

**BRADSTONE CAPITAL CORP.**  
**(Formerly HPB Investments Inc.)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DATE OF MD&A**

This MD&A was prepared on November 29, 2017.

**Basis of Presentation**

The following discussion and analysis of Bradstone Capital Corp's (the "Corporation's" or "Bradstone Capital's") financial condition as at September 30, 2017 should be read in conjunction with the Corporation's unaudited consolidated condensed interim financial statements as at September 30, 2017. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are expressed in Canadian dollars unless otherwise indicated. See "Risk Factors" for a discussion of the risks inherent in the business of the Corporation, which may also affect its continuing financial condition, cash flows and operating results.

Bradstone Capital's principal business is providing a range of merchant banking services to micro and small-cap companies in North America in both the public and private markets.

**Overall Performance**

**Overview of the Business**

Bradstone Capital has its principal and registered offices located at B2- 125 The Queensway Suite 217, Toronto, Ontario, M8Y 1H6.

Effective December 31, 2015, Bradstone Capital completed a reverse takeover transaction with Bradstone Financial Corp. ("Bradstone Financial"). The composition of the Board of Directors became Chris Carmichael, Jason Ewart, Michael Allen and Alec Regis and Chris Carmichael was appointed as Chief Executive Officer.

In March 2016, Bradstone Capital listed its 20,215,887 Subordinate Voting Shares on the Canadian Securities Exchange (the "CSE") under the symbol BCA. The Bradstone Capital Multiple Voting Shares will not be listed on an exchange but they are convertible into Bradstone Capital SV Shares on a one for one basis.

Bradstone's principal business is providing a range of merchant banking services to micro and small-cap companies in North America in both the public and private markets. Using a disciplined and systematic investment strategy, Bradstone provides private and public companies with working capital in the form of common equity, preferred shares, convertible debt and bridge loans (asset backed/collateralized financing) ranging from \$100,000 to \$500,000 to companies across many industries such as oil and gas, mining, real estate, manufacturing, retail, financial services, technology and biotechnology.

As of September 30, 2017, Bradstone had cash of \$316,226 (December 31, 2016 - \$508,878), bridge loans of \$445,377 (December 31, 2016 - \$534,014) with associated accrued interest receivable of \$56,446 (December 31, 2016 - \$66,086), accounts receivable of \$92,359 (December 31, 2016 - \$65,623), portfolio investments of \$1,051,258 (December 31, 2016 - \$1,096,409) and other receivables of \$71,728 (December 31, 2016 - \$75,191).

Bradstone Capital's philosophy and strategy is to follow a disciplined and systematic approach to investment and be guided by four core principles which will be applied consistently across all industries:

- Capital Preservation;
  - Secure Generation of Income;
  - Risk Management; and
  - Shareholder Value.
- (1) Capital Preservation: This principle is at the core of Bradstone Capital's investment guidelines. Bradstone Capital secures its bridge loans through a variety of instruments, including by taking a first charge on company assets and marketable securities and/or guarantees, which generally provide Bradstone Capital with two to three times asset coverage.
  - (2) Secure Generation of Income: Investments that provide cash flows in the form of dividends, interest payments and/or distributions will be a factor in each of Bradstone Capital's investment requirements. Bradstone Capital's goal is to have the ability to payout a dividend to its shareholders on an annual basis.
  - (3) Risk Management: Bradstone Capital's management will take on an active role in each of its investments by requiring Bradstone Capital Board representation as well as weekly reporting of an investee company's operations.
  - (4) Shareholder Value: The principal driver of Bradstone Capital's corporate initiatives and investment decisions is the objective of creating and enhancing long-term value for its shareholders.

The Corporation supplements its active investment business by making investments with its unallocated cash in a diversified portfolio of high-yielding marketable securities such as bonds, preferred shares and royalty and income trusts, thus increasing its overall yield. Bradstone Capital seeks to maximize income and preserve capital with these investments. Investment of Bradstone Capital's funds are chosen on a fundamental basis with emphasis on the track record of management and quality of assets as well as competitive and sustainable business advantages.

Bradstone Capital works with management of operating companies in order to create and enhance value for businesses in which Bradstone Capital assumes a position. These activities include equity financings, developing mergers and acquisitions, providing operational management support and structuring and negotiating debt and equity placements. Bradstone

Capital may also acquire positions in private companies at valuations that incorporate conservative earnings multiples and stable cash flows.

### **Loan Portfolio**

As at September 30, 2017, Bradstone Capital has 4 (December 31, 2016 – 5) bridge loans outstanding for a total of \$445,377 (December 31, 2016 - \$534,014) with accumulated interest and fees of \$56,446 (December 31, 2016 - \$66,086). The interest rate and fee income for the loans outstanding in 2017 range from prime rate to 15% (December 31, 2016 – prime rate to 15%). All of the bridge loans outstanding in 2017 are short term in nature (due in 2017) and are secured by either personal guarantees, equipment or marketable securities.

