FOUNTAIN ASSET CORP.
MANAGEMENT DISCUSSION & ANALYSIS
For the Six Months Ended June 30, 2018

*The following discussion of performance, financial condition and future prospects should be read in conjunction with the unaudited condensed interim consolidated financial statements of Fountain Asset Corp. ("**Fountain Asset**" or the "**Company**") and notes thereto for the six months ended June 30, 2018 which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). This management discussion and analysis ("**MD&A**") covers the last completed fiscal quarter and is dated as of August 28, 2018. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated. Readers are encouraged to read Fountain Asset's public information filings on SEDAR at www.sedar.com. The Company's shares are listed on the TSX Venture Exchange ("**TSX-V**") under the symbol "FA".*

FORWARD-LOOKING STATEMENTS

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to possible events, conditions or results of operations of the Company, which are based on assumptions about future economic conditions and courses of action and which are inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "target", "intend", "could", "might", "should", "believe", and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, statements with respect to the Company's investment approach, objectives and strategy, including its focus on specific sectors; the structuring of its investments and its plans to manage its investments; the Company's financial performance; and its expectations regarding the performance of certain sectors.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in forward-looking information contained in this MD&A include, but are not limited to: the nature of the Company's investments; the available opportunities and competition for its investments; the concentration of its investments in certain industries and sectors; the Company's dependence on its manager and management team; risks affecting the Company's investments; global political and economic conditions; investments by the Company in private issuers which have illiquid securities; management of the growth of the Company; exchange rate fluctuations; and other risks and factors discussed in this MD&A under "Risk Factors".

Although the Company has attempted to identify important factors that could cause actual events or results to differ materially from those described in forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. Readers are cautioned that the foregoing list of risks and factors is not exhaustive. The forward-looking information contained in this MD&A is provided as at the date of this MD&A, based upon the opinions and estimates of management and information available to management as at the date of this MD&A, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A.

NON-IFRS MEASURES

Throughout this MD&A, management uses terms which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other issuers; therefore, a description has been provided in the MD&A.

These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. Management believes that some non-IFRS measures are useful for investors to use to evaluate the performance of the Company without certain IFRS requirements. Specifically, management has included adjusted net asset value as a non-IFRS measure.

DESCRIPTION OF BUSINESS

Fountain Asset is a merchant bank which provides a range of merchant banking services to small and mid-size companies in North America in both the public and private markets. These services can include equity financing, asset-based lending, mergers and acquisitions advisory, operational management support and facilitating various debt and equity financing structures.

Fountain Asset takes a disciplined and systematic approach to investment and is guided by four core principles:

1. Deploying capital in private and public late stage, growth-oriented companies,
2. Creating shareholder value,
3. Generating profits through a combination of rising portfolio value and consistent income from debt transactions, and
4. Managing the overall risk framework of the Company.

Launched in 2003, Fountain Asset has invested in over 100+ companies providing bespoken capital solutions. The Company is not committed on any particular industry sector but rather is opportunistically focused on various industries such as oil and gas, gaming, manufacturing, retail, financial services, technology, cryptocurrency, marijuana and biotechnology. Fountain Asset invests in companies with proven products, market penetration and strong management teams that do not fit the investment criteria of the typical venture capital funds, traditional secured lenders or are too small for the private equity funds.

The Company’s target investment profile includes:

- Private companies that have a reasonably demonstrated IPO plan so Fountain Asset can leverage “private to public value arbitrage”.
- Early stage public companies that need to raise funds via PIPE or secondary deals.
- Selling shareholders that seek to divest significant stakes in companies that can be purchased at a discount.
- Companies with sustainable, growing revenues with existing, or near term, profitability.
- All investments are required to have a path to liquidity.

STATUS AS AN INVESTMENT ENTITY

The following are the criteria within IFRS 10, Consolidated Financial Statements, which the Company used to evaluate and determine that it meets the definition of an Investment Entity.

a) Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services.

b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.

c) Measures and evaluates the performance of substantially all its investments on a fair value basis.

The Company has evaluated the above criteria and determined that it meets the definition of an Investment Entity, and thus measures its investments at fair value.

2nd QUARTER 2018 REVIEW AND RESULTS OF OPERATIONS

Selected Information:

For the six months ended		June 30, 2018		June 30, 2017
Total revenue	$	3,184,647	$	559,116
Operating expenses		479,890		626,042
Stock based compensation		130,083		88,970
Net write-offs and impairments		-		-
Net comprehensive income (loss)		2,574,674		(155,896)
Net income (loss) per share, basic and diluted		0.04		Nil

For the three months ended		June 30, 2018		June 30, 2017
Total revenue	$	4,574,884	$	(439,471)
Operating expenses		253,532		333,644
Stock based compensation		130,083		88,970
Net write-offs and impairments		-		-
Net comprehensive income (loss)		4,191,269		(862,085)
Net income (loss) per share, basic and diluted		0.07		(0.02)

