# QUINSAM CAPITAL CORPORATION

## UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

## THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

## (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 of the Company.

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, 2021** | As at December 31, 2020 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| Cash | **279,999** | 1,115,647 |
| Receivables (Note 4) | **2,484,242** | 1,961,298 |
| Investments (Note 5) | **33,732,070** | 31,756,698 |
| **Total Assets** | **36,496,311** | 34,833,643 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities (Notes 6 and 10) | **218,414** | 236,178 |
| Unearned revenue | **-** | 108,466 |
| Income tax payable | **715,612** | 314,808 |
| **Total Liabilities** | **934,026** | 659,452 |
| **Shareholders' Equity** | | |
| Share capital (Note 7) | **19,718,667** | 20,522,155 |
| Deferred share units reserve (Note 8) | **621,322** | 455,486 |
| Share-based payments reserve (Note 9) | **1,086,765** | 1,892,360 |
| Retained earnings | **14,135,531** | 11,304,190 |
| **Total Shareholders' Equity** | **35,562,285** | 34,174,191 |
| **Total Liabilities and Shareholders' Equity** | **36,496,311** | 34,833,643 |

Nature of operations (Note 1)
Subsequent event (Note 14)

**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 Income (Loss) and Comprehensive Income (Loss)
For the Three and Nine Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **$** | $ | **$** | $ |
| **Net Investment Revenue** | | | | |
| Net realized (loss) gains on disposals of investments (Note 5) | **(371,076)** | (801,696) | **1,644,732** | (1,786,804) |
| Net changes in unrealized (loss) gains on investments (Note 5) | **(1,101,041)** | 1,262,568 | **(121,504)** | 1,039,513 |
| | **(1,472,117)** | 460,872 | **1,523,228** | (747,291) |
| **Other Income** | | | | |
| Interest, advisory services, and other income | **409,311** | 643,444 | **1,572,979** | 2,071,631 |
| **Expenses** | | | | |
| Salaries, bonus and other employment benefits (Note 10) | **(5,577)** | 106,221 | **314,687** | 355,894 |
| Stock-based compensation (Notes 8 and 9) | **19,719** | 79,906 | **295,611** | 264,470 |
| Professional fees (Note 10) | **63,863** | 63,229 | **231,014** | 213,351 |
| Transfer agent and filing fees | **6,258** | 9,796 | **25,262** | 29,906 |
| General and administrative | **4,523** | 8,428 | **22,701** | 31,395 |
| Travel and promotional | **2,962** | 299 | **2,962** | 14,760 |
| Recovery for expected credit loss, net | **-** | - | **-** | (84,417) |
| Foreign exchange gain | **(7,514)** | (8,891) | **(65,342)** | (99,701) |
| | **(84,234)** | (258,988) | **(826,895)** | (725,658) |
| **Net Income (Loss) Before Tax** | **(1,147,040)** | 845,328 | **2,269,312** | 598,682 |
| Income tax recovery (expense) | **425,490** | 50,000 | **(187,010)** | 80,500 |
| **Net Income (Loss) and Comprehensive Income (Loss)** | **(721,550)** | 895,328 | **2,082,302** | 679,182 |
| **Net Income (Loss) per Share** | | | | |
| Basic and diluted (Note 7) | **(0.01)** | 0.01 | **0.02** | 0.01 |
| **Weighted Average Number of Shares Outstanding** | | | | |
| Basic (Note 7) | **103,626,052** | 108,737,645 | **104,400,130** | 110,279,485 |
| Diluted (Note 7) | **103,788,362** | 108,737,645 | **105,038,394** | 110,279,485 |

