

FOREMOST VENTURES CORP.
MANAGEMENT DISCUSSION AND ANALYSIS
THREE MONTHS ENDED MAY 31, 2020

OVERVIEW

The following management discussion and analysis (“MDA”) of the financial position of Foremost Ventures Corp. (“the Company”), and results of operations prepared on June 12, 2020, should be read in conjunction with the unaudited financial statements for the three months ended May 31, 2020 and the audited financial statements for the year ended February 29, 2020. All amounts are stated in Canadian dollars unless otherwise indicated. These financial statements together with this MDA are intended to provide investors with a reasonable basis for assessing the financial performance of the Company.

The head office, the principal address, and the registered and records office of the Company are located at Suite 1510, 789 West Pender Street, Vancouver, BC, V6C 1H2.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on SEDAR at www.sedar.com or by requesting further information from the Company’s head office in Vancouver.

DESCRIPTION OF BUSINESS

The Company was incorporated under the Business Corporations Act (British Columbia) on November 28, 2017. It was incorporated for the purposes of becoming a Capital Pool Company (“CPC”) as defined in the TSX Venture Exchange (“TSX-V”) Policy 2.4.

The Company completed its final prospectus on May 2, 2018 for the purposes of completing an IPO becoming a CPC trading on the TSX-V.

In June 2018, the Company completed its IPO, issuing 2,000,000 common shares at \$0.10 per share for total gross proceeds of \$200,000. The Company also issued non transferrable agents warrants to purchase 200,000 common shares at a price of \$0.10, expiring 24 months from the date of issuance.

The principal business of the Company is to identify and evaluate businesses and assets with a view to completing a Qualifying Transaction (“QT”). The Final Prospectus was filed and is available for view on SEDAR.

The proposed business of the Company and the completion of a QT involves a high degree of risk and there is no assurance that the Company will identify an appropriate business for acquisition or investment, and even if so identified and warranted, it may not be able to finance such an acquisition or investment within the requisite time period. Additional funds will be required to enable the Company to pursue such an initiative and the Company may be unable to obtain such financing on terms which are satisfactory to it. Furthermore, there is no assurance that the business will be profitable. These factors indicate the existence of a material uncertainty that may cast doubt about the Company’s ability to continue as a going concern. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

On March 2, 2020, the Company and KWESST Inc. (“KWESST”) entered into a transaction comprising a business combination by way of a: share exchange; merger; amalgamation; arrangement; takeover bid; or other similar form of transaction that will result in KWESST becoming a wholly owned subsidiary of Foremost or otherwise combining its corporate existence with a wholly owned subsidiary of Foremost. The parties agreed that the final structure of the business combination is subject to receipt of tax, corporate and securities law advice for both Foremost and KWESST.

As of the date hereof, KWESST has total issued and outstanding common shares of KWESST of 29,504,686, total issued and outstanding 8.5 million share purchase warrants exercisable at a price of 20 cents per KWESST share on or before June 14, 2024 (“KWESST 2024 warrants”), 15,000 share purchase warrants exercisable at a price of 40 cents per KWESST share on or before January 30, 2022 (“KWESST 2022 warrants”), and 900,000 stock options exercisable at 65 cents per KWESST share on or before February 28, 2025.

On February 21, 2020, KWESST entered into a technology acquisition letter of intent with DEFSEC Corp. (“DEFSEC”), pursuant to which KWESST may, subject to certain terms and conditions, issue to DEFSEC: (i) one million KWESST shares; and (ii) 500,000 share purchase warrants of KWESST (“DEFSEC warrants”). Each DEFSEC warrant shall be exercisable to subscribe and purchase, from time to time and up to the fifth anniversary of the closing date (as defined in the LOI), up to 500,000 KWESST shares at the issuance price (as defined herein). The DEFSEC warrants shall vest as to 25 per cent on the first anniversary of the closing date and 25 per cent on each of the following three anniversaries of the closing date.

Pursuant to a licensing agreement between KWESST and AerialX Inc. (“AerialX”), KWESST has agreed to issue up to 300,000 KWESST shares to AerialX, subject to attaining certain technical and financial milestones.

KWESST has \$234,515.40 in principal amount of convertible notes bearing interest at a rate of 10 per cent per year and with a maturity date of October 23, 2021. The notes, as well as all accrued interest, will automatically convert into such number of KWESST shares at a conversion rate equal to a 20-per-cent discount to the issuance price (as defined herein) upon closing of the transaction.

Prior to the closing of the transaction, Foremost will consolidate the currently outstanding Foremost shares on a ratio equal to the issuance price (as defined herein) divided by 15 cents.

Pursuant to the transaction, Foremost will issue consolidation shares to the holders of KWESST shares in exchange for all of the issued and outstanding KWESST shares, on the basis of one post-consolidation share for each KWESST share.

