

**UMDONI EXPLORATION INC.**  
**(Formerly Penn Capital Inc.)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE  
COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**For the years Ended October 31, 2022 and 2021**

## **INTRODUCTION**

The following Management Discussion and Analysis (“MD&A”) of Umdoni Exploration Inc. (the “Company”), formerly Penn Capital Inc., has been prepared by management in accordance with the requirements of National Instrument 51-102 as of February 9, 2023. This MD&A should be read in conjunction with the consolidated financial statements and related notes thereto for the years ended October 31, 2022 and 2021 (the “Financial Statements”) which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (“IASB”). The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company.

All amounts in the condensed consolidated interim financial statements and this discussion and analysis are presented in Canadian dollars, unless otherwise indicated.

## **FORWARD-LOOKING STATEMENTS**

This MD&A contains certain forward-looking statements and information relating to the Company that are based on the beliefs of our management as well as assumptions made by and information currently available to us. When used in this document, the words “*anticipate*”, “*believe*”, “*estimate*”, “*expect*” and similar expressions, as they relate to the Company or to management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, the estimated cost and availability of funding for the future development of the Company. Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or our achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

## **COMPANY OVERVIEW**

### **Background**

The Company was incorporated under the Business Corporations Act (British Columbia) on October 15, 2014. The head office of the Company is 401 – 750 West Pender Street, Vancouver, BC V6C 2T7.

On August 21, 2020, MJ Bioscience Corp. changed its name to Penn Capital Inc. and has completed a consolidation of all of its issued and outstanding common shares on the basis of one post-consolidation common share for every five pre-consolidation common shares. Prior to the consolidation, there were 532,137 common shares issued and outstanding, and following the consolidation there are 106,369 common shares issued and outstanding.

On March 25, 2022, the Company changed its name from Penn Capital Inc. to Umdoni Exploration Inc.

On November 29, 2022, the company closed its initial public offering and commenced trading on the Canadian Securities Exchange under the trading symbol "UDI".

### **Development of the Company’s Business**

The Company changed its nature of business from biotechnology/pharmaceutical to exploration and evaluation of resource properties in Canada. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and upon future profitable production.

On February 22, 2021, the Company purchased all outstanding shares in both Hab Capital Corp. and Kelso Capital Inc.(dormant) for \$1 each respectively.

## EXPLORATION AND EVALUATION ASSET

On February 1, 2021, the Company purchased the Chlore property (the “Property”) for \$1,000. The Property is located in the Omineca Mining Division of North-Central British Columbia. The following is a summary of the Company’s exploration and evaluation asset for the years ended October 31, 2022 and 2021:

|  | October 31, 2022 |        | October 31, 2021 |        |
|--|------------------|--------|------------------|--------|
| <b>Property acquisition costs</b>              |                  |        |                  |        |
| Balance, beginning                             | \$               | 1,000  | \$               | -      |
| Acquisition                                    |                  | -      |                  | 1,000  |
| Balance, ending                                | \$               | 1,000  | \$               | 1,000  |
| <b>Exploration and evaluation costs</b>        |                  |        |                  |        |
| Balance, beginning                             | \$               | 78,148 | \$               | -      |
| Reports  |                  | -      |                  | 32,696 |
| Survey   |                  | -      |                  | 43,260 |
| Geological consulting                          |                  | -      |                  | 2,192  |
| Balance, ending                                | \$               | 78,148 | \$               | 78,148 |
| <b>Total exploration and evaluation assets</b> | \$               | 79,148 | \$               | 79,148 |

## SELECTED ANNUAL INFORMATION

|  | October 31, 2022 |          | October 31, 2021 |          | October 31, 2020 |           |
|--|------------------|----------|------------------|----------|------------------|-----------|
| <b>Financial Results</b>                 |                  |          |                  |          |                  |           |
| Net loss for the year                    | \$               | (95,372) | \$               | (26,780) | \$               | (20,477)  |
| Loss per share – basic and diluted       |                  | (0.02)   |                  | (0.02)   |                  | (0.19)    |
| <b>Balance Sheet Data</b>                |                  |          |                  |          |                  |           |
| Accounts payable and accrued liabilities |                  | 25,590   |                  | 30,251   |                  | 19,616    |
| Shareholders' deficiency                 |                  | (98,441) |                  | (39,029) |                  | (157,245) |

## RESULTS OF OPERATIONS

### Year ended October 31, 2022

The Company had no revenue and reported a net loss of \$95,372 for the year ended October 31, 2022 compared to a net loss of \$26,780 for the year ended October 31, 2021.

Major variances are as follows:

- For the year ended October 31, 2022, professional and consulting fees were \$75,410 compared to \$23,023 for the prior year. The variance was mainly due to increased legal fees for services in connection with listing to the Canadian Securities Exchange, annual general meeting and name change. The variance was also due to higher accrual of audit fees and higher accounting and corporate secretarial services for the interim reviews of the Company’s financial statements.
- For the year ended October 31, 2022, transfer agent fees were \$5,364 compared to \$651 for the prior year. The increase was due to the higher requests for share range reports and due to higher fees in connection with share transfer transactions as a result of the name change of the company.
- For the year ended October 31, 2022, the Company recorded accretion expense of \$9,270 related to the non-current portion of the loans payable.