As at period ended		June 30, 2018		December 31, 2017
Total assets	$	27,762,466	$	23,418,889
Total liabilities		77,236		475,983
Net asset value		27,685,230		22,942,906
Shares outstanding diluted weighted average (1)		57,960,508		54,268,243
Net asset value per share	$	0.48	$	0.42
Adjusted net asset value (2)		30,585,230		25,542,906
Adjusted net asset value per share	$	0.53	$	0.47

(1) Net comprehensive income (loss) per share has been calculated using the weighted average number of multiple and subordinate voting shares outstanding during each period. Diluted income per share is calculated in a similar manner, except that the weighted average number of multiple and subordinate voting shares outstanding is increased to include potentially issuable subordinate voting shares from the assumed exercise of stock options, if dilutive; and

(2) Adjusted net asset value as at June 30, 2018 reflects the net asset value plus $2,900,000 of tax loss pools available (December 31, 2017 - $2,600,000).

Revenue

For the six months ended June 30, 2018, the Company had revenues of $3,184,647 compared to revenues of $559,116 in the prior period. Realized gains on portfolio investments during the six months ended June 30, 2018 were $6,498,290 (six months ended June 30, 2017 – $139,828) primarily from sale of The Hydropothecary Corp., Nuuvera Corp., Advantage Oil Corp., Vogogo Inc. and CryptoGlobal Inc., which in aggregate amounted to a 136% return on investment. Structuring fees, interest, dividend income and consulting fees were $258,093 for the current period (2017 – $735,350), and there were $3,571,736 in unrealized losses on portfolio investments (2017 – $316,062). Unrealized losses for the period were predominately attributable to positions held in Vogogo Inc., Spectra7 Microsystems Inc., and Breaking Data Corp.

For the three months ended June 30, 2018, the Company had revenues of $4,574,884 compared to losses of $439,471 in the prior period. Realized gains on portfolio investments during the three months ended June 30, 2018 were $2,049,291 (three months ended June 30, 2017 – $143,536) primarily from sale of The Hydropothecary Corp. and Vogogo Inc., which in aggregate amounted to a 75% return on investment. Structuring fees, interest, dividend income and consulting fees were $179,820 for the current period (2017 – $472,243), and there were $2,345,773 in unrealized gains on portfolio investments (2017 – unrealized losses of $1,055,250). Unrealized gains for the period were predominately attributable to positions held in Tidal Royalty Corp., Canopy Rivers Corp., and Cool Holdings Inc.

Expenses

For the six months ended June 30, 2018, the Company reported total expenses of $609,973 compared to $715,012 in the prior period. Included in reported total expenses for the current period was stock-based compensation of $130,083 (2017 - $88,970) as the Company issued and vested stock options during the period. After deducting stock-based compensation for the period, expenses for the six months ended June 30, 2018 of $479,890 were lower than expenses of the comparative period of $626,042 due to the previous period containing elevated salaries, consulting fees and general and administrative costs under previous management. The foreign exchange gain for the period was a result of the impact of the US exchange rate on the Company's US denominated investments. Commissions incurred on the trading activity during the period amounted to $42,304 and have been separately disclosed on the income statement.

For the three months ended June 30, 2018, the Company reported total expenses of $383,615 compared to $422,614 in the prior period. Included in reported total expenses for the current period was stock-based compensation of $130,083 (2017 - $88,970) as the Company issued and vested stock options during the period. After deducting stock-based compensation for the period, expenses for the three months ended June 30, 2018 of $253,532 were lower than expenses of the comparative period of $333,644 due to the previous period containing elevated salaries, consulting fees and general and administrative costs under previous management. Audit and legal fees were increased for the current three months period due to increased audit fees regarding the Company's most recent year end as well as ongoing legal work regarding the Company's litigation with First Global Data. The foreign exchange gain for the period was a result of the impact of the US exchange rate on the Company's US denominated investments. Commissions incurred on the trading activity during the period amounted to $42,304 and have been separately disclosed on the income statement.

Net Assets

Total net assets rose by $4,742,324 (or approximately 21%) as at June 30, 2018 ($27,685,230) compared to December 31, 2017 ($22,942,906). The increase in net assets was primarily attributable to a private placement financing of $2,025,000 in February 2018, net realized gains on portfolio investments of $6,498,290, and offset by unrealized losses on portfolio investments of $3,571,736. The Company continues to strive to strengthen its asset portfolio with private entities whose goal is to move to public exchanges. As at June 30, 2018, the Company's adjusted net assets were valued at $30,585,230 or $0.53 per share, compared to $25,542,906 or $0.47 per share as at December 31, 2017. Adjusted net assets reflects net asset value plus $2,900,000, which is reflective of the Company's $11,100,000 tax loss pool multiplied by the applicable corporate income tax rate of 26.5%.

The net proceeds from the February 2018 private placement are to be used to finance Fountain's merchant banking activities, including investing in public and private companies in the form of common equity, preferred shares, convertible debentures and secured bridge loans.

SUMMARY OF QUARTERLY RESULTS

Net comprehensive income for the six months ended June 30, 2018 included net realized gains on investments of $6,498,290 and which amounted to an average crystalized return on investment of 136%. There was significant activity in the Company's portfolio during the six month period with several new investments, namely Breaking Data Corp., Canopy Rivers Corp., Clear Blue Technologies Inc., Fire Cannabis Inc., Globalive Technology Inc., Khiron Life Sciences Corp., Liberty Health Sciences Inc., and Scythian Biosciences Corp.

