



**GUNPOWDER CAPITAL CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR  
THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

**AUGUST 29, 2018**



(CSE:GPC) | (CSE:GPC.PR.A) | (OTCQB:GNPWF)

The following is Management's Discussion and Analysis ("MD&A") of the financial condition of Gunpowder Capital Corp. ("Gunpowder" or the "Company") and the financial performance for the three and six months ended June 30, 2018. This information, prepared as of August 29, 2018, and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Gunpowder for the three and six months ended June 30, 2018, as well as the audited consolidated financial statements for the year ended December 31, 2017 and the related management's discussion and analysis (the "Annual MD&A"). The unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts are expressed in Canadian dollars unless otherwise indicated.

### **Forward Looking Statements**

This MD&A, and specifically the "Outlook" section contains or incorporates forward-looking statements within the meaning of Canadian securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to, among other things, revenue, earnings, changes in cost and expenses, capital expenditures and other objectives, strategic plans and business development goals, and may also include other statements that are predictive in nature or that depend upon or refer to future events or conditions, and can generally be identified by words such as "may", "will", "expects", "anticipates", "intends", "plans", "believes", "estimates" or similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These statements are not historical facts but instead represent only Gunpowder Capital Corp., expectations, estimates and projections regarding future events.

Although the Company believes the expectations reflected in such forward-looking statements are reasonable, such statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Undue reliance should not be placed on such statements. Certain material assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements.

The forward-looking statements contained in this MD&A are made as at the date of this MD&A and, accordingly, are subject to change after such date. Except as required by law, Gunpowder Capital Corp., does not undertake any obligation to update or revise any forward-looking statements made or incorporated in this MD&A, whether as a result of new information, future events or otherwise.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Risks related to our business".

### **Overview**

Listed on the Canadian Securities Exchange under the trading symbol "GPC" and on the OTCQB Markets under the trading symbol "GNPWF". Gunpowder is a newly formed Merchant Bank and Advisory Services Firm. In May 2016 Gunpowder Capital Corp. (formerly Silver Shield Resources Corp.) implemented its new business model under the leadership of a new management team.

As a merchant bank and advisory services firm, Gunpowder provides financial capital and capital markets advisory services. The Company offers a variety of financing options including mezzanine debt, bridge loans, convertible debentures and straight loans as well as equity financing. Our goal when investing is to as best as possible ensure the preservation of capital and structure upside for our stakeholders through participation opportunities such as royalties, equity or options. Our main focus with advisory services is to assist companies that are interested in going public, however, we are also involved with general capital markets advisory services and advising on mergers and acquisitions.



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### **Business Objectives and Milestones**

Gunpowder's primary focus for 2018 is to continue to grow as a merchant bank. The Company's set goals for fiscal 2018 include:

1. Continue to grow our merchant banking and advisory services business to revenues of \$1,000,000.
2. Complete two go-public transactions with advisory clients.
3. Increase current rental property portfolio to 50 units and increase yearly rental revenue to exceed \$300,000.

On January 17, 2018, January 26, 2018 and April 8, 2018, the Company completed the acquisition of three tenanted properties in London and Windsor, Ontario with a total of 16 residential rental units to a total of 48 units excluding the rooming house owned by the Company.

4. Continue to develop the Company's blockchain business.
5. Continue to examine opportunities to acquire or launch two additional businesses to add to our portfolio.

### **Highlights for the Quarter ended June 30, 2018**

Gunpowder continues to execute on its strategic and operational initiatives as highlighted during the quarter and shortly thereafter:

*On April 8, 2018, the Company completed the purchase of its seventh tenanted residential property in Windsor, Ontario.*

*On July 25, 2018, the Company raised \$57,500 with the issuance of 5,750 Class – A preferred shares for \$10 per share.*

*On July 30, 2018, the Company invested in an additional US rehabilitation property of USD \$125,655 (\$163,907).*