### Three months ended October 31, 2022

The Company had no revenue and reported a net loss of \$18,867 for the three months ended October 31, 2022 compared to a net loss of \$11,568 for the quarter ended October 31, 2021.

Major variances are as follows:

- For the quarter ended October 31, 2022, professional and consulting fees were \$12,886 compared to \$11,176 for the quarter ended October 31, 2021. The increase was due to an increase in audit accrual for the year ended October 31, 2022.

For the quarter ended October 31, 2022, transfer agent fees were \$1,759 compared to \$493 for the quarter ended October 31, 2021. The increase was due to higher fees in connection with share transfer transactions as a result of the name change of the company.

- For the quarter ended October 31, 2022, the Company recorded accretion expense of \$4,159 related to the non-current portion of the loans payable.

### SUMMARY OF QUARTERLY RESULTS

Results for the most recent completed fiscal quarters are summarized in the table below:

|                         | Three-month period<br>ended October 31,<br>2022(Q4) | Three-month period<br>ended July 31,<br>2022(Q3) | Three-month period<br>ended April 30,<br>2022(Q2) | Three-month period<br>ended January 31,<br>2022(Q1) |
|-------------------------|---|--|---|---|
| Net loss                | (18,867)  | (19,726)   | (29,597)  | (27,182)  |
| Loss per share          | (0.02)  | (0.00)   | (0.00)  | (0.00)  |
| Total assets            | 98,156  | 88,051   | 91,631  | 102,940   |
| Working capital deficit | 64,799  | 50,091   | 34,371  | 145,359   |

|                         | Three-month period<br>ended October 31<br>2021(Q4) | Three-month period<br>ended July 31,<br>2021(Q3) | Three-month period<br>ended April 30,<br>2021(Q2) | Three-month period<br>ended January 31,<br>2021(Q1) |
|-------------------------|--|--|---|---|
|                         |  | \$   | \$  | \$  |
| Net loss                | (11,568)   | (3,944)  | (5,369)   | (5,899)   |
| Loss per share          | (0.00)   | (0.04)   | (0.05)  | (0.06)  |
| Total assets            | 110,075  | 67,603   | 61,941  | 948   |
| Working capital deficit | 118,177  | 172,458  | 168,514   | 163,144   |

### LIQUIDITY AND CAPITAL RESOURCES

At October 31, 2022 the Company had a working capital deficit of \$64,799 (October 31, 2021 – \$118,177). The Company does not currently have an active business generating positive cash flows. The Company must rely upon loans from related parties in order to generate cash for general operating activities. The Company has not pledged any of its assets as security for loans or is not otherwise subject to any debt covenants.

As on November 29, 2022, 3,000,000 units which comprises of one common share and one share purchase warrants were issued for gross proceeds of \$300,000. The warrants are exercisable at a price of \$0.12 with expiry date of November 29, 2027.

The Company needs to raise additional capital to fund general working capital requirements for the next twelve months. Although the Company has previously been successful in raising the funds required for its operations, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

## TRANSACTIONS WITH RELATED PARTY

As at October 31, 2022 and 2021, the Company was indebted to former and current directors and officers in the following amounts:

|                                     | October 31, 2022 |         | October 31, 2021 |         |
|-------------------------------------|------------------|---------|------------------|---------|
| Due to Current and Former Directors | \$               | 114,612 | \$               | 114,382 |
| Due to Company controlled by CFO    |                  | -       |                  | 4,471   |
|                                     | \$               | 114,612 | \$               | 118,853 |

As at October 31, 2022, the Company was indebted to former and current directors and officers in the amount of \$114,612 (October 31, 2021 - \$118,853) as related party loans. The Company also owed \$Nil (October 31, 2021 - \$4,200) to a company with common director and officer which was included in accounts payable and accrued liabilities as at October 31, 2022. Current amounts due to related parties are unsecured, non-interest bearing and due on demand.

On April 4, 2022, the Company entered debt repayment agreements with two directors of the Company to set a due date with the respect of the repayment of \$139,478 of related party amounts owing. These loans are unsecured and non-interest bearing with a maturity date of April 4, 2024. The loans were accounted for at amortized cost using the effective interest rate method with the effective interest rate of 15% per annum. The loans were recorded at amortized cost of \$103,518, with a contributed surplus of \$35,960. During the year ended October 31, 2022, the Company recorded accretion expense of \$9,270 on non-current portion of the loans (October 31, 2021 - \$Nil).

On October 31, 2022, one of the director assigned to a third party the amount of \$56,395 which represents the director's entire portion of the non-current loan principal including accretion, resulting in the company owing \$56,395 to a non-related party. As at October 31, 2022, the non-current loan owing to a related party is \$56,395 (October 31, 2021 - \$Nil).

During the year ended October 31, 2021, the former and current director and officers of the Company assigned an aggregate amount of \$112,000 of related party loans to various creditors.

On August 31, 2021, the Company entered into a share for debt agreement to settle a total of \$146,577 in debt due to former and current directors and to various creditors in exchange for 5,863,080 common shares of the Company (Note 7). Included in debt settlements were the following related party settlements for past services and amounts owing:

- 1,000,000 shares issued to settle \$25,000 owing to current director and officer of the Company;
- 640,000 shares issued to settle \$16,000 owing to creditors related to the current director and officer of the Company;
- 383,080 shares issued to settle \$9,577 owing to a former officer of the Company.

## OUTSTANDING SHARE CAPITAL

As of October 31, 2022, the company had 5,969,449 issued and outstanding common shares and.

As at the date of this MD&A, the company had 8,969,449 issued and outstanding common shares.

As of October 31, 2022, the company had not issued any warrants.

As at the date of this MD&A, the company had 3,000,000 warrants outstanding.

As at October 31, 2022 and as at the date of this MD&A, the Company had no stock options outstanding.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **SIGNIFICANT ACCOUNTING POLICIES**

The financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards. Our significant accounting policies are set out in Note 3 of the audited consolidated financial statements of the Company for the year ended October 31, 2022.

## **FINANCIAL INSTRUMENTS**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is summarized as follows:

### ***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 primary exposure to credit risk is on its bank deposits of \$9,905 (October 31, 2021 - \$29,979). The risk is managed by using major Canadian banks that are high credit quality financial institutions as determined by rating agencies.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations.

Historically, the Company's principal source of funding has been the issuance of equity securities for cash, primarily through private placements and loans from related parties. The Company's access to financing is always uncertain. There can be no assurance of continued access to necessary levels of debt or equity funding.

### ***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk.

### ***Fair value***

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and loans payable. As at October 31, 2022, the fair values of financial instruments measured on a recurring basis are determined based on level one inputs and consist of quoted prices in active markets for identical assets. The fair value of other financial instruments approximates their carrying values due to the short-term nature of these instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

## **RISKS AND UNCERTAINTIES**

### Uninsured Risk

The Company may become subject to liability for risks against which the Company cannot insure or against which the Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

### Conflicts of Interest Risk

The Company's directors are and may continue to be involved in other business ventures in the mining industry through direct and indirect participation in corporations, partnerships, joint ventures, etc. that may become potential competitors of the products the Company intends to provide. Situations may arise in connection with potential acquisitions or opportunities where the other interests of the director conflict with or diverge from the Company's interests. In accordance with the BCBCA, directors who have a material interest in any entity that is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavorable to the Company.

### Key Personnel Risk

The Company relies heavily on its directors and officers, along with key business consultants. The loss of their services would have a material adverse effect on the business of the Company. There can be no assurance that these individuals will continue to provide services in the employ of or in a consulting capacity to the Company or that they will not set up competing business or accept positions with competitors.

### Speculative Nature of Investment Risk

An investment in the Company's common shares carries a high degree of risk and should be considered as a speculative investment by purchasers. The Company has not paid dividends and is unlikely to pay dividends in the immediate or near future. The Company is in the development and planning phases of its business and has not started commercialization of the Company's products and services. The Company's operations are not yet sufficiently established such that it can mitigate the risks associated with its planned activities.

### Liquidity and Future Financing Risk

The Company will require additional financing to fund future operations and expansion plans. The Company's ability to secure any required financing to sustain its operations will depend in part upon prevailing capital market conditions, as well as the Company's business success. There can be no assurance that the Company will be successful in the Company's efforts to secure any additional financing or additional financing on terms satisfactory to the Company's management. If additional financing is raised by issuing common shares in the Company's authorized capital, control of the Company may change, and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may be required to scale back its business plan or cease operating.

### Going-Concern Risk

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Company will be successful in completing equity or debt financing or in achieving profitability. The condensed consolidated interim financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

### Share Price Volatility Risk

External factors outside of the Company's control such as announcements of quarterly variations in operating results, revenues and costs, and sentiments toward mining sector stocks may have a significant impact on the market price of the Company's common shares. Global stock markets, including the Exchange, have from time to time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. The same applies to companies in the technology sector. There can be no assurance that an active or liquid market will develop or be sustained for the common shares.

### Covid-19

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from coronavirus (COVID-19). The Company continues to operate its business and move its exploration activity forward at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on business operations cannot be reasonably estimated at this time. The Company anticipates this could have an adverse impact on its business, results of operations, financial position and cash flows in future periods.

### **CONTINGENCIES**

There are no contingent liabilities.

### **DIRECTORS AND OFFICERS**

As of the date of this report, February 9, 2023, the Company's directors and officers are as follows:

- Jesse Hahn – Director, Interim Chief Executive Officer and Corporate Secretary
- Barry Hartley – Director, Chief Financial Officer
- James McCrea – Director
- Brent Hahn – Director