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, 2021 and 2020
(Expressed in Canadian Dollars)

| | Number of Shares | Share Capital | Deferred Share Units | Share-Based Payments | Warrants | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ | $ |
| **Balance, December 31, 2019** | **111,172,693** | **21,773,113** | **442,521** | **2,387,201** | **4,154,857** | **4,000,881** | **32,758,573** |
| Issuance of dividends | - | - | - | - | - | (414,106) | (414,106) |
| Repurchase of common shares (Note 7) | (4,483,635) | (553,490) | - | - | - | - | (553,490) |
| Stock-based compensation (Notes 8 and 9) | - | - | 9,672 | 254,798 | - | - | 264,470 |
| Expiry and cancellation of stock options (Note 9) | - | - | - | (349,099) | - | 349,099 | - |
| Expiry of warrants | - | - | - | - | (2,895,457) | 2,895,457 | - |
| Net income and comprehensive income for the period | - | - | - | - | - | 679,182 | 679,182 |
| **Balance, September 30, 2020** | **106,689,058** | **21,219,623** | **452,193** | **2,292,900** | **1,259,400** | **7,510,513** | **32,734,629** |
| **Balance, December 31, 2020** | **104,992,106** | **20,522,155** | **455,486** | **1,892,360** | **-** | **11,304,190** | **34,174,191** |
| Issuance of dividends | - | - | - | - | - | (391,845) | (391,845) |
| Repurchase of common shares (Note 7) | (4,109,500) | (803,488) | - | - | - | 50,714 | (752,774) |
| Issuance of deferred share units (Note 8) | - | - | 154,800 | - | - | - | 154,800 |
| Stock-based compensation (Notes 8 and 9) | - | - | 11,036 | 284,575 | - | - | 295,611 |
| Forfeiture of stock options (Note 9) | - | - | - | (1,090,170) | - | 1,090,170 | - |
| Net income and comprehensive income for the period | - | - | - | - | - | 2,082,302 | 2,082,302 |
| **Balance, September 30, 2021** | **100,882,606** | **19,718,667** | **621,322** | **1,086,765** | **-** | **14,135,531** | **35,562,285** |

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 and Nine Months Ended September 30, 2021 and 2020
(Expressed in Canadian Dollars)

| | **Three Months ended September 30,** | | **Nine Months ended September 30,** | |
|---|---|---|---|---|
| | **2021** | 2020 | | **2021** |
| | **$** | $ | **$** | $ |
| **Operating Activities** | | | | |
| Net (loss) income for the period | **(721,550)** | 895,327 | **2,082,302** | 679,182 |
| Adjustments for non-cash items: | | | | |
| Stock-based compensation (Notes 8 and 9) | **19,719** | 79,906 | **295,611** | 264,470 |
| Net realized loss (gains) on disposals of investments (Note 5) | **371,076** | 801,696 | **(1,644,732)** | 1,786,804 |
| Unrealized loss (gains) on investments (Note 5) | **1,101,041** | (1,262,568) | **121,504** | (1,039,513) |
| Interest accrued on debenture investments | **(181,214)** | (88,844) | **(470,998)** | (581,821) |
| Interest and other income received in shares | **(192,577)** | (540,004) | **(825,152)** | (1,412,390) |
| Recovery for expected credit loss, net | **-** | - | **-** | (84,417) |
| Foreign exchange (gain) loss | **(23,438)** | (236,990) | **418,420** | (197,202) |
| Income tax (recovery) expense | **(425,490)** | (50,000) | **187,010** | (80,500) |
| | **(52,433)** | (401,477) | **163,965** | (665,387) |
| Changes in non-cash working capital: | | | | |
| Prepaid expenses | **-** | - | **-** | 6,042 |
| Accounts payable and accrued liabilities (Notes 6 & 10) | **(75,659)** | 70,638 | **137,036** | 163,032 |
| Income tax payable | **297,534** | - | **213,794** | - |
| | **221,875** | 70,638 | **350,830** | 169,074 |
| Net additions in investments | | | | |
| Purchases of investments | **(2,120,055)** | (1,254,855) | **(13,060,836)** | (1,819,331) |
| Proceeds on disposition of investments | **2,662,797** | 1,376,787 | **12,855,013** | 3,729,885 |
| Repayments of funds on margin facility | **-** | - | **-** | (699,974) |
| | **542,742** | 121,932 | **(205,823)** | 1,210,580 |
| **Cash Flows provided by (used in) Operating Activities** | **712,184** | (208,907) | **308,972** | 714,267 |
| **Financing Activities** | | | | |
| Issuance of dividends | **(129,366)** | (136,174) | **(391,846)** | (414,106) |
| Repurchase of common shares (Note 7) | **(468,064)** | (283,529) | **(752,774)** | (553,490) |
| **Cash Flows (used in) Financing Activities** | **(597,430)** | (419,703) | **(1,144,620)** | (967,596) |
| **Increase (decrease) in cash** | **114,754** | (628,610) | **(835,648)** | (253,329) |
| Cash, beginning of period | **165,245** | 1,049,547 | **1,115,647** | 674,266 |
| **Cash, end of period** | **279,999** | 420,937 | **279,999** | 420,937 |