For the quarters ended		2018 Q2		2018 Q1		2017 Q4		2017 Q3
Total revenue (losses)	$	4,574,884	$	(1,390,237)	$	3,620,010	$	879,641
Total expenses, not including write-offs, impairments	$	383,615	$	226,358	$	670,497	$	400,323
Investment write-offs and impairments	$	-	$	-	$	77,650	$	-
Net comprehensive income (loss) for the quarter	$	4,191,269	$	(1,616,595)	$	4,626,127	$	387,830
Net income (loss) share, weighted avg., fully diluted	$	0.07	$	(0.03)	$	0.05	$	0.01

For the quarters ended		2017 Q2		2017 Q1		2016 Q4		2016 Q3
Total revenue	$	(439,472)	$	998,587	$	64,443	$	818,497
Total expenses, not including write-offs, impairments	$	422,613	$	292,398	$	413,176	$	267,452
Investment write-offs and impairments	$	-	$	-	$	-	$	-
Net comprehensive income (loss) for the quarter	$	84,712	$	3,028,845	$	867,611	$	551,045
Net income (loss) share, weighted avg., fully diluted	$	(0.02)	$	0.01	$	0.02	$	0.01

(1) Net comprehensive income (loss) per share has been calculated using the weighted average number of multiple and subordinate voting shares outstanding during each period. Diluted income per share is calculated in a similar manner, except that the weighted average number of multiple and subordinate voting shares outstanding is increased to include potentially issuable subordinate voting shares from the assumed exercise of stock options, if dilutive.

ISSUERS WITH U.S. CANNABIS-RELATED ACTIVITIES

The Company's overall investment strategy is to focus on creating shareholder value by offering various debt and/or equity financing solutions to small and mid-sized companies in North America in both the public and private markets, across many industries such as oil and gas, mining, manufacturing, retail, financial services, technology, cryptocurrency, marijuana, and biotechnology. As a result, the Company may from time to time invest in companies that carry on, directly or indirectly, marijuana/cannabis businesses or related businesses in the United States.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities (the "**Staff Notice**"), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. marijuana industry; (ii) disclosure that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk; (iii) related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

At this time, the Company's involvement in the U.S. cannabis industry is very limited. The Company can be considered to have "indirect" involvement in cannabis activities under the Staff Notice through its investment in Liberty Health Sciences Inc. ("**Liberty**"), a cultivator and seller of medical marijuana in the United States. The Company also has investments in four other entities that have businesses, directly or indirectly, involved in the U.S. cannabis industry (Liberty and these four businesses are referred to herein as the "**Investees**"). The Company does not operate, nor control any subsidiary that is directly engaged, in the cultivation or distribution of marijuana in accordance with a U.S. state license. The Company is subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

Compliance with Applicable State Laws in the United States

The Company has not obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from U.S. federal laws as they relate to the cannabis industry. For each of the Investees involved in the U.S. cannabis industry listed in the summary of investments set out below, to the best of the Company's knowledge, the Company is not aware of any non-compliance with applicable licensing

requirements and the regulatory framework enacted by the applicable U.S. state for any of such Investees' business and the Company is not aware of: (i) any non-compliance by these Investees with respect to marijuana-related activities or (ii) any notices of violation with respect to any Investees' marijuana-related activities by its respective regulatory authorities. This belief is based primarily on the public disclosure provided by the Investees as the Company does not generally have access to material non-public information from such Investees, particularly where the Investees are publicly traded companies. Four of the five Investees (Liberty, Tidal Royalty Corp. ("**Tidal**"), ALQ Gold Corp. ("**ALQ**") and Captor Capital Corp. ("**Captor**")) are publicly traded companies in Canada, and disclosure on the U.S. laws, risks and uncertainties applicable to such Investees may be found in each Investee's disclosure documents which are publicly available on SEDAR at www.sedar.com. Shareholders are encouraged to review such disclosure.

Nature of Investments with U.S. Cannabis-Related Activities

Liberty Health Sciences Inc. (Florida, Massachusetts, Arizona and Ohio)

The Company holds 432,250 shares of Liberty, which represents 0.13% of the issued and outstanding shares of Liberty as at June 30, 2018. The Company acquired 360,000 shares of Liberty on February 22, 2018 at a subscription price of $687,600 and 222,250 shares and 222,250 warrants of Liberty on May 9, 2018 at an aggregate subscription price of $200,025. The Company sold 150,000 of the shares of Liberty it held prior to June 30, 2018. The Company's investment in Liberty is non-material and represents 1.77% of the Company's total investment portfolio as at June 30, 2018. It is believed that Liberty is a cultivator and seller of medical marijuana in the States of Florida, Massachusetts, Arizona and Ohio. Liberty is listed on the Canadian Securities Exchange (the "**CSE**").