### **Investment Portfolio**

#### **Marathon Mortgage Corporation – common shares**

Bradstone Capital owns common shares of MMC (the “MMC Common Shares”) with a value of \$756,806 (December 31, 2016 - \$551,820). Bradstone Capital owns 16% (December 31, 2016 – 18%) of the common shares of MMC.

### **Investment Portfolio**

As at September 30, 2017, Bradstone Capital owned common shares of certain exchange traded funds, stocks and bank stocks with a value of \$294,452 (December 31, 2016 - \$554,589).

During the nine months ended September 30, 2017, the Company incurred a gain (loss) on the sale of portfolio investments of \$15,618 (September 30, 2016 – (\$422,453)). The value of the unsold portfolio investments decreased by \$225,581 (September 30, 2016 – increased by \$21,045) for the nine months ended September 30, 2017 specifically due to the Company’s investment in Luminor Medical Technologies Inc.

### **Operating Results for the nine months ended September 30, 2017**

#### *Revenues*

For the nine months ended September 30, 2017, Bradstone Capital had interest income on its bridge loans of \$70,615 (September 30, 2016 - \$49,877), fees related to its bridge loans of Nil (September 30, 2016 - \$51,344), management fees of Nil (September 30, 2017 - \$43,250), decrease in value of portfolio investment of \$225,581 (September 30, 2016 – increase of \$21,045), gain on sale of portfolio investments of \$15,618 (September 30, 2016 – loss of \$422,453), change in value of derivatives of Nil (September 30, 2016 – (\$55,290)) and a foreign exchange loss of \$55,949 (September 30, 2016 – (\$60,441)) for total revenue of (\$191,863) (September 30, 2016 – (\$371,724)).

#### *Expenses*

Bradstone Capital incurred \$12,000 (September 30, 2016 - \$12,986) for audit, legal and regulatory costs, \$16,801 (September 30, 2016 - \$30,763) in filing fees and other public

company expenses, \$180,703 in consulting fees (September 30, 2016 - \$187,000) for fees to the Company's CEO, CFO and consultants, \$18,005 in interest expenses (September 30, 2016 – Nil) and \$1,897 (September 30, 2016 - \$1,712) in office expenses. Total expenses for the quarter was \$229,405 (September 30, 2016 - \$267,805). The Company anticipates similar expenditures for audit, legal, consulting and office expenditures for the coming quarters.

## Operating Results for the three months ended September 30, 2017

### Revenues

For the three months ended September 30, 2017, Bradstone Capital had interest income on its bridge loans of \$25,654 (September 30, 2016 - \$12,444), fees related to its bridge loans of Nil (September 30, 2016 - \$3,008), management fees of Nil (September 30, 2016 - \$10,500), increase in value of portfolio investment of \$8,274 (September 30, 2016 – increase of \$6,098), loss on sale of portfolio investments of \$928 (September 30, 2016 – loss of \$45,131) and a foreign exchange loss of \$20,275 (September 30, 2016 – (\$19,101)) for total revenue of \$13,509 (September 30, 2016 – (\$31,747)).

### Expenses

Bradstone Capital incurred \$4,000 (September 30, 2016 - \$4,000) for audit, legal and regulatory costs, \$6,278 (September 30, 2016 - \$3,930) in filing fees and other public company expenses, \$60,703 in consulting fees (September 30, 2016 - \$60,000) for fees to the Company's CEO, CFO and consultants, \$6,005 in interest expenses (September 30, 2016 – Nil) and \$235 (September 30, 2016 - \$294) in office expenses. Total expenses for the quarter was \$77,221 (September 30, 2016 - \$68,224). The Company anticipates similar expenditures for audit, legal, consulting and office expenditures for the coming quarters.

### Summary of Quarterly Results

<b>For the quarters ended</b>	<b>Sept 30/17</b>	<b>June 30/17</b>	<b>Mar 31/17</b>	<b>Dec 31/16</b>
Total revenue	\$ 13,509	\$ (407,487)	\$ 202,116	\$ 223,923
Net income (loss) for the period	(63,712)	(483,211)	125,656	10,173
Net income (loss) per share <sup>(1)</sup>	\$ (0.00)	\$ (0.02)	\$ 0.00	\$ 0.00

<b>For the quarters ended</b>	<b>Sept 30/16</b>	<b>Jun 30/16</b>	<b>Mar 31/16</b>	<b>Dec 31/15</b>
Total revenue	\$ (31,747)	\$ 33,274	\$ (373,250)	\$ (158,223)
Net income (loss) for the period	(99,971)	(79,568)	(459,988)	(586,071)
Net income (loss) per share <sup>(1)</sup>	\$ (0.00)	\$ (0.00)	\$ (0.02)	\$ (0.02)

(1) Net income (loss) per share has been calculated using the weighted average number of common shares during each period. Diluted income (loss) per share was not calculated as it would be anti-dilutive.

## **Liquidity**

As at September 30, 2017, Bradstone had \$316,226 (December 31, 2016 - \$508,878) in cash and short-term investments. The Corporation had working capital of \$1,940,268 (December 31, 2016 – \$2,294,441).

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Corporation believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Bradstone’s short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Corporation’s operations in the long-term. However, Bradstone may procure debt or equity financing from time to time to fund its operations.