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 the Province of British Columbia. The Company is an investment and merchant banking firm focused on the technology, healthcare, e-sports, and cannabis markets. The Company's common shares are listed on the Canadian Securities Exchange (the "CSE") 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, 2020, including the accompanying notes thereto.

These unaudited condensed interim financial statements were reviewed, approved and authorized for issuance by the Board of Directors (the "Board") of the Company on November 18, 2021.

### (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 except for the revaluation of investments.

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

### (c) Functional and Presentation Currency

These unaudited condensed interim financial statements have been prepared in Canadian dollars ($), which is also the functional currency of the Company. The functional currency is the currency of the primary economic environment in which the Company operates.

### (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 factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

## 2. Basis of Preparation (continued)

### (d) Significant Accounting Judgments and Estimates (continued)

*Going concern*

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing the Company's performance, resources and future obligations.

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

Where the fair values of financial assets recorded on the statements of financial position, including shares, options, 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 options, warrants and conversion features of debentures 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*

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

*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 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.

For accounts receivable, the Company applies the simplified approach as permitted by IFRS 9 – Financial Instruments, whereby lifetime ECL are recognized based on aging characteristics and credit worthiness of customers. Specific provisions may be used where there is information that a specific customer's ECL have increased.

(Expressed in Canadian Dollars)

## 3. Significant Accounting Policies

The accounting policies applied by the Company in these unaudited condensed interim financial statements are the same as those noted in the Company's audited financial statements for the year ended December 31, 2020, unless otherwise noted below.

### (a) Changes in Accounting Policies

The Company adopted the following amendments, effective January 1, 2021. These changes were made in accordance with the applicable transitional provisions.

*Amendments to IAS 1 – Presentation of Financial Statements ("IAS 1")*

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management's expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of the novel coronavirus ("COVID-19") pandemic. The Company early-adopted these amendments as permitted. The Company had assessed that there was no material impact upon the adoption of the amendments on its unaudited condensed interim financial statements.

## 4. Receivables

| | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Interest receivable [(i)] | **2,279,232** | 1,756,288 |
| Other receivables [(ii)] | **205,010** | 205,010 |
| **Total receivables** | **2,484,242** | 1,961,298 |

(i) As at September 30, 2021, the Company has accrued interest income of $2,279,232 (December 31, 2020 – 1,756,288), from its convertible debentures and loan investments.

(ii) As at September 30, 2021, the Company held certain debt private placements of an investee company which had matured. An amount of $110,000 was due from such investee company. As the proceeds were more than 30 days past due maturity, an allowance for ECL of $55,000 was recorded by the Company on the investment. Also included in other receivables as at September 30, 2021, is an amount of $150,000 (December 31, 2020 – $150,000) of consulting fees from another investee company. The Company fully expects to be paid on this amount.

(Expressed in Canadian Dollars)

## 5. Investments

The Company's investments portfolio consisted of the following securities as at September 30, 2021:

| | | Fair Value | | | |
|---|---|---|---|---|---|
| **Investments** | **Cost** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
| | **$** | **$** | **$** | **$** | **$** |
| Equities | 17,737,875 | 8,551,833 | - | 12,054,774 | 20,606,607 |
| Warrants | 1,884,785 | 480,875 | 775,665 | 354,425 | 1,610,965 |
| Convertible debentures | 5,862,926 | 1,005,181 | 1,829,796 | 3,704,521 | 6,539,498 |
| Loans | 4,950,000 | - | 225,000 | 4,750,000 | 4,975,000 |
| **Total investments** | **30,460,586** | **10,037,889** | **2,830,461** | **20,863,720** | **33,732,070** |

