# QUINSAM CAPITAL CORPORATION

## UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

## THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

## (EXPRESSED IN CANADIAN DOLLARS)

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# QUINSAM CAPITAL CORPORATION
## UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
**(Expressed in Canadian Dollars)**

| | **As at September 30, 2019** | As at December 31, 2018 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| **Current Assets** | | |
| Cash | **919,805** | 847,674 |
| Receivables (Note 4) | **1,466,390** | 2,175,263 |
| Investments (Note 5) | **38,607,658** | 45,323,137 |
| Prepaid expenses | **9,454** | 5,326 |
| **Total Assets** | **41,003,307** | 48,351,400 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Margin facility | **1,313,685** | - |
| Accounts payable and accrued liabilities (Notes 6 and 11) | **111,621** | 964,799 |
| Income tax payable | **500,000** | 2,089,054 |
| **Total Current Liabilities** | **1,925,306** | 3,053,853 |
| Deferred tax liability | **250,000** | 1,864,694 |
| **Total Liabilities** | **2,175,306** | 4,918,547 |
| **Shareholders' Equity** | | |
| Share capital (Note 7) | **21,929,637** | 22,934,751 |
| Deferred share units reserve (Note 8) | **503,125** | - |
| Share-based payments reserve (Note 9) | **2,211,843** | 1,685,939 |
| Warrants reserve (Note 10) | **6,185,142** | 6,185,142 |
| Retained earnings | **7,998,254** | 12,627,021 |
| **Total Shareholders' Equity** | **38,828,001** | 43,432,853 |
| **Total Liabilities and Shareholders' Equity** | **41,003,307** | 48,351,400 |

Nature of operations (Note 1)
Subsequent events (Note 15)

**Approved on behalf of the Board of Directors**

**"Roger Dent"** (Director) **"Eric Szustak"** (Director)

The accompanying notes are an integral part of these unaudited condensed interim financial statements

# QUINSAM CAPITAL CORPORATION
## UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
## FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
## (Expressed in Canadian Dollars)

| | **Three months ended September 30, 2019** | Three months ended September 30, 2018 | **Nine months ended September 30, 2019** | Nine months ended September 30, 2018 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| **Net Investment Revenue** | | | | |
| Net realized (loss) gains on disposals of investments (Note 5) | **(945,112)** | 1,683,757 | **850,664** | 3,374,505 |
| Net changes in unrealized (loss) gains on investments (Note 5) | **(6,693,563)** | 1,536,353 | **(7,738,100)** | 12,921,967 |
| | **(7,638,675)** | 3,220,110 | **(6,887,436)** | 16,296,472 |
| **Other Income** | | | | |
| Interest and advisory services income | **966,779** | 250,476 | **2,062,214** | 631,019 |
| **Expenses** | | | | |
| Stock-based compensation (Note 9) | **187,464** | 412,682 | **626,721** | 1,123,264 |
| Professional fees (Note 11) | **107,353** | 93,750 | **447,682** | 219,280 |
| Salaries, bonus and other employment benefits (Note 11) | **(26,333)** | 408,011 | **174,534** | 623,716 |
| General and administrative | **(34,198)** | 47,893 | **67,840** | 94,423 |
| Transfer agent and filing fees | **4,565** | 4,950 | **27,099** | 31,643 |
| Travel and promotional | **1,476** | 24,029 | **2,136** | 31,984 |
| | **(240,327)** | (991,315) | **(1,346,012)** | (2,124,310) |
| **Net (Loss) Income Before Tax** | **(6,912,223)** | 2,479,271 | **(6,171,234)** | 14,803,181 |
| Income tax recovery (expense) – current | **37,128** | (370,000) | **365,738** | - |
| Income tax recovery (expense) – deferred | **1,667,133** | (33,074) | **1,614,694** | (975,000) |
| Other expenses | **-** | - | **-** | (33,074) |
| **Net (Loss) Income and Comprehensive (Loss) Income** | **(5,207,962)** | 2,076,197 | **(4,190,802)** | 13,795,107 |
| **Net (Loss) Income per Share** | | | | |
| Basic (Note 7) | **(0.05)** | 0.02 | **(0.04)** | 0.12 |
| Diluted (Note 7) | **(0.04)** | 0.01 | **(0.04)** | 0.10 |
| **Weighted Average Number of Shares Outstanding** | | | | |
| Basic (Note 7) | **114,315,465** | 118,425,459 | **116,513,379** | 118,602,064 |
| Diluted (Note 7) | **117,366,701** | 139,770,175 | **119,564,615** | 136,720,414 |

The accompanying notes are an integral part of these unaudited condensed interim financial statements