The net realized loss on the disposal of the Liberty shares in the six month period ended June 30, 2018 was $81,544. The net changes in unrealized losses on the Company's investment in Liberty as at June 30, 2018 was $183,289 (unrealized loss of $196,081 on the shares, unrealized gain of $12,792 on the warrants).

Fire Cannabis Inc. (doing business as SLANG Worldwide) (Colorado)

The Company holds less than 1% of the issued and outstanding shares of Fire Cannabis Inc. (doing business as SLANG Worldwide) ("**Slang**") as at June 30, 2018, which were acquired at an aggregate price of $399,750. The Company's investment in Slang is non-material and represents 1.44% of the Company's total investment portfolio as at June 30, 2018. It is believed that Slang currently has real estate in the State of Colorado which is leased to a cultivator and has entered into letters of intents with third parties to acquire and develop cannabis brands.

Tidal Royalty Corp. (Massachusetts, California and Nevada)

The Company holds less than 1.11% of the issued and outstanding shares of Tidal as at June 30, 2018, which were acquired, together with warrants, at an aggregate price of under $545,000. The Company's investment in Tidal can be considered material as it represents 10.95% of the Company's total investment portfolio as at June 30, 2018. Tidal is a CSE-listed royalty company. It is believed that Tidal finances cultivation companies, and currently has three letters of intents with licensed operators in the States of Massachusetts, California and Nevada.

ALQ Gold Corp. (Nevada)

The Company holds less than 1% of the issued and outstanding shares of ALQ as at June 30, 2018, which were acquired, together with warrants, at an aggregate price of $190,000. The Company's investment in ALQ is non-material and represents 0.79% of the Company's total investment portfolio as at June 30, 2018. ALQ is a CSE-listed company that is currently halted from trading. ALQ has publicly disclosed that it is pursuing a change of business from a mineral resource exploration company to an investment company focused in the cannabis sector, and currently holds an investment in Tahoe Hydro Co., a cultivator in Nevada.

Captor Capital Corp. (Washington and California)

The Company holds less than 1% of the issued and outstanding shares of Captor as at June 30, 2018, which were acquired, together with warrants, at an aggregate price of $200,000. The Company's investment in Captor is non-

material and represents 0.99% of the Company's total investment portfolio as at June 30, 2018. It is believed that Captor is a merchant bank with controlling interests in two dispensaries in the States of Washington and California, both branded as MedMen stores and operated and managed by MedMen, and is in the process of sub-leasing two cultivation facilities in the State of Washington through its wholly-owned subsidiary. Captor is listed on the CSE.

As at June 30, 2018, the Company held the following investments in the cannabis sector in the U.S.:

Investee	Investment relationship	Jurisdiction	Industry involvement	Investment type	Cost ($)	Fair value ($)	Company's ownership %
Liberty	Publicly-listed	Florida Massachusetts Arizona Ohio	Indirect[1]	Shares	$611,041	$414,960	Under 1%
				Warrants	$64,539	$77,332	
Slang	Private	Colorado	N/A	Shares	$399,750	$399,750	Under 1%
Tidal	Publicly-listed	Massachusetts California Nevada	N/A	Shares	$529,639	$2,205,640	Under 1.11%
				Warrants	$15,361	$835,013	
ALQ	Publicly-listed	Nevada	N/A	Shares	$176,447	$209,000	Under 1%
				Warrants	$13,553	$11,092	
Captor	Publicly-listed	Washington California	N/A	Shares	$163,832	$225,000	Under 1%
				Warrants	$36,268	$49,388	

As at December 31, 2017, the Company did not hold any investments in the cannabis sector in the U.S.

United States Federal Overview

It is believed that in the United States, twenty-nine (29) states, Washington D.C. and Puerto Rico have legalized medical marijuana, and nine states and Washington D.C. have legalized recreational marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the Controlled Substances Act of 1970 (the "**CSA**"). Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis related practices or activities including, without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice (the "**DOJ**") issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses.

However, on January 4, 2018, the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

[1] Under the Staff Notice, this refers to a non-controlling interest in an entity that is a cultivator or distributor of cannabis.

In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "**USAM**"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence.

It is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum. While initial fears of a nationwide "crackdown" have not yet materialized, considerable uncertainty remains.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a "suspicious activity report" ("**SAR**") as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memorandum**") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company's existing investments in the Investees with operations or investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Investees and therefore the Company.

U.S. Enforcement Proceedings

Although the Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (formerly referred to as the "Rohrabacher-Farr Amendment" and, currently, the "**Leahy Amendment**") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the fiscal year 2018 budget passed on March 23, 2018, meaning that, the Leahy Amendment is still in effect as of today's date and will remain in effect until September 30, 2018, when fiscal year 2019 begins.

State Level Overview

An overview of regulatory conditions for the marijuana industry in the states in which Liberty has an operating presence can be found in the management's discussion and analysis of Liberty for the three month period ended May 31, 2018, dated July 25, 2018 (the "**Liberty MD&A**"), which is publicly available on SEDAR at www.sedar.com. Specifically, shareholders are directed to the disclosure on pages 12 to 26 of the Liberty MD&A as well as the risk factors outlined on pages 26 to 31 of the Liberty MD&A. Although the Company has no knowledge that would indicate that any of such disclosure is untrue, incomplete or otherwise misleading, neither the Company nor any of its directors or officers assumes any responsibility for any failure by Liberty to ensure the significance or accuracy of such disclosure.