The Company's investments portfolio consisted of the following securities as at December 31, 2020:

| | | Fair Value | | | |
|---|---|---|---|---|---|
| **Investments** | **Cost** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** |
| | **$** | **$** | **$** | **$** | **$** |
| Equities | 14,566,206 | 6,608,858 | - | 10,786,074 | 17,394,932 |
| Warrants | 1,463,671 | 584 | 1,066,339 | 573,183 | 1,640,106 |
| Convertible debentures | 6,919,232 | - | 4,058,635 | 2,894,324 | 6,952,959 |
| Loans | 5,802,676 | - | - | 5,768,701 | 5,768,701 |
| **Total investments** | **28,751,785** | **6,609,442** | **5,124,974** | **20,022,282** | **31,756,698** |

*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 statements of income (loss) and comprehensive income (loss).

| | **Opening balance** | **Purchases / loans** | **Transfers / (conversion)** | **Proceeds** | **Net realized gains (loss)** | **Net unrealized gains (loss)** | **Ending balance** |
|---|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| September 30, 2021 | 20,022,282 | 5,515,590 | (3,375,832) | (1,476,400) | (957,799) | 1,135,879 | 20,863,720 |
| December 31, 2020 | 22,205,835 | 1,522,000 | (587,156) | (10) | (1,222,500) | (1,895,887) | 20,022,282 |

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. When a private company investment changes its status to a publicly-listed investment which meets Level 1 or Level 2 criteria, the investment is transferred out of the Level 3 fair value hierarchy. A transfer is recorded upon the occurrence of a liquidity transaction for an investee company, which includes, but is not limited to, a business combination between the entity and a public corporation pursuant to a reverse takeover, merger, amalgamation, arrangement, take-over bid, or an initial public offering of the entity. The transfers are recorded on the date that such a liquidity transaction is completed.

(Expressed in Canadian Dollars)

### 5. Investments (continued)

*Level 3 fair value hierarchy (continued)*

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, 2021:

| Investments | Total fair value | Method | Unobservable inputs | Range of inputs |
|---|---|---|---|---|
| | $ | | | |
| Equities | 12,054,774 | Transaction price | Recent purchase price. | N/A |
| Warrants | 354,425 | Black-Scholes | Market prices, volatility, risk-free interest rate. | 100% – 125% volatility |
| Convertible debentures | 3,704,521 | Black-Scholes | Market prices, volatility, discount rate. | 100% – 125% volatility, 20.5% discount rate |
| Loans | 4,750,000 | Discounted cash flows | Discount rate. | 8% – 12% |
| | **20,863,720** | | | |

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, 2021 and December 31, 2020. 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 +/- $2,086,372 (December 31, 2020 +/- $2,002,228) 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.

### 6. Accounts Payable and Accrued Liabilities

| | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Trade payables | **13,413** | 11,178 |
| Accrued liabilities (Note 10) | **205,000** | 225,000 |
| **Total accounts payable and accrued liabilities** | **218,413** | 236,178 |

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

### 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 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.

(Expressed in Canadian Dollars)

## 7. Share Capital (continued)

*Authorized share capital (continued)*

Common shares issued and outstanding as at September 30, 2021 are as follows:

| | Number of common shares | Amount |
|---|---|---|
| | # | $ |
| **Balance, December 31, 2020** | **104,992,106** | **20,522,155** |
| Repurchase of common shares | (4,109,500) | (803,488) |
| **Balance, September 30, 2021** | **100,882,606** | **19,718,667** |

*Share capital transactions for the nine months ended September 30, 2020*

During the nine months ended September 30, 2020, a total of 4,483,635 common shares of the Company repurchased for $553,490 under the normal course issuer bid (the "Bid") which began on August 28, 2019, were cancelled and returned to the Treasury. Under the Bid, all common shares were purchased on the open market through the facilities of the CSE, and payment for the common shares was made in accordance with CSE policies. The price paid for the common shares was the prevailing market price at the time of purchase.