## QUINSAM CAPITAL CORPORATION

**UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018**
**(Expressed in Canadian Dollars)**

| | Share Capital | | Reserves | | | | |
|---|---|---|---|---|---|---|---|
| | **Number of Shares** | **Amount** | **Deferred Share Units** | **Share-Based Payments** | **Warrants** | **Retained Earnings** | **Total** |
| | **#** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Balance, December 31, 2017** | **93,522,986** | **13,251,814** | **-** | **246,446** | **3,510,745** | **2,598,251** | **19,607,256** |
| Issuance of dividends | - | - | - | - | - | (413,659) | (413,659) |
| Issuance of units from private placements (Note 7) | 22,403,034 | 10,763,133 | - | - | 3,311,450 | - | 14,074,583 |
| Share issue costs (Notes 7 and 10) | - | (1,671,488) | - | - | (415,993) | - | (2,087,481) |
| Repurchase of shares (Note 7) | - | (170,680) | - | - | - | - | (170,680) |
| Issuance on exercise of stock options (Note 7) | 1,178,000 | 191,092 | - | (73,292) | - | - | 117,800 |
| Issuance on exercise of warrants (Note 7) | 1,634,209 | 577,677 | - | - | (134,638) | - | 443,039 |
| Stock-based compensation (Note 9) | - | - | - | 1,123,264 | - | - | 1,123,264 |
| Net income and comprehensive income | - | - | - | - | - | 13,795,107 | 13,795,107 |
| **Balance, September 30, 2018** | **118,738,229** | **22,941,548** | **-** | **1,296,418** | **6,271,564** | **15,979,699** | **46,489,229** |
| **Balance, December 31, 2018** | **118,692,644** | **22,934,751** | **-** | **1,685,939** | **6,185,142** | **12,627,021** | **43,432,853** |
| Issuance of dividends | - | - | - | - | - | (437,965) | (437,965) |
| Repurchase of shares (Note 7) | (7,217,951) | (1,225,731) | - | - | - | - | (1,225,731) |
| Issuance of deferred share units (Note 8) | - | - | 503,125 | - | - | - | 503,125 |
| Issuance on exercise of stock options (Note 7) | 1,198,000 | 220,617 | - | (100,817) | - | - | 119,800 |
| Stock-based compensation (Note 9) | - | - | - | 626,721 | - | - | 626,721 |
| Net loss and comprehensive loss | - | - | - | - | - | (4,190,802) | (4,190,802) |
| **Balance, September 30, 2019** | **112,672,693** | **21,929,637** | **503,125** | **2,211,843** | **6,185,142** | **7,998,254** | **38,828,001** |

The accompanying notes are an integral part of these unaudited condensed interim financial statements

## QUINSAM CAPITAL CORPORATION
### UNAUDITED CONDENSED INTERIM STATEMENTS OF CASH FLOWS
### FOR THE THREE AMD NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
### (Expressed in Canadian Dollars)

| | **Three months ended September 30, 2019** | Three months ended September 30, 2018 | **Nine months ended September 30, 2019** | Nine months ended September 30, 2018 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| **Operating Activities** | | | | |
| Net (loss) income for the period | **(5,207,962)** | 2,076,197 | **(4,190,802)** | 13,795,107 |
| Adjustments for non-cash items: | | | | |
| Stock-based compensation (Note 9) | **187,464** | 412,682 | **626,721** | 1,123,264 |
| Net realized loss (gains) on disposals of investments (Note 5) | **945,112** | (1,683,757) | **(850,664)** | (3,374,505) |
| Unrealized loss (gains) on investments (Note 5) | **6,693,563** | (1,536,353) | **7,738,100** | (12,921,967) |
| Interest accrued on debenture investments (Note 4) | **(191,529)** | (210,523) | **(641,755)** | (494,398) |
| Foreign exchange loss (gain) | **(134,325)** | - | **71,798** | - |
| Income tax (recovery) – current | **(37,128)** | - | **(365,738)** | - |
| Income tax (recovery) expense – deferred | **(1,667,133)** | 370,000 | **(1,614,694)** | 975,000 |
| | **588,062** | (571,754) | **772,966** | (897,499) |
| Changes in non-cash working capital: | | | | |
| Receivable (Note 4) | **530,699** | 19,527 | **1,264,157** | (6,727) |
| Prepaid expenses | **4,083** | 4,084 | **(4,128)** | (7,350) |
| Accounts payable and accrued liabilities (Notes 6 & 11) | **(403,223)** | 416,146 | **(350,053)** | 557,099 |
| Income tax payable | **(1,223,316)** | - | **(1,223,316)** | - |
| Unearned interest revenue | **-** | (3,000) | **-** | (9,000) |
| | **(1,091,757)** | 436,757 | **(313,340)** | 534,022 |
| Net additions in investments | | | | |
| Purchases of investments (Note 5) | **(2,101,726)** | (7,515,106) | **(15,211,989)** | (30,313,479) |
| Proceeds on disposition of investments (Note 5) | **2,238,738** | 6,204,558 | **15,054,705** | 10,410,653 |
| Funds drawn from margin facility | **1,313,685** | - | **1,313,685** | - |
| | **1,450,697** | (1,310,548) | **1,156,401** | (19,902,826) |
| **Cash Flows from (used in) Operating Activities** | **947,002** | (1,445,545) | **1,616,027** | (20,266,303) |
| **Financing Activities** | | | | |
| Proceeds from private placements (Note 7) | **-** | - | **-** | 13,139,610 |
| Share issue costs (Note 7) | **-** | - | **-** | (1,152,509) |
| Repurchase of common shares (Note 7) | **(340,406)** | (170,680) | **(1,225,731)** | (170,680) |
| Proceeds from exercise of stock options (Note 7) | **119,800** | 10,000 | **119,800** | 117,800 |
| Proceeds from exercise of warrants (Note 7) | **-** | 14,800 | **-** | 443,039 |
| Issuance of dividends | **(143,341)** | (148,224) | **(437,965)** | (413,659) |
| **Cash Flows (used in) from Financing Activities** | **(363,947)** | (294,104) | **(1,543,896)** | 11,963,601 |
| **Increase (decrease) in cash** | **583,055** | (1,739,649) | **72,131** | (8,302,702) |
| Cash, beginning of period | **336,750** | 2,677,894 | **847,674** | 9,240,947 |
| **Cash, end of period** | **919,805** | 938,245 | **919,805** | 938,245 |

The accompanying notes are an integral part of these unaudited condensed interim financial statements

## 1. NATURE OF OPERATIONS

Quinsam Capital Corporation ("Quinsam" or the "Company") was incorporated under the Canada Business Corporations Act on March 18, 2004 in British Columbia. The Company is an investment and merchant banking firm focused on the small-cap market, with early-stage investments in the cannabis market. The Company's common shares are listed on the Canadian Securities Exchange under the ticker symbol "QCA".

