

## **FOUNTAIN ASSET CORP.**

### **MANAGEMENT DISCUSSION & ANALYSIS**

**November 21, 2017**

*This Management's Discussion and Analysis ("MD&A") presents an analysis of the financial position of Fountain Asset Corp. ("Fountain Asset" or the "Company") as at September 30, 2017, compared with December 31, 2016, and the results of operations for the nine months ended September 30, 2017, compared with the nine months ended September 30, 2016. It is supplementary information and should be read in conjunction with the Company's audited financial statements and accompanying notes as at December 31, 2016. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated.*

*Regulatory filings for Fountain Asset Corp. may be found on SEDAR at [www.sedar.com](http://www.sedar.com), while other information related to the Company is published on the Company's website at [www.gcglobalcapital.ca](http://www.gcglobalcapital.ca).*

### **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.

## **ABOUT FOUNTAIN ASSET CORP.**

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 bespoke 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 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.
- Focus on companies with sustainable, growing revenues with existing, or near term, profitability.
- All investments are required to have a path to liquidity.

### **3rd QUARTER 2017 REVIEW AND RESULTS OF OPERATIONS**

The quarter ending September 30, 2017 continued the Company's profitable trend, and is the Company's seventh consecutive quarter with positive net comprehensive income. There was little activity in the Company's portfolio this quarter with only a couple of material changes. There was one addition to the the portfolio, Molecular Science Corp. (MSC). MSC is looking to take advantage of the current changes in the cannabis industry, through its proprietary lab testing software to allow licensed producers to comply with regulatory requirements. The other significant transaction in the quarter saw the sale of one of the Company's real estate holdings, held through one of its US based subsidiaries, Robith LLC, realizing over \$800,000 in gains. As at September 30, 2017, the Company's net assets were valued at \$18,170,779 or \$0.34 per share compared to \$14,580,422 or \$0.27 per share as at December 31, 2016.

#### **Selected Period Information:**

<b>For the nine-months ended</b>	<b>September 30, 2017</b>		<b>September 30, 2016</b>	
Total revenue	\$	1,438,757	\$	1,925,907
Total expenses, not including write-offs and impairments		1,115,243		745,948
Net write-offs and impairments		-		(16,077)
Net comprehensive income (loss)		3,501,387		1,196,037
Net income (loss) per share, basic and diluted		0.01		0.02

<b>As at period ended</b>	<b>September 30, 2017</b>		<b>December 31, 2016</b>	
Total assets	\$	19,011,307	\$	15,516,021
Total liabilities		840,528		935,599
Net asset value		18,170,779		14,580,422

Shares outstanding basic weighted average <sup>(1)</sup>		54,154,463		54,154,463
Net asset value per share	\$	0.34	\$	0.27

(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.

#### **Revenue**

For the quarter ended September 30, 2017, the Company had revenue of \$879,641 compared to revenue of \$818,497 in the same quarter the prior year. Revenue this quarter was predominately from the sale of its real estate holdings in Robith LLC. Structuring fees, interest and consulting fees came in at \$188,931 (2016 – \$329,062), and there were \$127,777 in unrealized losses (2016 – \$426,435 in gains).

#### **Expenses**

For the quarter ended September 30, 2017, the Company reported total expenses (excluding loss provisions) of \$400,231 compared to \$267,452 in the prior year. The quarter's expenses were higher due to the continued legal expenses revolving around the Company's litigation with First Global Data. There were no loss provisions taken in the quarter ended September 30, 2017.

#### **Net Assets**

Total net assets as at September 30, 2017 were \$18,170,779 compared to \$14,580,422 as at December 31, 2016. The Company continues to strengthen its asset portfolio as private entities continue to move to public exchanges. As at September 30, 2017, the Company's adjusted net assets were valued at \$20,770,779 or \$0.38 per share compared to \$17,180,422 or \$0.32 per share as at December 31, 2016. Adjusted net assets reflect net asset value plus the \$26,000,000 tax loss valued at \$0.10 for every \$1.00.

## Summary of Quarterly Results

For the quarters ended		2017 Q3		2017 Q2		2017 Q1		2016 Q4
Total revenue	\$	879,641	\$	(439,472)	\$	998,587	\$	64,443
Total expenses, not including write-offs, impairments	\$	400,232		422,613		292,398		413,176
Investment write-offs and impairments	\$	-		-		-		-
Net comprehensive income (loss) for the quarter	\$	387,830		84,712		3,028,845		867,611
Net income (loss) share, weighted avg., fully diluted <sup>(1)</sup>		0.01		-		0.01		0.02

  

For the quarters ended		2016 Q3		2016 Q2		2016 Q1		2015 Q4
Total revenue	\$	818,497	\$	811,438	\$	295,972	\$	305,520
Total expenses, not including write-offs, impairments		267,452		200,085		278,411		490,504
Investment write-offs and impairments		-		(16,077)		-		775,029
Net comprehensive income (loss) for the quarter		551,045		627,431		17,561		(959,741)
Net income (loss) share, weighted avg., fully diluted <sup>(1)</sup>		0.01		0.01		-		(0.02)

(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.