*Share capital transactions for the nine months ended September 30, 2021*

During the nine months ended September 30, 2020, a total of 4,109,500 common shares of the Company repurchased for $752,774 under a new Bid, were cancelled and returned to the Treasury.

*Basic and diluted income per share*

The calculations of basic and diluted EPS for the nine months ended September 30, 2021 were based on the net income from operations attributable to common shareholders of $2,082,302 (2020 – $679,182) and the weighted average number of basic common shares outstanding of 104,400,130 (2020 – 110,279,485) and diluted common shares of 105,038,394 (2020 – 110,279,485).

## 8. Deferred Share Units Reserve

On April 29, 2019, the Company established a deferred share unit plan (the "DSU Plan"), under which, one DSU is equivalent in value to one 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 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.

Any vesting conditions for DSUs are determined by the Compensation and Corporate Governance Committee of the Board of the Company. 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.

All DSUs credited under the DSU Plan shall remain in the 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.

## 8. Deferred Share Units Reserve (continued)

*DSU issuances for the nine months ended September 30, 2020*

On February 25, 2020, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on February 4, 2020. On distribution of the cash dividends, the Company granted 33,530.96 DSUs at a price of $0.095 to certain of its officers. These DSUs were valued at $3,185 and recorded as stock-based compensation.

On May 29, 2020, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on May 8, 2020. On distribution of the cash dividends, the Company granted an additional 25,818.84 DSUs at a price of $0.125 to certain of its officers. These DSUs were valued at $3,227 and recorded as stock-based compensation.

On August 26, 2020, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on August 10, 2020. On distribution of the cash dividends, the Company granted 26,077.03 DSUs at a price of $0.125 to certain of its officers. These DSUs were valued at $3,260 and recorded as stock-based compensation.

*DSU issuances for the nine months ended September 30, 2021*

On February 25, 2021, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on February 4, 2021. On distribution of the cash dividends, the Company granted 18,518.77 DSUs at a price of $0.18 to certain of its officers. These DSUs were valued at $3,333 and recorded as stock-based compensation.

On May 27, 2021, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on May 7, 2021. On distribution of the cash dividends, the Company granted 18,143.38 DSUs at a price of $0.185 to certain of its officers. These DSUs were valued at $3,356 and recorded as stock-based compensation.

On May 31, 2021, the Company granted 774,000 DSUs to an officer, as payment of the management bonus related to the Company's portfolio performance, that was accrued for the year ended December 31, 2020. The DSUs vested immediately on grant and were valued at $154,800.

On August 27, 2021, the Company paid a quarterly dividend of $0.00125 per common share to shareholders of record on August 9, 2021. On distribution of the cash dividends, the Company granted 24,148.36 DSUs at a price of $0.18 to certain of its officers. These DSUs were valued at $4,347 and recorded as stock-based compensation.

As at September 30, 2021, the Company had granted a total of 3,501,512.63 DSUs (December 31, 2020 – 2,666,702.12 units) under the DSU Plan.

## 9. Share-Based Payments Reserve

The Company maintains a stock option plan (the "Option 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 Option Plan is limited to 10% of the number of outstanding common shares. As at September 30, 2021, the Company had 3,348,260 common shares that are issuable under the Option Plan.

Under the Option 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 years and vesting periods are determined by the Board.

(Expressed in Canadian Dollars)

**9. Share-Based Payments Reserve (continued)**

The following summarizes the stock option activity for the nine months ended September 30, 2021 and 2020:

| | **September 31, 2021** | | September 30, 2020 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | Number of options | Weighted average exercise price |
| | **#** | **$** | # | $ |
| **Outstanding, beginning of period** | **7,500,000** | **0.49** | 7,800,000 | 0.49 |
| Granted | **2,240,000** | **0.19** | 2,500,000 | 0.13 |
| Expired | **-** | **-** | (200,000) | 0.13 |
| Cancelled | **-** | **-** | (1,000,000) | 0.50 |
| Forfeited | **(1,500,000)** | **0.48** | - | - |
| Forfeited | **(1,500,000)** | **0.60** | - | - |
| **Outstanding, end of period** | **6,740,000** | **0.26** | 9,100,000 | 0.40 |
| **Exercisable, end of period** | **5,073,333** | **0.31** | 5,858,334 | 0.50 |

*Option grants for the nine months ended September 30, 2020*

On August 25, 2020, the Company granted 2,500,000 stock options to various officers and directors. The options are exercisable at $0.13 per share and vest quarterly over a period of three years. The options were valued using the Black-Scholes valuation model (“Black-Scholes”), with the following assumptions: expected volatility of 103% based on the historical volatility of the Company, expected dividend yield of 3.85%, risk-free interest rate of 0.40%, estimated forfeiture rate of 20% and an expected life of five years. The grant date fair value attributable to these options was $195,479, of which $59,179 was recorded as stock-based compensation in connection with the vesting of these options during the nine months ended September 30, 2021 (2020 – $19,806).

*Option grants for the nine months ended September 30, 2021*

On May 31, 2021, the Company granted 2,240,000 stock options to various officers and directors. The options are exercisable at $0.19 per share and vested immediately on grant. The options were valued using Black-Scholes, with the following assumptions: 2.70%, risk-free interest rate of 0.90%, estimated forfeiture rate of 20%, and an expected life of five years. The grant date fair value attributable to these vested options of $208,766 was recorded as stock-based compensation during the nine months ended September 30, 2021.

The following table summarizes information of stock options outstanding and exercisable as at September 30, 2021:

| **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** |
| December 22, 2022 | 1,500,000 | 0.48 | 1,500,000 | 0.48 | 1.23 |
| March 19, 2023 | 500,000 | 0.60 | 500,000 | 0.60 | 1.47 |
| August 25, 2025 | 2,500,000 | 0.13 | 833,333 | 0.13 | 3.90 |
| May 31, 2026 | 2,240,000 | 0.19 | 2,240,000 | 0.19 | 4.67 |
| | **6,740,000** | **0.26** | **5,073,333** | **0.31** | **3.38** |

(Expressed in Canadian Dollars)

## 10. Related Party Transactions and Balances

*Key management personnel compensation*

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.

The remuneration of directors and other members of key management personnel during the nine months ended September 30, 2021 and 2020 were as follows:

| | **2021** | 2020 |
|---|---|---|
| | **$** | $ |
| Salaries, bonus and other benefits | **309,887** | 355,894 |
| Professional fees | **81,360** | 87,010 |
| Stock-based compensation (Notes 8 and 9) | **295,611** | 248,530 |
| | **686,858** | 691,434 |

During the nine months ended September 30, 2021, officers and directors of the Company were paid compensation benefits of $309,887 (2020 – $355,894) for services rendered, including a provision for management bonus of $155,000 (2020 – $185,000), based on 5% of net investment income on a quarterly basis), which was charged to salaries, bonus and other benefits. As at September 30, 2021, the accrued management bonus of $155,000 (December 31, 2020 – $150,000) was included in accounts payable and accrued liabilities.

During the nine months ended September 30, 2021, the Chief Executive Officer (the "CEO") and the Chairman of the Company, were issued 58,038.74 and 2,771.78 DSUs (2020 – 81,155.49 and 4,271.34 DSUs), respectively, upon distribution of the cash dividends paid (see Note 8), as adjustments in accordance with the terms of the DSU Plan. These DSUs were valued at $11,036 (2020 – $9,672) and recorded as stock-based compensation.

During the nine months ended September 30, 2021, the CEO of the Company also received 774,000 DSUs as payment of the management bonus related to the Company's portfolio performance, that was accrued for the year ended December 31, 2020.

During the nine months ended September 30, 2021, Branson Corporate Services Ltd. ("Branson"), where the Chief Financial Officer ("CFO") of the Company is employed, was paid professional fees of $81,360 (2020 – $81,360), for CFO services provided to the Company, as well as other accounting and administrative services, which are included in professional fees. As at September 30, 2021, no balance was owed to Branson (December 31, 2020 – $nil).