The Company is domiciled in Canada and its registered and records office is located at 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

## 2. BASIS OF PREPARATION

### (a) Statement of Compliance

The Company's unaudited condensed interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting ("IAS 34").

These unaudited condensed interim financial statements have been prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual financial statements. Given that certain information and footnote disclosures have been condensed or excluded in accordance with IAS 34, they do not include all of the information and disclosures required by IFRS for annual financial statements. As such, these unaudited condensed interim financial statements should be read in conjunction with the Company's audited financial statements as at and for the year ended December 31, 2018, including the accompanying notes thereto.

These unaudited condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors (the "Board") of the Company on November 15, 2019.

### (b) Basis of Presentation

These unaudited condensed interim financial statements have been prepared in accordance with IFRS accounting principles applicable to a going concern, using the historical cost basis. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations, or, in the absence of adequate cash flows from operations, obtaining additional financing to support operations for the foreseeable future.

These unaudited condensed interim financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited condensed interim financial statements. Such adjustments could be material.

In addition, these unaudited condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow.

For comparative purposes, the Company had reclassed certain items on the condensed interim statements of financial position and the condensed interim statements of income and comprehensive income to conform with current period's presentation.

### (c) Functional and Presentation Currency

These financial statements have been prepared in Canadian dollars ($), which is also the functional currency of the Company.

## 2. BASIS OF PREPARATION (continued)

### (d) Significant Accounting Judgments and Estimates

The preparation of these unaudited condensed interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other relevant factors. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a regular basis for reasonableness. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The areas which require management to make significant judgments, estimates and assumptions include, but are not limited to:

*Fair value of investment in securities not quoted in an active market or private company investments*

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position, including shares, warrants, convertible debentures and loans investments, 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, management's judgment is required to establish fair values.

*Fair value of financial derivatives*

Investments in warrants that are not traded on a recognized securities exchange do not have readily available market values. When there are sufficient and reliable observable market inputs, a valuation technique is used.

*Valuation of share-based compensation and share purchase warrants*

Management determines the costs for share-based compensation and share purchase warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment is used in applying the valuation techniques. These assumptions and judgments include estimating the future volatility of the share price, expected dividend yield, future employee turnover rates and future share option and share purchase warrant exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based compensation and share purchase warrants.

*Income taxes*

Income taxes and tax exposures recognized in the financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

*Expected credit losses on financial assets*

Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss ("FVTPL") requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Revenue

Realized gains (losses) on disposals of investments and unrealized gains (losses) on securities classified as FVTPL are reflected in the unaudited condensed interim statements of income (loss) and comprehensive income (loss) on the transaction date and are calculated on an average cost basis. For all financial instruments measured at amortized cost and interest-bearing financial assets, interest income or expenses are recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed to recognize the full realized gain or loss in the period of disposition.

Other investment income is recognized on the accrual basis and is considered operating income for cash flow purposes.

### (b) Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the unaudited condensed interim statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

*Classification*

The Company classifies its financial assets and financial liabilities in the following measurement categories: (1) those to be measured subsequently at FVTPL; (2) those to be measured subsequently at fair value through other comprehensive income (“FVTOCI”); and (3) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition).

For assets and liabilities measured at fair value, gains and losses are recorded in the unaudited condensed interim statements of income (loss) and comprehensive income (loss).

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. The Company’s financial assets include cash, investments, and receivables excluding any sales tax amounts. The Company’s financial liabilities include accounts payable and accrued liabilities.

*Amortized cost*

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely payment of principal and interest (“SPPI”) criterion. Financial asset classified in this category are measured at amortized cost using the effective interest method.

*Fair value through profit or loss*

This category includes derivative instruments as well as quoted equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify at FVTOCI. This category also includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in the unaudited condensed interim statements of income (loss) and comprehensive income (loss).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Financial Instruments (continued)

*Financial assets at fair value through other comprehensive income*

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in other comprehensive income ("OCI") instead of through income (loss) and comprehensive income (loss). This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at FVTOCI are initially measured at fair value and changes therein are recognized in OCI. As at September 30, 2019, the Company did not have any financial assets at FVTOCI.

*Measurement*

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in income (loss) and comprehensive income (loss). Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through the statements of income (loss) and comprehensive income (loss) (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in OCI.

Investments are measured at FVTPL, and are derecognized when the rights to receive cash flows from the investments have expired. When the Company holds units of equity and debentures that are convertible into issuers' equity shares at the Company's option, the warrants component and the equity conversion feature are recognized using the relative fair value method, and subsequently measured at FVTPL based on the fair value of the shares.