*On August 14, 2018, the Company issued a convertible debenture of \$750,000 for consideration of 500,000 common shares of Astro Aerospace Ltd. (OTCQB: ASDN). On the date of receipt, these shares had a fair market value of USD 965,000 (\$1,263,368), resulting in a gain of \$513,368 in the transaction. The debenture has an interest rate of 10% per annum and interest is payable quarterly with common shares of the Company. The maturity date of the debenture is two years after issuance and on that that date, the debenture will automatically convert into 15,000,000 common shares of the Company.*

### **Additional highlights for the Six months ended June 30, 2018**

In addition to the highlights noted above for the three months ended June 30, 2018, Gunpowder attained the following initiatives during the first quarter of fiscal 2018:

*On March 19, 2018, the Company loaned \$50,000 to Bitblox Technologies Inc. ("Bitblox"). The loan is in good standing and generates 24% interest per annum.*

*On January 17 and 27, 2018, the Company completed the purchase of its third and fourth tenanted residential properties in London, Ontario.*

*On March 2, 2018, the Company invested in its fourth rehabilitation properties in the United States for USD\$362,779 (CDN\$471,425).*



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### Outlook

The second quarter of 2018 was a strong quarter for Gunpowder as we continued to build our brand and grow our asset base. We have a robust sales pipeline and hope to announce other opportunities that we have been working on in the coming quarters.

### Quarterly results

The following table shows our results of operations for the last eight quarters:

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Revenue	\$ 341,458	\$ 302,335	\$ 407,222	\$ 680,501	\$ 255,184	\$ 94,190	\$ 85,191	\$ 45,336
Net Income (Loss)	(124,251)	(184,590)	(107,814)	128,132	(202,007)	(155,467)	(207,772)	(629,249)
Income (Loss) per share - basic and diluted	(0.00)	(0.01)	(0.00)	0.00	(0.01)	(0.01)	(0.01)	(0.03)
Cash	1,144,379	238,066	992,755	2,124,895	1,111,222	995,953	127,619	397,664
Mineral properties	-	-	-	-	-	-	-	954,175
Buildings and improvements	4,559,827	4,287,341	2,900,815	2,193,316	1,834,842	1,548,909	770,166	464,572
Loans and other investment assets (long term)	784,922	1,716,458	1,802,968	1,891,890	1,670,349	1,172,688	907,616	417,097
Dividends paid to common share shareholders	-	-	-	216,667	-	-	-	-
Dividends paid to "Class - A" and "Class - B" preferred shares shareholders	121,276	122,276	102,043	80,536	72,447	40,948	14,359	11,344

### Results of Operations

The following table shows the results of operations for the six months ended June 30, 2018 compared to the same period last year:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Rental	\$ 97,322	\$ 33,174	\$ 178,558	\$ 56,405
Advisory services	91,994	69,111	113,039	70,016
Payment processing services	58,218	69,020	145,801	90,067
Interest	93,924	83,879	206,396	132,887
<b>Total income</b>	<b>341,458</b>	<b>255,184</b>	<b>643,794</b>	<b>349,375</b>
Management fees	84,300	134,500	240,600	209,250
Consulting and other professional fees	88,434	65,327	195,602	123,270
General, office and administrative	62,498	65,815	147,798	112,406
Property taxes and maintenance	70,303	25,195	135,070	44,964
Mortgage and loan interest	31,142	10,858	58,786	17,972
Amortization	31,228	12,069	58,399	22,080
Marketing and investor relations	22,153	7,931	47,581	17,758
Legal and audit fees	41,742	31,571	43,742	39,071
Travel and accommodations	17,180	12,562	26,200	20,659
Non-recoverable input tax credits	15,301	34,216	21,445	34,216
Transfer agent and filing fees	9,195	43,856	19,186	52,298
Bank service charges	1,790	1,794	3,496	3,393
Share-based compensation	-	31,000	-	31,000
<b>Net loss before other items</b>	<b>(133,808)</b>	<b>(221,510)</b>	<b>(354,111)</b>	<b>(378,962)</b>
Realized gain on investments	16,990	-	21,443	-
Unrealized gain (loss) on investments	(16,208)	24,320	(9,829)	15,068
Accretion on financial instruments	(5,746)	11,411	(5,491)	22,697
Foreign exchange gain (loss)	14,521	(16,228)	39,147	(16,275)
<b>Total other items</b>	<b>9,557</b>	<b>19,503</b>	<b>45,270</b>	<b>21,490</b>
<b>LOSS AND COMPREHENSIVE LOSS</b>	<b>\$ (124,251)</b>	<b>\$ (202,007)</b>	<b>\$ (308,841)</b>	<b>\$ (357,472)</b>