During the nine months ended September 30, 2020, a former officer and director of the Company, was paid $5,650 for consulting services provided to the Company, which are included in professional fees.

During the nine months ended September 30, 2021, officers and directors of the Company received stock-based compensation of $284,575 (2020 – $238,858) on vesting of options granted.

## 10. Related Party Transactions and Balances (continued)

*Investments on companies with common management personnel*

As at September 30, 2021, the Company held investment positions in the following issuers with common officers and directors:

| | Investments | Holdings | Fair Value |
|---|---|---|---|
| | | # | $ |
| California Nanotechnologies Inc. (1) | Common shares | 1,112,000 shares | 88,960 |
| Deveron Corp. (1) | Common shares | 500,000 shares | 345,000 |
| New Hope Medical Group of Companies Inc. (formerly Peak Health Ontario Inc.) (1) | Common shares | 900,000 shares | 720,000 |
| Pharmadrug Inc. (2) | Warrants | 375,000 units | 9,547 |
| Vitalhub Corp. (1) | Common shares | 84,000 shares | 242,760 |
| | | | **1,406,267** |

(1) *Roger Dent is also a Director of California Nanotechnologies Inc., Deveron Corp. New Hope Medical Group of Companies Inc. and Vitalhub Corp.*
(2) *Keith Li is also the CFO of Pharmadrug Inc.*

## 11. Financial Instruments

The Company's financial instruments consist primarily of cash, receivables, investments and accounts payable. The Company is exposed to various risks as it relates to these financial instruments. Management, in conjunction with the Board, mitigates these risks by assessing, monitoring and approving the Company's risk management process. There have not been any changes in the nature of these risks or the process of managing these risks from the previous reporting periods.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and receivables. 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 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 United States 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. Due to the low number of investments issued and denominated in foreign currencies, management believes that the foreign exchange risk with respect to investments is low.

*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.

(Expressed in Canadian Dollars)

## 11. Financial Instruments (continued)

*Liquidity risk*

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at September 30, 2021, the Company had a cash balance of $279,999 (December 31, 2020 – $1,115,647) to settle current liabilities of $934,025 (December 31, 2020 – $659,452).

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, 2021:

| | Carrying amount | Year 1 | Year 2 to 3 | Year 4 to 5 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Accounts payable | 218,413 | 218,413 | - | - |

The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows for a rolling period of 12 months to identify financial requirements. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations.

Management believes there is sufficient capital to meet short-term business obligations, after taking into account cash flow requirements from operations and the Company's cash position as at September 30, 2021.

*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 $337,321 based upon balances as at September 30, 2021.

*COVID-19*

In December 2019, COVID-19 surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020 with respect to the outbreak then characterized it as a pandemic on March 11, 2020. The outbreak has spread throughout Europe and the Middle East and there have been cases of COVID-19 in Canada and the United States, and has continued to cause companies and various international jurisdictions to impose restrictions, such as quarantines, closures, cancellations and travel restrictions. The duration of the business disruptions internationally and related financial impact to the global economy remains highly uncertain at this time, as COVID-19 continues to evolve.

To date, the outbreak has not had a material adverse impact on the Company's operations. As Quinsam has operated on a "virtual basis" for a number of years, restrictions and the general closure of non-essential businesses in response to the COVID-19 outbreak has not significantly impacted the Company's day-to-day operations. However, the future impact of the outbreak remains potentially and highly uncertain for certain of Quinsam's investee companies, and may not be predicted. Until economies stabilize and that the vaccine rollout will be complete, there is no assurance that the outbreak will not have a material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain COVID-19.

## 12. Capital Management

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

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 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 during the nine months ended September 30, 2021 and the year ended December 31, 2020.

The Company is not subject to externally imposed capital requirements.

## 13. 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, 2021 and the year ended December 31, 2020.

## 14. Subsequent Event

On October 28, 2021, the Board approved a quarterly dividend of $0.00125 per share. The dividend distribution will be paid on November 26, 2021, to shareholders of record on November 5, 2021.