The Company's classification and measurements of financial assets and liabilities are summarized below:

| | **IFRS 9** | **IAS 39** |
|---|---|---|
| | **Classification** | **Measurement** |
| Cash | FVTPL | Fair value |
| Receivables | Amortized cost | Amortized cost |
| Investments | FVTPL | Fair value |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |

*Determination of fair value*

The determination of fair value requires judgment and is based on market information, where available and appropriate. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Financial Instruments (continued)

*Determination of fair value (continued)*

At the end of each reporting period, management estimates the fair value of investments based on the criteria below and reflects such valuations in the financial statements:

i. Securities including shares, options and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the end of the reporting period or the closing trade price on the last day the security traded if there were no trades at the end of the reporting period. These are included in Level 1 of the fair value hierarchy (see Note 5).

ii. For options, warrants and conversion features of debentures which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used. Valuation models such as the Black-Scholes valuation model ("Black-Scholes") and the Monte Carlo simulation ("Monte Carlo") are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at the date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. These are included in Level 2 of the fair value hierarchy (see Note 5).

iii. Convertible debentures and loans issued by investee companies are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The fair value of convertible debentures is measured using valuation techniques such as Black-Scholes and Monte Carlo.

    The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment and assumptions provided by management is required in establishing fair values. Judgments include consideration of inputs such as credit risk, discount rates, volatility, probability of certain triggering events, and share price of private company borrowers. Changes in assumptions relating to these factors could affect the reported fair value of the financials instruments. These are included in Level 3 of the fair value hierarchy (see Note 5).

<u>Private company investments</u>

All privately held investments (including options, warrants and conversion features) are initially recorded at the transaction price, being the fair value at the time of acquisition. At the end of each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more of the valuation indicators described below. These are included in Level 3 of the fair value hierarchy (see Note 5).

The determination of fair value of the Company's privately held investments at other than initial cost, is subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approaches described below may involve uncertainties and determinations based on management's judgment and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a privately held investment should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will also consider trends in general market conditions and the share performance of comparable publicly traded companies when valuing privately held investments.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Financial Instruments (continued)

*Determination of fair value (continued)*

The fair value of a privately held investment may be adjusted if:

i. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;

ii. There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;

iii. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;

iv. There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable;

v. The investee company is placed into receivership or bankruptcy;

vi. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;

vii. Release by the investee company of positive/negative operational results; and

viii. Important positive/negative management changes by the investee company that the Company's management believes will have a very positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

Adjustments to the fair value of a privately held investment will be based upon management's judgment and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

In addition, the amounts at which the Company's privately held investments could be currently disposed of may differ from the carrying value assigned.

### (c) Recent Accounting Pronouncements

At the date of authorization of these unaudited condensed interim financial statements, the IASB and IFRS Interpretations Committee have issued the following new and revised Standards and Interpretations which are effective for annual periods beginning on or after January 1, 2020:

*IAS 1 – Presentation of Financial Statements ("IAS 1") and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")*

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

**(Expressed in Canadian Dollars)**

## 4. RECEIVABLES

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **$** | $ |
| Interest receivable (i) | **1,198,890** | 643,605 |
| Other receivables (ii) | **267,500** | 1,003,458 |
| Taxes recoverable (iii) | **-** | 528,200 |
| **Total receivables** | **1,466,390** | 2,175,263 |

(i) As at September 30, 2019, the Company has accrued interest income of $1,198,890 (December 31, 2018 – $643,605), from its convertible debentures and loan investments.

(ii) During the nine months ended September 30, 2019, the Company had participated in certain debt private placements of investee companies which had matured during the period. As at September 30, 2019, an amount of $267,500 (December 31, 2018 – $nil) due from such investee companies was classified as other receivables which is expected to be collected subsequent to period-end.

During the year ended December 31, 2018, the Company had participated in certain private placements of investee companies which did not close as planned. Funds advanced for such investment subscriptions for $1,003,458 had been returned to the Company during the current period.

(iii) During the year ended December 31, 2018, non-resident tax was withheld on the deemed disposition of the shares of an investee entity upon the completion of a going-public transaction in the United States (the “US”). During the current period, the Company had completed the filing of its US tax return and received in full the ensuing refund.

## 5. INVESTMENTS

The Company’s investments portfolio consisted of the following securities as at September 30, 2019:

| | | **Fair Value** | | | |
|---|---|---|---|---|---|
| **Investments** | **Cost** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
| | **$** | **$** | **$** | **$** | **$** |
| Equities | 18,797,772 | 7,085,598 | - | 15,428,507 | 22,514,105 |
| Warrants | 3,516,341 | 28,454 | 399,467 | 2,179,925 | 2,607,846 |
| Convertible debentures | 8,356,938 | - | 4,821,563 | 3,593,213 | 8,414,776 |
| Loans | 5,031,480 | - | - | 5,070,931 | 5,070,931 |
| **Total investments** | **35,702,531** | **7,114,052** | **5,221,030** | **26,272,576** | **38,607,658** |

The Company’s investments portfolio consisted of the following securities as at December 31, 2018:

| | | **Fair Value** | | | |
|---|---|---|---|---|---|
| **Investments** | **Cost** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
| | **$** | **$** | **$** | **$** | **$** |
| Equities | 18,003,981 | 11,036,173 | - | 19,831,980 | 30,868,153 |
| Warrants | 2,962,583 | - | 761,192 | 2,005,999 | 2,767,191 |
| Convertible debentures | 6,846,674 | - | 2,686,840 | 4,903,782 | 7,590,622 |
| Loans | 4,031,480 | - | - | 4,097,171 | 4,097,171 |
| **Total investments** | **31,844,718** | **11,036,173** | **3,448,032** | **30,838,932** | **45,323,137** |