## **Capital Resources**

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

## **Off-balance Sheet Arrangements**

There are no off-balance sheet arrangements.

## **Transactions with Related Parties**

Compensation of key management personnel

The remuneration expense of directors and other members of key management personnel during the nine months ended September 30, 2017 and 2016 as follows:

	<b>2017</b>		<b>2016</b>
Salaries and benefits	\$ 90,000	\$	97,000
	<u>\$ 90,000</u>	<u>\$</u>	<u>97,000</u>

## **Proposed Transactions**

There were no proposed transactions as at the date of the Corporation’s financial statements.

## **Critical Accounting Estimates**

The preparation of these 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 period. Financial statement items subject to significant management judgment include:

- Provision for loan losses – Management exercises judgement to determine whether indicators of loan impairment exist, and if so, management must estimate the timing and amount of future cash flows from loans receivable.
- Impairment of assets – 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 sales.
- Fair value of portfolio investments not quoted in an active market or private company investments – where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.
- The Black-Scholes option pricing model is used to determine the fair value of the share-based payments and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate.

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

### **Changes in Accounting Policies**

There were no changes in accounting policies as at September 30, 2017.

### **Risks and Uncertainties**

#### Risk Management

The success of Bradstone is dependent upon its ability to assess and manage all forms of risk that affect its operations. Like other financial institutions, Bradstone 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 Bradstone. The Bradstone 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 Bradstone's most prominent risks follows.

#### Market Risk

Bradstone is exposed to certain market risk that the value of, or future cash flows from, Bradstone'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. Bradstone is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, Bradstone 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 Bradstone's investments over one or more reporting periods,

particularly during periods of overall market instability, which would have a significant unfavourable effect on Bradstone's financial position. Bradstone manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers. The Bradstone Board monitors changes in the market on an ongoing basis and adjusts Bradstone's lending practices and policies when necessary to reduce the impact of the above risks.

### Liquidity Risk

Liquidity risk is the risk that Bradstone 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 investments. As well, effective liquidity management involves determining the timing of such commitments to ensure cash resources are optimally utilized.

As at September 30, 2017, Bradstone had \$316,226 (December 31, 2016 - \$508,878) in cash and short-term investments. The Corporation had working capital of \$1,940,268 (December 31, 2016 – \$2,294,441).

Bradstone Capital does not have any bank indebtedness. In managements' opinion, Bradstone Capital has sufficient resources to meet its current cash flow requirements.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. Bradstone believes that cash flow from continuing operations and existing cash resources will be sufficient to meet Bradstone Capital's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support Bradstone Capital's operations in the long-term. However, Bradstone Capital may procure debt or equity financing from time to time to fund its operations.

### Currency Risk

Bradstone Capital is exposed to certain currency risks that the value of certain financial instruments will fluctuate due to changes in foreign exchange rates. At times Bradstone Capital intends to take advantage of foreign exchange contracts to manage the risk of currency fluctuations. As of September 30, 2017, Bradstone Capital did not hold any such contracts.

### Other Risks

#### *Dependence on Key Personnel*

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

#### *Possible Volatility of Stock Price*

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

#### *Competition*

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

#### *Maintenance of Client Relationships*

The ability of Bradstone Capital 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. Bradstone Capital'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*

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

#### **Share Data**

Bradstone Capital's issued and outstanding share capital is as follows:



## Outstanding Shares

	Nov 29, 2017	Sept 30, 2017	Dec 31, 2016
Subordinate Shares	23,522,766	22,686,968	20,994,306
Multiple Shares	<u>5,991,475</u>	<u>6,827,273</u>	<u>7,888,935</u>
Total Shares Outstanding	<u>29,514,241</u>	<u>29,514,241</u>	<u>28,883,241</u>

During the nine months ended September 30, 2017 1,061,662 MVS were converted on a one for one basis to 1,061,662 SVS. Subsequent to September 30, 2017, 835,798 MVS were converted on a one for one basis to 835,798 SVS.

## Outstanding Options

Type	Amount Outstanding	Exercise Price (blended)	Expiry Date
Stock option	1,900,000	\$0.07	May 27, 2021

## Forward-Looking Information

These materials include certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Other than statement of historical fact, all statements in this material, including, without limitation, statements regarding disclosure of contingent liabilities at the date of the consolidated financial statements and financial statement items subject to significant management judgment include revenue recognition; loan impairment and losses; the valuation of accounts receivable, the valuation of bridge loans and development and rental properties, future income tax assets, estimated asset retirement obligations, and future plans and objectives of the Company, are forward-looking statements that involve various known and unknown risks, uncertainties and other factors. There can be no assurance that such statements will prove accurate. Actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of these materials. Important factors that could cause actual results to differ materially from the Company’s expectations include, without limitation, the level of bridge loans completed, the nature and credit quality of the collateral security, estimated asset retirement obligations, as well as those factors discussed in the Company’s documents filed from time to time with the Canadian Securities Exchange, Canadian securities regulators and other regulatory authorities. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice.