements and related notes for the year ended December 31, 2022, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures, and internal controls. Management also ensures that information used internally or disclosed externally, including the consolidated financial statements and MD&A, is complete and reliable.

All currency amounts are expressed in Canadian dollars unless otherwise noted.

Additional information relating to the Company is available on the SEDAR website, [www.sedar.com](http://www.sedar.com), under BEACN Wizardry & Magic Inc.

## **FORWARD LOOKING STATEMENTS**

### **Cautionary Note Regarding Forward-Looking Information**

This release includes certain statements and information that may constitute forward-looking information within the meaning of applicable Canadian securities laws. All statements in this news release, other than statements of historical facts, including statements regarding future plans, objectives, timing, assumptions, or expectations of future performance, including without limitation BEACN's belief that there will be growth in sales and continued improvement in gross profit, are forward-looking information. Generally, forward-looking statements and information can be identified by the use of forward-looking terminology such as "intends" or "anticipates", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would" or "occur".

Forward-looking statements are based on certain material assumptions and analysis made by the Company and the opinions and estimates of management as of the date of this press release, including the Company's ability to maintain manufacturing volume for its products and its ability

to sustain sales of products to customers, that general economic and market conditions will not change in an adverse manner, political and regulatory stability, stability in financial and capital markets..

These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements or forward-looking information. Important factors that may cause actual results to vary, include, without limitation (a) supply chain disruption that may lead to a shortage of inventory for sale; (b) economic or other factors beyond the control of the Company that may influence the purchasing behavior of customers; (c) public health crises such as the covid-19 pandemic may adversely impact the Company's business and operations; (d) the volatility of global capital markets; (e) unanticipated costs; and (f) risks relating to the extent and duration of the conflict in eastern Europe and its impact on global markets. Although management of the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements or forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements and forward-looking information. The Company does not undertake to update any forward-looking statement or forward-looking information, except in accordance with applicable securities laws.

Forward looking statements that may have been made in this MD&A include:

- Budgets or estimates with respect to future activities;
- Estimates of how long the Company expects its working capital to last;
- Expectations regarding the ability to raise capital if required;
- Ability to continue supplying tech peripherals for content creators on the internet; and
- Management expectations of future activities and results.

## **RECENT ACTIVITIES AND OUTLOOK**

During the first 9 months of 2023, BEACN has continued to invest in sales and marketing initiatives. The Company's B2B sales strategy has resulted in BEACN products being available for purchase at all 80 London Drugs locations in western Canada, as well as all 25 Micro Center locations in the USA.

The Company also continued to invest in product development, with the new product release of BEACN Stand in October, and plans to introduce additional products in the near term. BEACN expects that the introduction of new products will complement its existing offering and lead to increased sales and profitability in the future.

BEACN has also worked to improve its logistics as the Company suffered some setbacks in inventory delivery, handling of returns, and damage to products in 2022. The Company now uses the logistics services and warehouse facilities of a major international logistics company and currently has space in its warehouse facility in Canada, two in the USA (east and west), one in the UK and one in the EU. The additional warehouses result in additional costs, however the benefits of reduced shipping costs and faster shipments to customers are expected to well offset

those additional costs. The EU and UK locations also allow for VAT inclusive pricing, which is more familiar to customers in those regions.

BEACN anticipates a rise in profitability in late 2023 and 2024 as the Company's new marketing strategies, sales initiatives, and additional products are rolled out. Manufactured costs have also been renegotiated to lower future inventory costs.

For the nine months ended September 30, 2023, the Company achieved sales revenue of \$1,981,810 (2022 - \$3,534,994) gross profit of \$827,732 (42%) (2022 - \$2,036,313 (42%)) and a net loss of \$1,708,863 (2022 – net income of \$240,156). The Company experienced lower revenue than anticipated after its first product introduction and initial sales in early 2022 and believes the cause is a combination of slower than expected activity in the consumer electronics market and general economic uncertainty due to the rising interest rates. BEACN management acted quickly to support the B2C sales program with enhanced B2B efforts. Revenue for the three months ended September 30, 2023 increased to \$886,786, an increase of 22% compared to \$727,088 for the same period in 2022. Further information is available from the Company's interim financial statements for the period ended September 30, 2023 available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

In March 2023, BEACN created a new B2B relationship with BH Photo Video, a well-known electronics retailer based in New York USA and continues to receive ongoing orders.

In April 2023, the Company began sales with Micro Center at all 25 retail locations in the US. Micro Center continues to expand BEACN product availability across the chain.

On May 9, 2023, the Company announced the resignation of Chief Financial Officer Robert Doyle. The Company appointed Daniel Davies as the interim Chief Financial Officer. Mr. Doyle continues in a consulting role and is assisting the Company in its search for a full-time CFO to complement the Company's growth.