**(Expressed in Canadian Dollars)**

## 5. INVESTMENTS (continued)

*Level 3 fair value hierarchy*

The following table presents the changes in fair value measurements classified at Level 3 of the fair value hierarchy. The financial instruments are measured at fair value utilizing non-observable market inputs. The net realized gains (loss) on disposals of investments and the net change in unrealized gains (loss) on investments are recognized in the unaudited condensed interim statements of income and comprehensive income.

| | Opening balance | Purchases / loans | Transfers / conversions | Proceeds | Net realized gains (loss) | Net unrealized gains | Ending balance |
|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ |
| September 30, 2019 | 30,838,932 | 7,218,665 | (12,104,873) | (1,200,000) | (29,798) | 1,549,650 | 26,272,576 |
| December 31, 2018 | 4,345,206 | 19,862,833 | (2,963,892) | (5,456,800) | 4,145,293 | 10,906,292 | 30,838,932 |

Within Level 3, the Company included private company investments and other investment instruments such as convertible debentures and loans which are not quoted on a recognized securities exchange. The key assumptions used in the valuation of these instruments include, but are not limited to, the value at which a recent financing was done by the investee, company-specific information, trends in general market conditions and the share performance of comparable publicly traded companies.

The following table presents the valuation techniques and the nature of significant inputs used to determine the fair values of the Level 3 investments as at September 30, 2019:

| Investments | Total fair value | Method | Unobservable inputs | Range of inputs |
|---|---|---|---|---|
| | $ | | | |
| Equities | 15,428,507 | Transaction price | Recent purchase price | N/A |
| Warrants | 2,179,925 | Black-Scholes | Market prices, volatility, discount rate | 90% – 100% volatility |
| Convertible debentures | 3,593,213 | Black-Scholes or Monte Carlo | Market prices, volatility, discount rate | 90% – 100% volatility, 20.5% discount rate |
| Loans | 5,070,931 | Discounted cash flows | Discount rate | 8% – 12% |
| | **26,272,576** | | | |

Within Level 3 of the fair value hierarchy, for those investments valued based on recent financings, management has determined that there are no reasonably possible alternative assumptions that would change the fair value significantly as at September 30, 2019 and December 31, 2018. For those investments valued based on trends in comparable publicly traded companies and general market conditions, the inputs can be highly judgmental. A 10% change in the fair value of these investments would result in a corresponding +/- $2,627,258 (December 31, 2018 +/- $3,083,893) change to the fair value of the investments.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of these investments. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Company’s view of expected future changes in the fair value of these investments.

**(Expressed in Canadian Dollars)**

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **$** | $ |
| Trade payables and other accrued liabilities | **111,621** | 111,789 |
| Management bonus payable | **-** | 853,000 |
| **Total accounts payable and accrued liabilities** | **111,621** | 964,799 |

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding incurred in the normal course of business.

The following is an aged analysis of the accounts payable and accrued liabilities:

| | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| | **$** | $ |
| Less than 90 days | **49,367** | 424,002 |
| Greater than 90 days | **62,254** | 540,797 |
| **Total accounts payable and accrued liabilities** | **111,621** | 964,799 |

## 7. SHARE CAPITAL

*Authorized share capital*

The Company is authorized to issue an unlimited number of common shares and preferred shares without par value. The preferred shares may be issued in one (1) or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series. The Company has not issued any preferred shares to date.

Common shares issued and outstanding as at September 30, 2019 are as follows:

| | **Number of common shares** | **Amount** |
|---|---|---|
| | **#** | **$** |
| **Balance, December 31, 2018** | **118,692,644** | **22,934,751** |
| Repurchase of common shares | (7,217,951) | (1,225,731) |
| Issuance on exercise of stock options | 1,198,000 | 220,617 |
| **Balance, September 30, 2019** | **112,672,693** | **21,929,637** |

*Share capital transactions for the nine months ended September 30, 2019*

On January 16, 2019, a total of 843,000 common shares of the Company, comprised of 781,000 common shares previously repurchased for $226,781 under the normal course issuer bid (the “Bid”) which began since August 2018, and 62,000 common shares repurchased for $14,317 on January 8, 2019, were cancelled and returned to the Treasury.

On June 6, 2019, 1,800,000 common shares repurchased for $370,476 were cancelled and returned to the Treasury.

On June 26, 2019, 2,485,951 common shares repurchased for $500,532 were cancelled and returned to the Treasury.

On July 11, 2019, 89,000 common shares repurchased for $16,138 were cancelled and returned to the Treasury.

## 7. SHARE CAPITAL (continued)

*Share capital transactions for the nine months ended September 30, 2019 (continued)*

On September 25, 2019, 2,000,000 common shares repurchased for $324,268 were also cancelled and returned to the Treasury.

During the nine months ended September 30, 2019, 1,198,000 common shares were issued as a result of the exercise of options for cash proceeds of $119,800.

*Share capital transactions for the nine months ended September 30, 2018*

On March 1, 2018, the Company closed a brokered private placement financing of 21,899,349 units ("Units") at a price of $0.60 per Unit, for gross proceeds of $13,139,609. Each Unit consists of one (1) common share ("Common Share") and one-half (1/2) of a warrant ("Warrant"). Each Warrant entitles the holder to purchase one (1) Common Share of the Company at a price of $0.80 per Common Share, expiring on March 1, 2020.