TSXV Requirements

On October 16, 2017, the TSXV issued a bulletin noting that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the TSXV's listing requirements (the "**Requirements**"). These business activities may include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSXV reminded issuers that, among other things, should the TSXV find that a listed issuer is engaging in activities contrary to the Requirements, the TSXV has the discretion to initiate a delisting review. In order to comply with the Requirements, the Company may be required to reorganize, restructure or divest its investment in Liberty.

LIQUIDITY AND CAPITAL RESOURCES

In managements' opinion, the Company has sufficient resources to meet its current cash flow requirements based on the following:

		June 30, 2018		December 31, 2017
Cash	$	1,855,137	$	1,298,522
Short term investments		40,000		40,000
Accounts receivable and sundry assets		539,980		428,898
Investments in public companies		16,469,419		14,966,129
Loans and convertible debentures due within one year		950,226		408,591
Total liquid assets	$	19,854,762	$	17,142,140
Accounts payable and accrued liabilities	$	77,236	$	145,983
Syndicated loans		-		330,000
Total short term liabilities	$	77,236	$	475,983

As of June 30, 2018, Fountain had working capital of $19,700,290 million, which increased from $16,666,157 million at December 31, 2017. The primary reason for the increase in working capital for the current six month period is due to the net realized gains on portfolio investments of $6,498,290 offset by unrealized losses on portfolio investments of $3,571,736 and operating cash expenses of $479,890 (expenses of $609,973 less stock based compensation of $130,083). This accounts for the primary variance of the increase of working capital during the period. On average, Fountain anticipates working capital requirements of approximately $0.1 million per month to cover operating expenses for Fountain on a go-forward basis.

Fountain frequently invests in small market capitalization (or junior) companies. Due to the somewhat limited size of the public float of such companies and/or any substantial decline in the price of the securities thereof, which can persist for a significant period of time, the liquidity of such securities could be impaired from time to time.

In managements' opinion, the Company has sufficient resources to meet its current cash flow requirements. The Company's accounts payable and accrued liabilities all have contractual maturities of less than 30 days and are subject to normal trade terms.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Company's short-term requirements, as well as ongoing operations.

The Company's primary use of cash is to make investments and to pay for operating expenses. The Company believes that it will be able to generate sufficient capital to support the Company's operations in the long-term. Nonetheless, the Company may procure debt or equity financing from time to time to fund its operations.

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

RELATED PARTY TRANSACTIONS

Transactions for the six months ended June 30, 2018 are disclosed and explained in note 13 to the unaudited consolidated financial statements for the six months ended June 30, 2018, which accompanies this MD&A.

Related party transactions occur during the normal course of Company operations and have been recorded at the exchange amounts established and agreed to by the related parties.

Related party	Interest and Consulting Income For the six months ending Jun. 30, 2018	2017	Amounts Receivable June 30, 2018	December 31, 2017	Investment June 30, 2018	December 31, 2017
Cool Holdings Inc.	-	-	-	-	242,393	-
Liberty Health Sciences Inc.	-	-	-	-	675,581	-
Molecular Science Corp.	-	-	-	-	-	250,000
Somersby Park 2010 Limited Partnership	-	266,522	371,844	316,505	826,094	810,784
Sweet Natural Trading Co. Ltd.	65,830	-	71,116	39,110	936,859	1,161,126

During the six months ended June 30, 2018, the Company paid financial consulting fees of $10,000 (six months ended June 30, 2017 - $nil) to 2245448 Ontario Inc., a company controlled by Michael Leskovec, the Chief Financial Officer of the Company. At June 30, 2018, the balance owed was $nil (December 31, 2017 - $nil).

The Company often receives the right to nominate a member to the Board of Directors of companies to which it provides an investment. The nominees may be of the Company, and accordingly, the investee company may become related to the Company. The table below identifies where an employee, officer or director of the Company held a position with an investee company.

Investment	Ownership	Officer/Director Name	Postion held
Cool Holdings Inc.	<10%	Michael Galloro	Director
Foothills Developments Inc.	100%	Andrew Parks	Officer
Liberty Health Sciences Inc.	<10%	Michael Galloro	Director
Molecular Science Corp.	<10%	Cesare Fazari	Director
Newborn Realty Corporation	100%	Andrew Parks	Officer
Somersby Park 2010 Limited Partnership	73%	Andrew Parks	Officer
Sweet Natural Trading Co. [(1)]	<10%	Roger Daher	Director

(1) In April 2018, Roger Daher, a director of the Company, resigned from his position with Sweet Natural Trading Co.

COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key management personnel of the Company for the three and six months ended June 30, 2018 and 2017 was as follows:

	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Salaries	$ 85,833	$ 111,500	$ 193,833	$ 195,500
Stock based compensation expense	130,083	88,970	130,083	88,970
	$ 215,916	$ 200,470	$ 323,916	$ 284,470

CRITICAL ACCOUNTING ESTIMATES

The preparation of the unaudited condensed interim 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 unaudited condensed interim consolidated financial statements and the reported amount of revenues and expenses during the year. Financial statement items subject to significant management judgment and estimates include:

- Determination of investment entity status – Management exercises judgment in applying criteria in IFRS 10.
- Impairment of assets and provision for loans, notes and convertible debentures receivable losses – Management exercises judgment to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from amounts receivable.

- Valuation of deferred income tax assets – The valuation of deferred income tax assets requires judgment on their recoverability. Such judgments are made based on management's estimate on the timing and amount of the Company's future taxable earnings.
- Valuation methodology of level 2 and level 3 investments. Refer to note 9 for more details.

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

CHANGES IN ACCOUNTING POLICIES

The following pronouncements issued by the IASB and interpretations published by IFRIC will become effective for annual periods beginning on or after the dates detailed below, with earlier adoption permitted. The Company is currently assessing the impact of the adoption of these new standards and interpretations.

Pronouncements effective for annual periods beginning on or after June 30, 2018:

- IFRS 15 - Revenue from Contracts with Customers – The IASB issued IFRS 15 Revenue from Contracts with Customers and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. IFRS 15 excludes from its scope revenue related to financial instruments. As a result, the adoption of IFRS 15 did not have a material impact on the condensed interim consolidated financial statements; and

- IFRS 9 - Financial Instruments - The IASB issued IFRS 9 in October 2010 and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for the application of IFRS 9 is January 1, 2018.

As a result of adoption of IFRS 9, the Company's Investments – Available for Sale have been classified as financial assets measured at FVTPL as it better aligns with management and users information needs as the company is assessed based on the performance of all of its investments and thus measurement through net income is more appropriate. The application of IFRS 9 has decreased the deficit at January 1, 2018 by $6,315,241 and reduced accumulated other comprehensive income by the same amount. There is no other change in the recognition, measurement or classification of its remaining financial assets and liabilities as a result of adopting this standard nor is there any impact on its credit risk assessments as a result of adopting this standard, given the nature of its debt investments.

Below is a summary of the Company's classification and measurements of financial assets and liabilities transitioning from IAS 39 to IFRS 9:

	IFRS 9		IAS 39	
	Classification	**Measurement**	**Classification**	**Measurement**
Cash	FVTPL	Fair Value	FVTPL	Fair Value
Amounts receivable and sundry asset	Loans and receivables	Amortized cost	Loans and receivables	Amortized cost
Loans and convertible debentures – amortized cost	FVTPL	Fair Value	Loans and receivables	Amortized cost
Loans and convertible debentures – FVTPL	FVTPL	Fair Value	FVTPL	Fair Value
Investments – FVTPL	FVTPL	Fair Value	FVTPL	Fair Value
Investments – available for sale	FVTPL	Fair Value	Available for sale	Fair Value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	Other liabilities	Amortized cost
Syndicated loans	Other liabilities	Amortized cost	Other liabilities	Amortized cost

FUTURE ACCOUNTING CHANGES

Pronouncements effective for annual periods beginning on or after January 1, 2019:

IFRS 16, Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The effective date for IFRS 16 is January 1 2019. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than those subject to the two exceptions listed below, will be recorded in the Statement of Financial Position with a "right of use" asset and a corresponding lease liability. This will impact the timing and classification related expenses, as lease costs will now be reflected in the depreciation of the right of use asset and interest on the lease liability. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases.

MANAGEMENT OF FINANCIAL RISK AND SENSITIVITY ANALYSIS

The primary goals of the Company's risk management programs are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance. The Company's investment strategy requires a level of risk in exchange for an above average return on investment. The Company plans to maintain an appropriate risk and reward balance while protecting the Company's financial operations from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk tolerance with the Company's business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventative controls and transferring risk to third parties.

The success of the Company is dependent upon its ability to assess and manage all forms of risk that affect its operations. The Company 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 Board of Directors. The 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 Company's most prominent risks follows.

The investment operations of the Company's business involve the purchase and sale of securities and, accordingly, the majority of the Company's assets are currently comprised of financial instruments. The use of financial instruments can expose the Company to several risks, including liquidity, market and interest risks. A discussion of the Company's use of financial instruments and their associated risks is provided below. There has been no change to the Company's risk management policies or processes during the period.

Liquidity Risk

Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company, or if the value of the Company's investments declines, resulting in losses upon disposition. The Company generates cash flow primarily from its operational activities and the proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The Company has sufficient investments which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies.

The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Company's short term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Company's operations in the long term. However, the Company may procure debt or equity financing from time to time to fund its operations.

Market Risk

The Company is exposed to certain market risk that the value of, or future cash flows from, the Company'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. The Company is exposed to market risk in trading its investments, and unfavorable market conditions could result in dispositions of investments at less than favorable prices. Additionally, the Company 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 the Company's investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on the Company's financial position. The Company manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers. The Board monitors changes in the market on an ongoing basis and adjusts the Company's lending and investing practices and policies when necessary to reduce the impact of the above risks.