## INVESTMENTS AND INVESTEE EVENTS

### Advantagewon Oil corp. (AOC)

- This quarter the Company sold 1,105,000 shares at an average price of \$0.10.
- Subsequent to the quarter end the Company sold a further 1,412,000 shares at an average price of \$0.08 per share.

### Auto repair finance company (Auto Co.)

- This year to date the Company received \$905,000 from maturing notes and re-issued \$991,509 in new promissory notes.

### Foothills Development Inc. (Foothills)

- Foothills subsidiary Robith LLC sold its sole investment for net proceeds of \$2,201,000 (\$1,761,000 USD) and realized a gain of \$874,000. Robith LLC was subsequently wound up.

### MariCann Inc. (MariCann)

- MariCann Inc. was listed on the Toronto Venture Exchange. The Company converted its debt to equity then liquidated its position completely, recognizing a gain of \$68,000. The Company continues to hold its warrants.

### Molecular Science Corp. (MSC)

- MSC provides lab test-tracking software to cannabis producers to meet mandated regulatory testing under ACMPR (Access to Cannabis for Medical Purposes Regulations). MSC also develops medical cannabis products, registered probiotics and genetically modified organism intellectual property in the form of cannabis seeds, cuttings and clones
- The Company purchased 250,000 common shares at \$1.00 per share

### MVC Technologies (MVC)

- MVC is pioneering the technology space in the global cannabis industry with its Virtual Clinic platform which facilitates online customers access to the legal marijuana industry
- The Company purchased \$250,000 of convertible debentures bearing 5% interest, together with detachable class A common share purchase warrants on the basis of 110 Warrants per \$1000 principal amount debenture.

Payfare Inc.(Payfare)

- Payfare has developed a fintech banking solution to be applied to multiple vertical industries across the on-demand cashless economy.
- The Company purchased 222,222 shares of at \$0.45 per share, for a total investment of \$100,000.

Namaste Technologies Inc. (Namaste)

- Namaste is a global leader in vaporizer product distribution and manufacturing. Namaste owns and operates over 30 online retail sites in 20+ countries.
- The Company purchased 400,000 shares in Namaste at \$0.25.

The Hydrothecary Corporation (Hydrothecary)

- Hydrothecary was listed on the Toronto Venture Exchange on March 22, 2017.
- A 1:6 share consolidation occurred March 15, 2017.
- On August 15, 2017 118,806 warrants were exercised and converted to 118,806 common shares at \$0.75 per share. Subsequent to September 30, 2017 the 118,806 shares were sold for an average of \$2.32 per share.

Terrascend Corp. (Terrascend)

- Solace Health Inc. changed its name to Terrascend Corp. and was listed on the Canadian Securities Exchange in May 2017.
- The Company sold part of its holding through public markets and recognized \$42,000 of gains.

WeedMD RX Inc. (WeedMD)

- WeedMD. was listed on the Toronto Venture Exchange. The Company converted its debt to equity then liquidated its position completely, recognizing a gain of \$38,000.
- The Company continues to hold its Warrants.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

	September 30, 2017	December 31, 2016
Cash	\$ 886,623	\$ 377,721
Short term investments	40,000	40,000
Accounts receivable and sundry assets	168,765	378,929
Investments in public companies	7,486,020	6,553,353
Loans and convertible debentures due within one year	1,298,497	444,997
Total liquid assets	<u>\$ 9,879,904</u>	<u>\$ 7,795,000</u>
Accounts payable and accrued liabilities	\$ 236,166	\$ 286,507
Due to brokers (note 10)	-	17,146
Syndicated loans [note 7]	604,362	184,362
Total short term liabilities	<u>\$ 840,528</u>	<u>\$ 488,015</u>

In managements' opinion, the Company has sufficient resources to meet its current cash flow requirements. The Company's accounts payable, accrued liabilities and due to broker, all have contractual maturities of less than 30 days and are subject to normal trade terms. The syndicated loans carry similar terms and conditions and have various terms ranging from 1 to 24 months.

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 financial statements.

## **SUBSEQUENT EVENTS**

Subsequent to the quarter end the Company sold 1,412,000 shares at an average price of \$0.08 per share. Reducing its holdings to 10.2% of total issued and outstanding shares from the previous quarters 12.1%

On October 15, 2016 the Company's C.E.O. Jason Ewart resigned from his position along with his seat on the Board. The Company in turn hired Andrew Parks, who began on October 16, 2017 taking on the role of C.E.O. as well as being appointed to the board of directors.