In conjunction with the brokered offering, the Company issued 503,685 Units and paid a cash commission of $1,051,169 to agents. The agents also received 1,751,947 finders' warrants exercisable at a price of $0.60 for 24 months following closing of the offering (see Note 10).

During the nine months ended September 30, 2018, 1,178,000 common shares were issued as a result of the exercise of options for cash proceeds of $117,800.

During the nine months ended September 30, 2018, 1,634,209 common shares were also issued as a result of the exercise of warrants for cash proceeds of $443,039.

*Basic and diluted earnings per share*

The calculations of basic and diluted earnings per share for the nine months ended September 30, 2019 were based on the net loss from operations attributable to common shareholders of $4,190,802 (2018 – net income of $13,795,107) and the weighted average number of basic common shares outstanding of 116,513,379 (2018 – 118,602,064) and diluted common shares of 119,564,615 (2018 – 136,720,414).

## 8. DEFERRED SHARE UNITS RESERVE

On April 29, 2019, the Company established a deferred common share unit plan (the "DSU Plan"), which was approved at the Company's annual shareholders' meeting held on June 25, 2019. One (1) deferred share unit ("DSU") is equivalent in value to one (1) common share of the Company. The maximum number of shares that are issuable under the DSU Plan, and in combination with all other equity incentive plans at any time, shall not exceed 10% of the issued and outstanding common shares of the Company. The maximum number of shares issuable to Insiders under the DSU Plan, at any time, shall not exceed 10% of the issued common shares, and the maximum number of DSUs which may be granted to any one (1) person under the DSU Plan, in any 12 month period, shall not exceed 5% of the issued common shares calculated on the grant date of such DSU.

All DSUs credited under the DSU Plan shall remain in DSU accounts and shall be settled or forfeited in accordance with the terms of the DSU Plan. Whenever cash dividends or distributions are paid on the common shares of the Company, additional DSUs will be credited to a participant's DSU account. The number of such additional DSUs will be calculated by multiplying the per share dividend rate by the number of DSUs held at that time in the participant's DSU account.

Any vesting conditions for DSUs shall be determined by the Compensation and Corporate Governance Committee of the Board. Notwithstanding any other provision of the DSU Plan, the Board may in its sole discretion accelerate and/or waive any vesting or other conditions for all or any DSUs for any participant at any time.

**(Expressed in Canadian Dollars)**

## 8. DEFERRED SHARE UNITS RESERVE (continued)

On June 25, 2019, the Company granted 2,500,000 DSUs at a price of $0.20 to certain of its officers, as partial payment of the management bonus related to the Company's portfolio performance, that was accrued for the year ended December 31, 2018.

On August 26, 2019, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on August 9, 2019. On distribution of the cash dividends, the Company had granted an additional 16,891.89 DSUs at a price of $0.185 to certain of its officers.

## 9. SHARE-BASED PAYMENTS RESERVE

The Company maintains a stock option plan (the "Plan") whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The maximum number of common shares that are issuable under the Plan is limited to 10% of the number of outstanding common shares. As at September 30, 2019, the Company had 3,469,269 common shares that are issuable under the Plan.

Under the Plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less an applicable discount. Options can be granted for a maximum term of five (5) years and vesting periods are determined by the Board.

The following summarizes the stock option activity for the nine months ended September 30, 2019 and 2018:

| | **September 30, 2019** | | September 30, 2018 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| | **#** | **$** | # | $ |
| **Outstanding, beginning of year** | **8,998,000** | **0.44** | 7,576,000 | 0.33 |
| Granted | **-** | **-** | 2,600,000 | 0.60 |
| Exercised | **(1,198,000)** | **0.10** | (1,178,000) | 0.10 |
| **Outstanding, end of period** | **7,800,000** | **0.49** | 8,998,000 | 0.44 |
| **Exercisable, end of period** | **4,494,811** | **0.48** | 838,800 | 0.10 |

*Option grants for the nine months ended September 30, 2019*

There were no option grants during the nine months ended September 30, 2019.

*Option grants for the nine months ended September 30, 2018*

On March 19, 2018, the Company granted 2,600,000 stock options to various officers and directors of the Company. The options are exercisable at $0.60 per share and vest equally over a period of three (3) years. The options were valued using Black-Scholes, with the following assumptions: expected volatility of 123% based on historical volatility of the Company, expected dividend yield of 1.11%, risk-free interest rate of 2.00% and an expected life of five (5) years. The grant date fair value attributable to these options was $894,992, of which $251,311 was recorded as stock-based compensation in connection with the vesting of these options during the nine months ended September 30, 2018.

**(Expressed in Canadian Dollars)**

## 9. SHARE-BASED PAYMENTS RESERVE (continued)

The following table summarizes information of stock options outstanding and exercisable as at September 30, 2019:

| Date of expiry | Number of options outstanding | Weighted average exercise price | Number of options exercisable | Weighted average exercise price | Weighted average remaining contractual life |
|---|---|---|---|---|---|
| | # | $ | # | $ | Years |
| July 1, 2020 | 200,000 | 0.13 | 169,880 | 0.13 | 0.75 |
| October 19, 2022 | 600,000 | 0.295 | 389,589 | 0.295 | 3.05 |
| October 19, 2022 | 100,000 | 0.30 | 64,932 | 0.30 | 3.05 |
| December 22, 2022 | 4,300,000 | 0.48 | 2,540,730 | 0.48 | 3.23 |
| March 19, 2023 | 2,600,000 | 0.60 | 1,329,680 | 0.60 | 3.47 |
| | **7,800,000** | **0.49** | **4,491,811** | **0.49** | **3.23** |