On May 24, 2023, PowerGPU began listing and bundling BEACN products with their custom gaming PC offerings. PowerGPU continues to be a strong partner for the Company, leveraging their high-profile influencer contacts for BEACN to provide audio solutions to. This influencer opportunity brings high visibility to BEACN products across all customer segments.

On July 4, 2023, the Company announced a non-brokered private placement (the "Offering") which was subsequently closed in two tranches of up to 5,000,000 units of the Company (the "Units") at a price of \$0.20 per Unit for gross proceeds to the Company of up to \$1,000,000. Each Unit is comprised of one common share (a "Share") and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder to purchase one additional share for a period of three years from the closing of the Offering for \$0.45. At the option of the investor and with the approval of the Company, the Share may be designated an Eligible Business Corporation Share (an "EBC Share") and if so designated the investor will be eligible for a 30% tax credit. If elected, there will be restrictions on the sale of the EBC Shares for a period of 5 years. The Warrant will not be EBC eligible. On July 26, 2023, the Company announced the closing of the first tranche of 3,950,000 Units for gross proceeds of \$790,000 and on October 3, 2023 the closing of the second and final tranche of 500,000 units for gross proceeds of \$100,000 for an aggregate of 4,450,000 Units at a price of \$0.20 per Unit for gross proceeds of \$890,000. The warrants were ascribed a value of \$282,484 under the Black-Scholes valuation model with the residual being allocated to share capital. In connection with the financing, the Company incurred \$8,687 in share issuance costs. All of the Shares were designated as EBC shares.

Shareholders owning more than 10% of the Company's common shares participated in the Offering and were issued an aggregate of 2,000,000 Units.

On July 14, 2023, the Company repaid \$100,000 of the promissory note to a shareholder.

On August 29, 2023, the Company repaid a convertible loan of \$250,000.

On September 28, 2023, BEACN announced its retail partnership with London Drugs, one of Canada's most trusted and established retail chains. This exciting collaboration marks a significant step forward in the availability of BEACN's premium audio products to a wider audience of content creators and tech enthusiasts. BEACN products are now available for purchase on the London Drugs website and became available at in-store locations starting October 27, 2023.

On October 20, 2023, BEACN debuted its new low-profile desktop microphone accessory, BEACN Mic Stand, at TwitchCon 2023. BEACN Mic Stand offers a high-quality microphone mounting solution to BEACN customers as well as desktop microphone users worldwide. The low-profile mic stand fits in visually and with practical comfort for the modern streaming, gaming, podcasting and work-from-home environments where computer monitors and other equipment can pose positioning challenges.

## **BACKGROUND AND OVERVIEW**

BEACN Wizardry & Magic Inc. (formerly Germinate Capital Ltd.) ("BEACN" or the "Company") was incorporated and domiciled in Canada under the Business Corporations Act (British Columbia) as a "Capital Pool Company" as defined in the TSX Venture Exchange's (the "Exchange") Listing Policy 2.4. On October 29, 2021, the Company completed the share exchange transaction with Beacon Hill Innovations Ltd. ("Beacon") which constituted the Company's Qualifying Transaction ("QT"). Beacon was incorporated under the Business Corporations Act (British Columbia) on February 7, 2020. Upon completion of the QT, the Company began trading under its new name on the Exchange with the symbol "BECN" on November 2, 2021. Beacon Hill Innovations Ltd. is a wholly owned subsidiary of BEACN Wizardry & Magic Inc. and any reference herein to BEACN or Company includes Beacon Hill Innovations Ltd.

The QT was completed by way of share exchange pursuant to which the Company acquired all of the issued and outstanding shares in the capital of Beacon Hill Innovations Ltd. in exchange for the issuance of 32,151,003 common shares in the capital of the Company to the former shareholders of Beacon. The Company also issued 3,150,000 stock options to directors, officers, employees, and consultants of the Company, which can be exercised at a price of \$0.30 per share until October 29, 2026.

In connection with the QT, the Company completed a concurrent financing totaling \$1,500,000 and upon completion of the QT and the closing of the concurrent financing, the Company had 42,784,336 common shares issued and outstanding.

BEACN was founded to be a supplier of tech peripherals for Gamers, YouTubers, Podcasters, and anyone creating content on the internet. With sales beginning January 31, 2022, the Company is focused on continued sales growth of its products and additional research and development to new concepts and additional products.

BEACN's founders have deep experience in audio engineering and hardware manufacturing and have enjoyed success in the streaming and gaming industry.

The Company has focused on creating solutions to resolve the pain points for content creators, including the quality of incoming audio via microphones and management of multiple audio sources coming from their computers. These new, innovative, and user-friendly products are now selling and BEACN expects to see broad adoption of these products in the quickly expanding content creator market.