The Company's investments include publicly listed entities that are listed on a Canadian stock exchange. Changes in the fair value of investments designated as fair value through profit and loss are reported in the statement of comprehensive income.

The following table shows the estimated sensitivity on the statement of comprehensive income for the six months ended June 30, 2018 from a change in closing price of the Company's publicly listed investments, not including share purchase warrants and options (refer to note 9 for sensitivity of warrant and option inputs), of $12,705,583 with all other variables held constant as at June 30, 2018:

Percentage of Change in Closing Prices	**Change in comprehensive income from % increase in closing price**	**Change in comprehensive income from % decrease in closing price**
5%	$ 635,279	$ (635,279)
10%	$ 1,270,558	$ (1,270,558)

Interest rate risk

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in value of financial instruments whose cash flows are fixed in nature.

As at June 30, 2018, the Company holds fixed rate debt instruments of $2,625,585 (December 31, 2017 $2,171,933) in convertible debentures with a weighted average interest rate of 11.9% (December 31, 2017 – 13.6%) and a weighted average term to maturity of approximately 1.7 years (December 31, 2017 – 2.0 years).

Should market interest rates rise, then the fair value of these convertible debentures and term debt may decrease. Conversely, should market interest rates fall, the fair value of these assets may increase. The effect of changes in interest rates on the fair value of these debt instruments is partially muted by the nature of the investments. Convertible debentures placed in early stage investees are typically less sensitive to changes in market interest rates than non-convertible debt instruments placed in more mature investees. Additionally, the economic exposure to interest rate risk is mitigated by the Company's intention to either convert the debentures into the related underlying equities or, in the case of nonconvertible debentures, to hold the instrument until maturity.

As at June 30, 2018, if interest rates were higher by 1% per annum, the potential effect to the Company would be an increase in net income of approximately $26,000 (December 31, 2017 – $15,000).

Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions. Senior management is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- obtaining collateral guarantees;
- the investigation of the creditworthiness of all borrowers;
- the engagement of qualified independent consultants such as lawyers and real estate appraisers, to whom management may reach for professional advice.
- the segregation of duties to ensure that qualified staff are satisfied with all due diligence requirements prior to funding; and
- the prompt initiation of recovery procedures on overdue loans.

As at June 30, 2018, gross accounts receivable of $73,491 and $32,920 of loans and convertible debentures were past due and not impaired (December 31, 2017 $51,379).

		June 30, 2018		December 31, 2017
Amounts receivable, excluding HST	$	536,647	$	407,530
Loans and convertible debentures		3,136,486		4,828,512
Total Credit Exposure	$	3,673,133	$	5,236,043

Currency Risk

Foreign exchange risk exposures arise from transactions and balances denominated in foreign currencies. The Company's foreign currency risk arises primarily with respect to the United States dollar. Fluctuations in the exchange rates between the United States dollar and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

The Company has cash and cash equivalents, certain receivables, convertible debentures and investments in companies denominated in a foreign currency. For the six months ended June 30, 2018 management estimates that if the United States dollar had strengthened or weakened by 10% against the Canadian dollar, assuming all

other variables remained constant, net loss for the period would have increased or decreased by approximately $252,928 (December 31, 2017 - $191,503).

OUTSTANDING SHARE DATA

Shares issued and outstanding:	June 30, 2018		December 31, 2017	
	No. of shares	Amount	No. of shares	Amount
Multiple voting shares	94,390	$172,118	304,662	$555,543
Subordinate voting shares	58,800,072	28,998,190	53,974,800	26,577,198
	58,894,462	$29,170,308	54,279,462	$27,132,741

	Multi-Voting Shares
Common shares outstanding – December 31, 2017	**304,662**
MVS converted to SVS shares on a 1:1 basis	(210,272)
Common shares outstanding – June 30, 2018	**94,390**

	Subordinate Voting Shares
Common shares outstanding – December 31, 2017	**53,974,800**
Issuance of common shares on private placement	4,500,000
MVS converted to SVS shares on a 1:1 basis	210,272
Issuance of common shares on exercise of stock options	115,000
Common shares outstanding – June 30, 2018	**58,800,072**

During the year 210,272 ($383,425) MVS shares were converted on a 1 for 1 basis to SVS shares.

On February 22, 2018, the Company completed a non-brokered private placement financing of 4,500,000 subordinate SVS shares at a price of $0.45 per share for aggregate gross proceeds of $2,025,000. Share issue costs of the transaction amounted to $10,433. Also, during the six months ended June 30, 2018, the Company issued 115,000 subordinate voting shares to a director who exercised his stock options for gross proceeds of $23,000.

During the six months ended June 30, 2018, 115,000 stock options were exercised and 875,000 expired unexercised. The following stock options remained outstanding at June 30, 2018:

Grant date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining life (Years)
June 5, 2014	230,000	230,000	$0.40	0.9
January 23, 2017[(1)]	450,000	450,000	$0.30	3.6
November 8, 2017	1,100,000	366,666	$0.3625	4.4
June 4, 2018	1,025,000	341,667	$0.455	4.9
	2,805,000	1,388,333	$0.39	4.2

(1) Subsequent to period end, 100,000 stock options were exercised.