## 10. WARRANTS RESERVE

The following summarizes the warrant activity for the nine months ended September 30, 2019 and 2018:

| | **September 30, 2019** | | September 30, 2018 | |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** | Number of warrants | Weighted average exercise price |
| | **#** | **$** | # | $ |
| **Outstanding, beginning of year** | **51,289,156** | **0.46** | 40,220,268 | 0.35 |
| Issued | **-** | **-** | 11,201,517 | 0.80 |
| Issued | **-** | **-** | 1,751,947 | 0.60 |
| Issued | **-** | **-** | 52,040 | 0.25 |
| Exercised | **-** | **-** | (1,634,209) | 0.27 |
| **Outstanding, end of period** | **51,289,156** | **0.46** | 51,591,563 | 0.46 |

*Warrant issuances for the nine months ended September 30, 2019*

There were no warrants activities during the nine months ended September 30, 2019.

*Warrant issuances for the nine months ended September 30, 2018*

On March 1, 2018, the Company issued 10,949,675 Warrants, at an exercise price of $0.80, in conjunction with the March 2018 Offering, as disclosed in Note 7. The grant date fair value of the 10,949,675 Warrants issued was estimated to be $2,618,463 using Black-Scholes with the following assumptions: expected volatility of 121% based on historical volatility of the Company, expected dividend yield of 1.04%, risk-free interest rate of 1.76% and an expected life of two (2) years. In conjunction with the private placement, 251,842 Warrants were issued as part of the Agents' Units as compensation to the private placement offering. These warrants were valued using Black-Scholes with the following assumptions: market price of $0.48, expected volatility of 121% based on historical volatility of the Company, expected dividend yield of 1.043%, risk-free interest rate of 1.76% and an expected life of two (2) years.

In addition, 1,751,947 broker warrants, exercisable at $0.60 per share expiring in two (2) years, were also issued as compensation for the finders' involvement in the offering. These finders' warrants were valued at $632,763 using Black-Scholes with the following assumptions: market price of $0.60, expected volatility of 121% based on historical volatility of the Company, expected dividend yield of 0.83%, risk-free interest rate of 1.76% and an expected life of two (2) years.

(Expressed in Canadian Dollars)

## 10. WARRANTS RESERVE (continued)

*Warrant issuances for the nine months ended September 30, 2018 (continued)*

During the nine months ended September 30, 2018, 52,040 underlying warrants were issued as a result of the exercise of 104,080 broker warrants for cash proceeds of $26,000. These underlying warrants are exercisable for $0.40 per share and will expire on December 11, 2020.

The following table summarizes information of warrants outstanding as at September 30, 2019:

| Date of expiry | Number of warrants outstanding | Exercise price | Weighted average remaining contractual life |
|---|---|---|---|
| | # | $ | Years |
| October 13, 2019 | 7,164,998 | 0.30 | 0.04 |
| October 13, 2019 | 482,441 | 0.15 | 0.04 |
| December 11, 2019 | 23,539,500 | 0.40 | 0.20 |
| March 1, 2020 | 1,751,947 | 0.60 | 0.42 |
| March 1, 2020 | 11,201,517 | 0.80 | 0.42 |
| October 17, 2020 | 4,000,000 | 0.30 | 1.05 |
| December 11, 2020 | 2,844,705 | 0.25 | 1.20 |
| December 11, 2020 | 304,048 | 0.40 | 1.20 |
| | **51,289,156** | **0.46** | **0.36** |

## 11. RELATED PARTY TRANSACTIONS AND BALANCES

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

*Key management personnel compensation*

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2019 and 2018 were as follows:

| | **Nine months ended September 30, 2019** | Nine months ended September 30, 2018 |
|---|---|---|
| | **$** | $ |
| Salaries, bonus and other benefits | **171,409** | 613,216 |
| Professional fees | **196,225** | 149,595 |
| Stock-based compensation (Note 9) | **586,872** | 1,033,984 |
| | **954,506** | 1,796,795 |

During the nine months ended September 30, 2019, officers and directors of the Company were paid compensation benefits of $171,409 (2018 – $613,216, including a provision for management bonus of $503,000, based on 5% of net investment income on a quarterly basis), for services rendered which was charged to salaries, bonus and other benefits. As at September 30, 2019, no management bonus had been recorded (December 31, 2018 – $853,000 included in accounts payable and accrued liabilities).

During the nine months ended September 30, 2019, Peter Bilodeau, the President and a director of the Company, was paid $25,425 (2018 – $16,950) for consulting services provided to the Company, which are included in professional fees.

**(Expressed in Canadian Dollars)**

## 11. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

*Key management personnel compensation (continued)*

On January 15, 2018, the Company and Branson Corporate Services Ltd. ("Branson"), where Keith Li, the Chief Financial Officer ("CFO") of the Company is employed, entered into a management services agreement, providing for CFO services to the Company, as well as other accounting and administrative services, which are included in professional fees. In consideration for the services provided, the Company agreed to pay a monthly fee of $5,000, subsequently amended to a fee of $8,000 per month effective July 1, 2018. During the nine months ended September 30, 2019, the Company was charged $169,500 (2018 – $60,935) for services provided by Branson. As at September 30, 2019, no balance was owed to Branson (December 31, 2018 – $9,040; included in accounts payable and accrued liabilities).