On closing of the transaction, the KWESST 2024 warrants, the KWESST 2022 warrants and the DEFSEC warrants will be exchanged for share purchase warrants of the resulting issuer, which share purchase warrants shall have the same terms and conditions as the KWESST 2024 warrants, the KWESST 2022 warrants and the DEFSEC warrants, respectively. On closing of the transaction, the KWESST options will be exchanged for options of the resulting issuer, which options shall have the same terms and conditions as the KWESST options. In addition, the resulting issuer will assume the AerialX performance share obligation.

A more comprehensive news release will be issued by Foremost disclosing details of the transaction, including financial information respecting KWESST, the names and backgrounds of all persons who will constitute insiders of Newco and information respecting sponsorship, once an agreement has been finalized and certain conditions have been met, including:

1. Approval of the transaction by Foremost's board of directors;
2. Satisfactory completion of due diligence;
3. Execution of the definitive agreement.

Shareholder approval is not required with respect to the transaction under the rules of the exchange because the transaction does not constitute a non-arm's-length qualifying transaction. However, the structure of the transaction has not yet been finalized, so shareholder approval under corporate law may be required. Trading in the common shares of Foremost has been halted and is not expected to resume trading until the transaction is completed or until the exchange receives the requisite documentation to resume trading.

Pursuant to an engagement letter between KWESST and PI Financial Corp. (“PI Financial”), KWESST has agreed to engage PI Financial in connection with KWESST's proposed private placement of subscription receipts at a price of 75 cents per subscription receipt to raise, on a commercially reasonable efforts basis, gross proceeds of \$3.5-million, with an option to place up to an additional 20 per cent of the number of subscription receipts issuable under the KWESST private placement for additional gross proceeds of up to \$700,000.

Each subscription receipt will be automatically converted, immediately before the completion of the transaction, into a KWESST share. In consideration of the services to be provided, KWESST will pay PI Financial a cash commission equal to 6 per cent of the gross proceeds of the KWESST private placement. KWESST will also issue such number of common share purchase warrants as is equal to 6 per cent of the aggregate number of subscription receipts issued in the KWESST private placement. Each broker's warrant will entitle PI Financial to purchase one KWESST share, at any time and from time to time, for a period of two years following the closing date at the issuance price. The brokers' warrants will be in form customary for transactions of this nature.

PI Financial will be paid a cash commission of 6 per cent and granted brokers' warrants for its services. The net proceeds of the KWESST private placement will be used for continued business development activities, development of product applications and general working capital, following completion of the transaction.

Completion of the transaction is subject to a number of conditions, including, but not limited to: execution of a binding definitive agreement relating to the transaction; exchange acceptance; and, if applicable, pursuant to exchange requirements, majority of the minority shareholder approval. Where applicable, the transaction cannot close until the required shareholder approval is obtained. There can be no assurance that the transaction will be completed as proposed or at all.

During the period ended May 31, 2020, the Company incurred deferred transaction costs of \$33,940.

RESULTS OF OPERATIONS

At May 31, 2020, the Company had no continuing source of operating revenues and related expenditures.

During the period ended May 31, 2020, the Company reported a net loss of \$11,553 compared to a net loss of \$2,915 for the period ended May 31, 2019. The increase in net loss is primarily attributable to timing of certain transfer agent and filing fees.

The Company has not paid any dividends on its common shares and has no present intention of paying dividends, as it anticipates that all available funds for the foreseeable future will be used to finance its business activities.

SUMMARY OF QUARTERLY FINANCIAL RESULTS

The following is a summary of selected financial information compiled from the quarterly interim financial statements ending May 31, 2020:

	Net loss for the period	Loss per share
August 31, 2018	\$35,117	\$0.01
November 30, 2018	\$484	\$0.00
February 28, 2019	\$23,367	\$0.04
May 31, 2019	\$2,915	\$0.00
August 31, 2019	\$9,674	\$0.00
November 30, 2019	\$17,013	\$0.01
February 29, 2020	\$24,171	\$0.02
May 31, 2020	\$11,553	\$0.01

Discussion

The variability of net loss during the four quarters for 2018 was mainly due to the increase in activity and services utilized in connection to the Company's completion of the prospectus and completion of the IPO; whereas, in the current quarters the activity related to the Company's efforts to complete a qualifying transaction.

Due to the limited historical activity in the Company, and its increase in activity in preparation of the prospectus, filing its IPO and completion of a qualifying transaction, no trends have been noted in reviewing the summary of selected financial information for the eight quarters ended May 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date through the issuance of common shares. The Company continues to seek capital through various means including the issuance of equity and/or debt.