BEACN has launched multiple innovative products to date, including the new BEACN MIC STAND, the BEACN Mic, a microphone with powerful, built in, processing built to take the load of the users CPU and the BEACN Mix and Mix Create, audio controllers which give users high levels of control over audio without 3rd party software, complicated settings, or constant adjustment to changing settings.

Everything about BEACN's products is designed and engineered from the ground up, and BEACN components are created specifically for use in BEACN's products and are anticipated to be valuable components in future BEACN products.

## **INTERIM PERIOD FINANCIAL CONDITION**

### *Capital Resources*

During nine months ended September 30, 2023, 75,000 stock options expired unexercised.

On October 3, 2023, the Company completed a non-brokered private placement of 4,450,000 units of the Company at a price of \$0.20 per Unit for gross proceeds of \$890,000. Each unit is comprised of one common share and one non-transferable common share purchase warrant. Each Warrant entitles the holder to purchase one additional share for a period of three years from the closing of the offering for \$0.45. The warrants were ascribed a value of \$282,484 under the Black-Scholes valuation model with the residual being allocated to share capital. In connection with the financing, the Company incurred \$8,687 in share issuance costs.

Due to the Company's current treasury and the expected cash flows from future product sales management anticipates there will be sufficient cash flow for its efforts to continue as planned throughout 2023, however, BEACN wishes to enhance its growth and therefore, the Company anticipates adjusting budgets accordingly and expects to seek additional growth financing.

### *Liquidity*

As at September 30, 2023, the Company's working capital was \$2,801,941 (December 31, 2022 - \$3,454,357) of which \$2,216,971 represents inventory and deposits on inventory purchase orders (December 31, 2022 - \$2,352,759). Cash totaled \$430,591 as at September 30, 2023, a decrease of \$856,704 from \$1,287,295 as at December 31, 2022. The decrease was mainly due to cash used in operating activities of \$1,461,229 where the Company built up its inventory, investing activities of \$95,779, and an offset by financing activities of \$700,304.

As of the date of this MD&A, the Company has an outstanding promissory note of \$275,000 with a shareholder of the Company with a maturity date of December 31, 2024. The Note was without interest until December 31, 2020, and thereafter incurs interest at a rate of 4% per annum, payable quarterly. The Company can repay all or part of the Note at any time without penalty. [check if there are any changes to this note, i.e. further advances subsequent to quarter end]

### Operations

#### **For the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022:**

The Company generated \$1,981,810 in sales during the nine months ended September 30, 2023 (2022 - \$3,534,994). During the nine months ended September 30, 2023, the sales reduced BEACN's net loss to \$1,708,863 or loss of \$0.04 per share compared to net income of \$240,156 or earnings of \$0.01 per share for the nine months ended September 30, 2022.

Excluding the non-cash share-based compensation of \$84,051 (2022 - \$114,907), depreciation of \$67,870 (2022 - \$83,652), and depreciation of right-of-use asset of \$18,992 (2022 - \$8,441), the Company's operating loss was \$1,679,730 (2022 - income of \$35,525), a negative change of \$1,715,255. The change in the operating income (loss) was mainly due to: decreased gross profit of \$670,949 (2023 - \$827,732; 2022 - \$1,498,681), increased advertising and marketing of \$252,647 (2023 - \$387,071; 2022 - \$134,424); increased consulting fees of \$46,212 (2023 - \$157,261; 2022 - \$111,049); increased office expenses of \$106,726 (2023 - \$211,436; 2022 - \$104,710); increased research and development of \$138,829 (2023 - \$138,829; 2022 - \$Nil); increased salaries and benefits of \$422,456 (2023 - \$1,166,548; 2022 - \$744,092) and increased prototype and pre-production costs of \$51,310 (2023 - \$63,955; 2022 - \$12,645).

### **RISKS AND UNCERTAINTIES**

The risks and uncertainties below must be considered, as they may affect the Company's ability to achieve our strategic goals. Investors are therefore advised to consider the following items in assessing the Company's future prospects as an investment.

#### Future operations

The Company began generating revenue from sale of its products in January 2022; however, future revenues are not guaranteed to be sufficient to meet operating and capital expenses and therefore the Company may continue to incur operating losses as it has since inception (see note 1 to the unaudited condensed consolidated financial statements for the nine months ended September 30, 2023).

The Company's ability to continue as a going concern may be dependent upon obtaining further financing, successful and sufficient market acceptance of current products, and any new products that may be introduced, the continuing successful development of product and related technologies, and, finally, achieving and maintaining a profitable level of operations. The issuance of additional equity securities by the Company could result in dilution in the equity interests of the current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase the Company's liabilities and future cash commitments.