During the nine months ended September 30, 2019, Roger Dent, Chief Executive Officer ("CEO"), and Eric Szustak, Chairman of the Company, were granted 2,375,000 and 125,000 DSUs, respectively, as partial payment of the management bonus related to the Company's portfolio performance, that was accrued for the year ended December 31, 2018. Upon distribution of the cash dividends on August 26, 2019, the CEO and the Chairman of the Company were issued 16,047.30 and 844.59 additional DSUs, respectively, as adjustments in accordance with the terms of the DSU Plan.

During the nine months ended September 30, 2019, Fogler, Rubinoff LLP ("Fogler"), a law firm in which Adam Szweras, a director of the Company, is also a partner, provided $1,300 (2018 – $61,210) of legal services to the Company, which are included in professional fees. As at September 30, 2019, no balance was owed to Fogler (December 31, 2018 – $61; included in accounts payable and accrued liabilities).

During the nine months ended September 30, 2018, Bryan Knebel, the former CFO of the Company, was paid consulting fees of $10,500 for accounting services provided up to his resignation in March 2018.

*Investments on companies with common management personnel*

As at September 30, 2019, the Company held investment positions in the following issuers with common officers and directors:

| | **Investments** | **Holdings** | **Fair Value** |
|---|---|---|---|
| | | **#** | **$** |
| Aura Health Inc. (1),(6) | Common shares | 4,100,000 shares | 225,500 |
| Aura Health Inc. (1),(6) | Warrants | 1,050,000 units | 4,260 |
| Harborside Inc. (1),(2),(3),(4) | Common and preference shares | 257,318 shares | 501,770 |
| Harborside Inc. (1),(2),(3),(4) | Warrants | 61,315 warrants | 7,856 |
| Nutritional High International Inc. (5) | Warrants | 1,250,250 warrants | 8,092 |
| Nutritional High International Inc. (5) | Convertible debentures | 750 units | 511,859 |
| | | | **1,259,337** |

*(1) Keith Li is also the CFO of Aura Health Inc. and Harborside Inc. (formerly Lineage Grow Company Ltd.).*
*(2) Peter Bilodeau is also the Interim CEO and Chairman and a Director of Harborside Inc.*
*(3) Adam Szweras is also a Director of Harborside Inc.*
*(4) FLRish Inc. and Lineage Grow Company Ltd. completed an RTO transaction on May 30, 2019 and the resulting issuer was renamed Harborside Inc. All Lineage securities were exchanged into Harborside securities at an exchange ratio of 41.818182.*
*(5) Adam Szweras is also the CEO and a Director of Nutritional High International Inc.*
*(6) Aura Health Inc. changed its name to Pharmadrug Inc. on October 21, 2019.*

## 12. RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks.

*Credit risk*

Credit risk is the risk that one (1) party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash. The risk in cash is managed through the use of major financial institutions which have high credit qualities as determined by rating agencies. The Company's secondary exposure to credit risk is on other receivables. As at September 30, 2019 and December 31, 2018, the Company had assessed there is no ECL, as it fully expects to recover these other receivables.

*Foreign exchange risk*

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company invests from time to time into securities, debentures and loan investments issued and denominated in foreign currencies, notably in US dollars. The Company's primary exposure to foreign exchange risk is that investments in foreign securities may expose the Company to the risk of exchange rate fluctuations.

*Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash at variable rates. The fair value of the Company's cash and convertible debentures and loan investments affected by changes in short-term interest rates will be minimal. The Company does not use any derivative instruments to reduce its exposure to interest rate risk.

*Liquidity risk*

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

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at September 30, 2019:

| | Carrying amount | Year 1 | Year 2 to 3 | Year 4 to 5 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 111,621 | 111,621 | - | - |

*Market risk*

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments 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. A 1% change in closing trade price of the Company's investments portfolio would impact net income by $3,860,766 based upon balances as at September 30, 2019.

## 13. CAPITAL MANAGEMENT

The Company manages its capital, consisting of shareholders' equity, in a manner consistent with the risk characteristics of the assets it holds.

## 13. CAPITAL MANAGEMENT (continued)

The Company's objectives when managing capital are:

(a) to maintain sufficient liquidity to allow the Company to pursue business opportunities expeditiously; and

(b) to earn investment returns while managing risk.

The Company's strategy remained unchanged for the nine months ended September 30, 2019 and the year ended December 31, 2018.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on all potential investments and acquisitions. Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable. There were no changes in its approach to capital management for the nine months ended September 30, 2019 and the year ended December 31, 2018.

The Company is not subject to externally imposed capital requirements.

## 14. OPERATING SEGMENT INFORMATION

Management is responsible for the Company's entire investments portfolio and considers the business to have a single operating segment. The management's investment decisions are based on a single, integrated investment strategy, and the performance is evaluated on an overall basis.

The Company has a single reportable geographic segment, Canada, and all of the Company's management are based in Canada.

The internal reporting provided to management of the Company's assets, liabilities, and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS. There were no changes in the reportable segments during the nine months ended September 30, 2019 and the year ended December 31, 2018.

## 15. SUBSEQUENT EVENTS

On October 13, 2019, 7,164,998 Warrants exercisable at $0.30 and 482,441 broker warrants exercisable at $0.15, expired unexercised.

On October 29, 2019, the Board approved a quarterly dividend of $0.00125 per share. The dividend distribution will be paid on November 27, 2019 to shareholders of record on November 6, 2019.