OTHER INFORMATION

Internal Control Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Financial Officer, internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There has been no change in internal control procedures during the six months ended June 30, 2018 that would materially affect, or reasonably likely to materially affect, the internal control over financial reporting.

Limitations of Controls and Procedures

The Chief Executive Officer and Chief Financial Officer believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

RISK FACTORS

Risks related to the U.S. regulatory environment

The Company has made investments in entities operating in a highly regulated industry which is rapidly evolving. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

Certain Investees incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of an Investee and may negatively affect the performance of the Company's investment portfolio.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of Investees and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce an Investee's earnings and could make future capital investments or its operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

The Company is expected to have a portion of its revenues derived from its investments in Investees that are engaged, either directly or indirectly, in the cannabis industry in certain states of the U.S., which industry is illegal under U.S. federal law. Fountain Asset is indirectly involved in marijuana-related activities in the U.S. through its investment in Liberty, which is engage in the cultivation or distribution of marijuana in the U.S. The enforcement of relevant laws is a significant risk.

Over half of the states in the U.S. have enacted legislation to regulate the sale and use of medical marijuana without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical marijuana with strict limits on the levels of THC. Other U.S. states had also legalized cannabis for adult use. Notwithstanding the permissive regulatory environment of medical or adult-use marijuana at the state level, marijuana continues to be categorized as a Schedule 1 controlled substance under the CSA. As such, marijuana-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution, are illegal under U.S. federal law. Strict compliance with state laws with respect to marijuana will not absolve the Investees of liability under U.S. federal law, nor will it provide a defense to any

federal proceeding which may be brought against them. Any such proceedings brought against the Investees may adversely affect the Company's financial performance.

Because of the conflicting views between state legislatures and the federal government of the U.S. regarding marijuana, investments in marijuana businesses in the U.S. are subject to inconsistent legislation, regulation, and enforcement. Unless and until the U.S. Congress amends the CSA with respect to marijuana or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which may adversely affect certain current and future investments of the Company in the U.S. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the U.S.

Regulatory changes and compliance

The activities of the Investees are in many cases subject to regulation by governmental authorities. The Company cannot predict the time required for certain of its Investees to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on these Investees' business and results of operations, which may negatively affect the performance of the Company's investment portfolio.

Certain Investees' operations may be subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Investees' operations. Changes to such laws, regulations and guidelines due to matters beyond the control of the Investees may cause adverse effects to the Company's operations.

Local, state and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require certain Investees to incur substantial costs associated with bringing the operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt certain Investees' operations and result in a material adverse effect on financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's investment portfolio.

U.S. federal laws on marijuana industry

Marijuana is illegal under US federal laws and enforcement of relevant laws is a significant risk. Therefore, the business operations of certain Investees are dependent on U.S. state laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of marijuana, which would negatively impact the return on the Company's investment portfolio.

The concepts of "medical marijuana" and "retail marijuana" do not exist under U.S. federal law. The CSA classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under U.S. federal law. Strict compliance with state laws with respect to marijuana will neither absolve Investees of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against Investees.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture.

There are risks associated with removal of U.S. federal budget rider protections

The U.S. Congress has passed the Leahy Amendment each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The Leahy Amendment will continue in effect until September 30, 2018, the last day of fiscal year 2018.

American courts have construed the Leahy Amendment to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business-even those that have fully complied with state law-could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital CSA violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

Local regulation could change and negatively impact on the Investees' operations

Most U.S. states that permit marijuana for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use marijuana businesses in their jurisdictions. If local municipalities where Investees have established facilities decide to prohibit marijuana businesses from operating, such Investees could be forced to relocate operations at great cost to them, and such Investees may have to cease operations in such state entirely if alternative facilities cannot be secured.

Ability to access public and private capital

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. However, there can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. Given that marijuana is illegal under U.S. federal law, there is neither a broad nor deep pool of institutional capital that is available to cannabis licence holders and other participants in the U.S. cannabis sector. However, the Company does not anticipate that this will affect its ability to access capital given its limited involvement in the U.S. cannabis industry.

Dependence on key personnel

The Company is dependent upon the personal efforts, performance and commitment of its senior officers and directors, who are responsible for the development of the Company's business. Investors will be relying upon the business judgment, expertise and integrity of the Company'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 the Company could result, and other persons would be required to manage and operate the Company. The Company'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 the Company will be successful in attracting and retaining such personnel.

Possible volatility of stock price

The market price of the Subordinate Voting Shares could be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Company'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 voting shares.

Competition

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

Maintenance of client relationships

The ability of the Company 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. The Company'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

The Company anticipates that, from time to time, it will enter into strategic relationships to syndicate certain bridge loans or similar assets where appropriate, as part of its strategy to diversify and manage risks associated with its fixed income portfolio. Syndication will afford the Company the opportunity to participate in much larger transactions. There can be no assurance that the Company 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.