There are no assurances that the Company will be able to obtain further funds required for continued operations. The Company is pursuing various financing alternatives to meet its long-term financial requirements. There can be no assurance that additional financing will be available to the Company when needed or, if available, that it can be obtained on commercially reasonable terms.

#### Economic conditions and supply chain interruptions

The Company is exposed to potential supply chain disruptions due to fire, flood, shipping delays, and future pandemic restrictions and uncertainty with respect to events surrounding the Ukraine and Israel-Palestine, affecting our contract manufacturing facility, suppliers, and warehouse. Interruptions in the supply chain may also lead to the Company's inability to secure the necessary parts to manufacture its products. Supply chain issues may lead to price fluctuations, and this could cause our profits to decrease if we cannot pass along the extra cost to consumers.

#### Competition and technological obsolescence

The markets for the Company's products experience ongoing technological changes and the Company must compete with existing technology and service providers, new companies and advancing technologies. In order to remain fully competitive, the Company must continue to innovate and respond with advanced generations of software, products, and services. The inability to react in a timely fashion to technological and competitive changes could have a negative impact on the Company and its ability to attract and retain customers. Moreover, the highly competitive market in which the Company operates could cause the Company to reduce its prices and offer other favorable terms in order to compete successfully with its rivals. These practices could, over time, limit the prices that the Company can charge for its products. If the Company was unable to offset such potential price reductions from products, it could negatively impact the Company's profit margins and operating results.

#### Possible dilution to present and prospective shareholders

Business negotiations related to the Company's search for new business opportunities may result in the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares would result in dilution, possibly substantial, to present and prospective holders of common shares.

#### Dependence of key personnel

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term.

## TRANSACTIONS WITH RELATED PARTIES

Amounts due to:	Service	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Balance due	
				As at September 30, 2023	As at December 31, 2022
Craig Fraser, officer	Salaries and benefits	\$ 81,693	\$ 84,665	\$ -	\$ -
Daniel Davies, officer and director	Salaries and benefits	81,693	84,665	-	-
Robert Doyle, CFO	Expense reimbursement	-	-	-	8,965
Pacific Opportunity Capital Ltd., a company, of which Robert Doyle, former CFO is a shareholder <sup>(a)</sup>	Accounting and management services	33,000	48,983	-	47,501
<b>TOTAL:</b>		<b>\$ 196,386</b>	<b>\$ 218,313</b>	<b>\$ -</b>	<b>\$ 56,466</b>

(a) Robert Doyle resigned as CFO on May 9, 2023, and the accounting and management services amount is included up to May 9, 2023 only. The amount owing to Pacific Opportunity Capital Ltd. as of September 30, 2023, is grouped with accounts payable and accrued liabilities because Mr. Doyle was not a related party as of September 30, 2023.

Amounts owing to/from related parties are non-interest bearing, unsecured, and have no fixed terms of repayment. The changes during the period were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

## DISCLOSURE OF OUTSTANDING SHARE DATA

The authorized share capital of the Company consists of an unlimited number of common shares without par value. As at September 30, 2023, the Company's share capital is \$7,148,501 representing 52,946,836 common shares.

As of the date of this MD&A, there are 52,946,836 common shares issued and outstanding. In addition, there are 5,012,500 incentive stock options and 13,407,766 warrants outstanding.

## FINANCIAL INSTRUMENTS

The fair values of the Company's cash and accounts payable and accrued liabilities, due to related parties, convertible loan, and promissory note approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk and liquidity risk.

### a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and accounts receivable. The Company's bank accounts are held with major banks in Canada and the United States. Accordingly, the Company believes it is not exposed to significant credit risk on its cash. Sales to retail customers are required to be settled using major credit cards, mitigating credit risk. There are no significant concentrations



of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

Trade receivables are written off where there is no reasonable expectation of recovery. Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

There was no loss allowance as at September 30, 2023 and no change in the loss allowance during the quarter ended.

b) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company controls liquidity risk by ensuring that it has sufficient cash resources to pay for its financial obligations. As at September 30, 2023, the Company had a cash balance of \$430,591 to settle current liabilities of \$258,665.

## **MANAGEMENT OF CAPITAL RISK**

The Company's capital consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## **SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

#### Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- the determination that the Company will continue as a going concern for the next year; and
- the determination that the functional currency of the Company is Canadian dollar.

#### **DISCLAIMER**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all Company documents filed on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

#### **INFORMATION ON THE BOARD OF DIRECTORS AND MANAGEMENT**

##### **Directors:**

*Daniel Davies*  
*Kevin Alexander*  
*Sarah Weber*  
*Scott Christopher*

##### **Audit Committee members:**

*Scott Christopher (Chair), Sarah Weber, and Daniel Davies*

##### **Management:**

*Craig Fraser – Chief Executive Officer*  
*Daniel Davies – President, Chief Technology Officer, and Interim Chief Financial Officer*