On November 8, 2017 the Company announced that Mr. Roger Daher was appointed as a member of the Board of Directors of Fountain.

On November 8, 2017 the Company announced that the board of directors of the Company approved the granting of 1,100,000 incentive stock options (the "Options") pursuant to the Company's stock option plan to certain directors and officers of the company. The Options are exercisable at a price of \$0.3625 per share and expire on November 8, 2022.

## **RELATED PARTY TRANSACTIONS**

Related party transactions occur during the normal course of Company operations.

Related party	Income for quarters ended		Income for nine months ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Robith, LLC	-	-	172,901	58,500
Auto repair finance company	128,992	140,919	416,323	365,059
AdvantageWon Oil Corp.	26,267	37,427	85,776	118,372
The Hydrothecary Corporation	-	59,019	-	105,900

  

Related party	Accounts Receivable		Accounts Payable		Investment	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Somersby Park 2010 Limited Partnership	-	161,893	-	-	1,106,010	1,137,486
Robith, LLC	-	343,037	-	-	2,123,391	1,582,051
Auto repair finance company	80,998	98,116	-	-	3,148,491	3,235,000
AdvantageWon Oil Corp.	23,272	26,243	-	-	2,308,778	1,591,086
Attorney Title Guaranty Fund	-	-	-	-	200,000	200,000
The Hydrothecary Corporation	-	-	-	-	4,333,786	1,678,019

Members of the Company's board of directors also serve as board members of Bradstone Capital which is one of the parties that participated in the syndicated loans with the auto repair finance company.

In March 2017, The Hydrothecary Corporation completed a Qualifying Transaction with BFK Capital Corp., a Capital Pool Company, listed on the TSX Venture Exchange. Members of the Company's Board of Directors are shareholders of BFK Capital Corp.

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 hold a position with an investee company. (Subsequent to September 30, 2017 with the resignation of an Officer and Director to the Company there were no positions held in investee companies.)

<b>Investment</b>	<b>Ownership</b>	<b>Position held</b>
Foothills Developments Inc	100%	Director & Officer
Newborn Realty Corporation	100%	Director & Officer
Somersby Park 2010 Limited Partnership	64.7%	Director & Officer
Auto repair finance company	50%	Director
AdvantageWon Oil Corp.	10.2%	Director
Attorney Title Guaranty Fund	16.1%	Director
Bradstone Financial Corp.	n/a	Director
The Hypothecary Corporation	<10%	Director
Molecular Science Corp.	<10%	Director

## **COMPENSATION OF KEY MANAGEMENT**

The remuneration of directors and other key management personnel of the Company for the nine months ended September 30, 2017 was as follows:

	<b>2017</b>	<b>2016</b>
Salaries	\$ 281,500	\$ 262,500
Options	88,970	-
	<u>\$370,470</u>	<u>\$ 262,500</u>

Subsequent to quarter end on October 15, 2017, the Company's CEO resigned and received a retiring allowance of \$250,000.

## **CRITICAL ACCOUNTING ESTIMATES**

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

- Determination of investment entity status – Management exercises judgement in applying criteria in IFRS 10.
- Impairment of assets and provision for loans, notes and convertible debentures receivable losses – Management exercises judgement 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 judgement on their recoverability. Such judgements 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 of the December 31, 2016 Consolidated Financial Statements for more details.

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

## **FUTURE ACCOUNTING CHANGES**

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 January 1, 2018:

IFRS 9, Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains, but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

IFRS 15, Revenue from Contracts with Customers will supersede current revenue recognition guidance, which is currently found across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. IFRS 15 provides a framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

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.

## **RISK AND UNCERTAINTIES**

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.

### **Capital Management**

The Company considers the items included in shareholders' equity as capital. The Company’s capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support continued asset growth. A strong capital position also provides flexibility in considering accretive growth



opportunities. It is the intention of the Company in the long term to pay out a portion of its future annual earnings to shareholders in the form of dividends. There has been no change in the capital management approach from the prior period.

#### 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 September 30, 2017, gross accounts receivable of \$nil were past due and not impaired (December 31, 2016 - \$237,229).

The maximum exposure to credit risk is:

	September 30, 2017	December 31, 2016
Accounts receivable, excluding HST	\$ 137,931	\$ 347,217
Loans and convertible debentures	4,708,103	4,828,512
<b>Total Credit Exposure</b>	<b>\$ 4,846,034</b>	<b>\$ 5,175,729</b>

A significant amount of the Company's credit exposure lies with Auto repair finance company. The debt at September 30, 2017 is \$3,148,491. This accounts for 18% (December 31, 2016 - 21%) of the Company's total investments. The Auto repair finance company has received further financing, by a non-related party and the Company's debt now sits subordinate to the new investors. The loan portfolio of Auto repair finance company is secured by the Retail Storage and Liens Act of Ontario which gives the lien holder first right over any other form of lien. The Company closely monitors LTV (loan to value) coverage as well as loan default rates. The credit risk of the debt is linked to the credit risk of the underlying auto repair loans. Management continuously evaluates and monitors the credit worthiness of such auto repair loans.