In November 2017, the Company issued 2,000,000 common shares at \$0.05 per share for gross proceeds of \$100,000.

Upon the Company completion of the IPO financing, the common shares issued to the Company's founders (2,000,000) were subject to escrow and deposited with the trustee under the escrow agreement. Pursuant to the agreement, 10% of the escrowed common shares will be released from escrow on the issuance of the final Exchange bulletin on the closing of a QT and an additional 15% will be released every six months following the initial release over a period of thirty six months.

In June 2018, the Company completed its IPO financing, issuing 2,000,000 common shares at \$0.10 per share for total gross proceeds of \$200,000. The Company also issued non-transferrable agents warrants to purchase 200,000 common shares at a price of \$0.10, expiring February 23, 2020.

During the three months ended May 31, 2020, the Company issued 196,000 common shares on the exercise of warrants for gross proceeds of \$19,600.

The Company has working capital at May 31, 2020 of \$137,226 (February 28, 2020 - \$129,179).

There can be no assurance of successfully completing future financings or a Qualifying Transaction. The Company may need to raise further capital to continue operations and complete its Qualifying Transaction. Management is actively seeking such opportunities.

Stock options

In June 2018, the Company granted 400,000 stock options to its directors and officers to acquire 400,000 common shares at a price of \$0.10 per common share, exercisable for a period of 5 years from the date the common shares begin trading on the exchange.

Warrants & Agent's Warrants

In June 2018, in connection with the completion of the IPO financing, the Company issued non-transferrable agents warrants to acquire an aggregate of 200,000 common shares expiring 24 months from the date of issuance at an exercise price of \$0.10 per share.

RELATED PARTY TRANSACTIONS

During the period ended May 31, 2020, the Company did not incur transactions with directors and officers, or companies that are controlled by directors or officers of the Company.

FINANCIAL RISK MANAGEMENT

The Company is exposed to minimal 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 provided as follows:

Interest rate

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 as it does not have any assets or liabilities that are affected by changes in interest rates.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash on hand to meet its financial obligations.

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 exposure to credit risk is on its cash held in bank accounts. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to currency risk.

Capital Management

The Company's capital structure consists of cash and share capital. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to complete a Qualifying Transaction. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned activities and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management since inception. The Company is not subject to externally imposed capital requirements (Note 1 to the financial statements).

Classification of financial instruments

Fair values

The fair values of cash and accounts payable approximate their carrying values due to the short-term to maturities of these financial 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.

Cash is measured at fair value using level 1 input.

ADDITIONAL INFORMATION

Off-Balance Sheet Arrangements

As at May 31, 2020, and up to the current date, the Company had no off-balance sheet arrangements.

Legal proceedings

As at the current date management was not aware of any legal proceedings involving the Company.

Outstanding Share Data

As at May 31, 2020 and the date of this MDA, the Company has the following outstanding securities:

- 1) Common shares: 4,196,000
- 2) Warrants: 4,000 (agents warrants)
- 3) Stock options: 400,000

The outstanding agents warrants have an exercise price of \$0.10, with an expiry date on June 15, 2020. The stock options have an exercise price of \$0.10, with an expiry date on June 15, 2023.

Contingent liabilities

As at May 31, 2020 and up to the current date management was not aware of any outstanding contingent liabilities relating to the Company's activities.

Any forward-looking information in this MDA is based on the conclusions of management. The Company cautions that due to risks and uncertainties, actual events may differ materially from current expectations. With respect to the company's operations, actual events may differ from current expectations due to economic conditions, new opportunities, changing budget priorities of the company, and other factors.

CAPITAL DISCLOSURE

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the acquisition of a new business. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to acquire and sustain future development of a business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended May 31, 2020. The Company is not subject to externally imposed capital requirements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's financial statements and the other financial information included in this management report are the responsibility of the Company's management, and have been examined and approved by the Board of Directors. The financial statements were prepared by management in accordance with IFRS and include certain amounts based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

Management recognizes its responsibility for conducting the Company's affairs in a manner to comply with the requirements of applicable laws and established financial standards and principles, and for maintaining proper standards of conduct in its activities. The Board of Directors supervises the financial statements and other financial information through its audit committee, which is comprised of a majority of non-management directors.

This committee's role is to examine the financial statements and recommend that the Board of Directors approve them, to examine the internal control and information protection systems and all other matters relating to the Company's accounting and finances. In order to do so, the audit committee meets annually with the external auditors, with or without the Company's management, to review their respective audit plans and discuss the results of their examination. This committee is responsible for recommending the appointment of the external auditors or the renewal of their engagement.

DIRECTORS

Certain directors of the Company are also directors, officers and/or shareholders of other companies. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required to act in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any directors in a conflict will disclose their interests and abstain from voting in such matters. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.