#### 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 nine months ended September 30, 2017 from a change in closing price of the Company's publicly-listed investments of \$8,396,651 with all other variables held constant as at September 30, 2017:

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%	\$ 419,833	\$ (419,833)
10%	\$ 839,665	\$ (839,665)

#### 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 September 30, 2017, the Company holds the following fixed-rate debt instruments:

- (a) \$1,559,612 (December 31, 2016 – \$1,593,512) in convertible debentures with a weighted average interest rate of 15.5% (December 31, 2016 – 17.3%) and a weighted average term to maturity of approximately 2.4 years (December 31, 2016 – 2.3 years); and
- (b) \$3,148,491 (December 31, 2016 – \$3,235,000) in in term debt which was issued in several tranches with an interest rate of 15% (December 31, 2016 – 15%) that are due 3 years from the date of each advance. As at September 30, 2017 the traches mature within 1-24 months of quarter end [December 31, 2016 – 6-33 months]. At December 9, 2016 \$600,000 of the debt was converted into equity.

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 September 30, 2017, if interest rates were higher by 1% per annum, the potential effect to the Company would be a decrease in net income of approximately \$41,050 (December 31, 2016 – \$48,000). If interest rates were lower by 1% per annum, the potential effect would be an increase in net income of approximately \$41,050 (December 31, 2016 – \$48,000).

#### Liquidity Risk

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

In managements' opinion, the Company has sufficient resources to meet its current cash flow requirements.

The Company's accounts payable, accrued liabilities and due to broker, all have contractual maturities of less than 30 days and are subject to normal trade terms. The syndicated loans carry similar terms and conditions and have various terms ranging from 1 to 24 months.

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

#### 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. Sensitivity to a plus or minus 10 percent change in existing rates would increase or decrease the Company's net income by \$284,631 (December 31, 2016 - \$289,000).

#### Other Risks

##### ***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.

**OUTSTANDING SHARE DATA**

Shares issued and outstanding:	September 30, 2017		December 31, 2016	
	No. of shares	Amount	No. of shares	Amount
Multiple voting shares	1,035,719	\$1,888,523	1,035,719	\$1,888,523
Subordinate voting shares	53,118,743	25,219,218	53,118,743	25,219,218
	<u>54,154,462</u>	<u>\$27,107,741</u>	<u>54,154,462</u>	<u>\$27,107,741</u>

Stock options outstanding	September 30, 2017		December 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	1,465,000	\$ 0.40	2,138,333	\$ 0.40
Options granted during the period	450,000	\$ 0.30	-	-
Options cancelled during the period	-	-	(273,333)	0.25
Options forfeited during the period	-	-	(400,000)	0.47
Balance, end of the year	<u>1,915,000</u>	<u>\$ 0.38</u>	<u>1,465,000</u>	<u>\$ 0.41</u>

Exercise Price	Options Outstanding September 30, 2017		Options Exercisable September 30, 2017	
	Number of Options	Weighted Average Life (years)	Number of Options	Weighted Average Life (years)
\$0.20	240,000	0.7	240,000	0.7
\$0.30	450,000	4.3	450,000	4.3
\$0.40	355,000	1.3	355,000	1.3
\$0.47	870,000	2.5	480,000	2.6
	<u>1,915,000</u>	<u>2.5</u>	<u>1,525,000</u>	<u>3.1</u>

Exercise Price	Options Outstanding December 31, 2016		Options Exercisable December 31, 2016	
	Number of Options	Weighted Average Life (years)	Number of Options	Weighted Average Life (years)
\$0.20	240,000	1.4	240,000	1.4
\$0.40	355,000	2.1	355,000	2.1
\$0.47	870,000	4.3	480,000	3.3
	<u>1,465,000</u>	<u>2.7</u>	<u>1,075,000</u>	<u>2.5</u>

In January 2017, the Company approved the granting of 450,000 incentive stock options (the "Options") pursuant to the Company's Stock Option Plan to certain directors of the company. The Options are exercisable at a price of \$0.30 per share expiring on January 24, 2021.

Subsequent to the period end, on November 8, 2017, the Company approved the granting of 1,100,000 incentive stock options (the "Options") pursuant to the Company's Stock Option Plan to certain directors and officers of the company. The Options are exercisable at a price of \$0.3625 per share expiring on November 8, 2022.