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**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

For the three months ended June 30, 2018

The following table shows the results of operations for the three months ended June 30, 2018 compared to the same period last year:

	<u>Q2 2018</u>	<u>Q2 2017</u>	Increase/ (decrease) in \$	Increase/ (decrease) in %
Rental	\$ 97,322	\$ 33,174	\$ 64,148	193%
Advisory services	91,994	69,111	22,883	33%
Payment processing services	58,218	69,020	(10,802)	-16%
Interest	93,924	83,879	10,045	12%
<b>Total revenues</b>	<b>\$ 341,458</b>	<b>\$ 255,184</b>	<b>\$ 86,274</b>	<b>34%</b>

The Company acquired its first rental property in Q3 of 2016 and has since acquired its twelfth rental property by Q2 of 2018, rental income had increased significantly in Q2 of 2018 compared to the same period of the prior year due to the increase of the number of rental units.

In Q3 and Q4 of 2017, the Company entered into advisory agreements with two companies, this accounts for a significant portion of the increase in advisory services revenue in Q2 2018 as compared to the same period in the prior year.

The following table shows operating costs for the three months ended June 30, 2018 compared to the same period in the prior year:

	<u>Q2 2018</u>	<u>Q2 2017</u>	Increase/ (decrease) in \$	Increase/ (decrease) in %
Consulting and other professional fees	\$ 88,434	\$ 65,327	\$ 23,107	35%
Management fees	84,300	134,500	(50,200)	-37%
Property taxes and maintenance	70,303	25,195	45,108	179%
General, office and administrative	62,498	65,815	(3,317)	-5%
Legal and audit fees	41,742	31,571	10,171	32%
Amortization	31,228	12,069	19,159	159%
Mortgage and loan interest	31,142	10,858	20,284	187%
Marketing and investor relations	22,153	7,931	14,222	100%
Travel and accommodations	17,180	12,562	4,618	37%
Non-recoverable input tax credits	15,301	34,216	(18,915)	-55%
Transfer agent and filing fees	9,195	43,856	(34,661)	0%
Bank service charges	1,790	1,794	(4)	100%
Share-based compensation	-	31,000	(31,000)	-100%
<b>Total operating costs</b>	<b>\$ 475,264</b>	<b>\$ 476,694</b>	<b>\$ (1,430)</b>	<b>0%</b>

Operating expenses before other items for the quarter was \$475,264 compared to \$276,694 in the same quarter in the prior year.

Consulting fees of \$88,434 were incurred in the three months ended June 30, 2018 compared to \$65,327 during the same period in the prior year due to the hiring of an additional consultant in Q4 of 2017.

Management fees of \$84,300 were incurred in the three months ended June 30, 2018 compared to \$134,500 in the same quarter of 2017 due to timing of bonuses that were paid to the management of the Company approved by the Board of Directors of the Company. Bonuses were approved in Q1 of 2018 and Q2 of 2017.



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A total of \$70,30 in property taxes and maintenance and \$31,142 of mortgage and loan interest were incurred in the second quarter of 2018 as compared to \$25,195 and \$10,858, respectively in the same quarter of 2017 as the Company acquired seven additional rental properties since the second quarter of 2017 and the associated expenses have increased accordingly.

The Company has changed its method of recording HST input tax credits during Q2 2017 in that only HST input tax credits which are deemed refundable is recorded as HST receivables. When it is reasonably estimable that a portion of the input tax credits is not eligible for refund, the amount is recorded as an expense. The percentage of eligible input tax credits can fluctuate significant from one quarter to the next as it is based on the proportion of taxable and non-taxable income in any given quarter. During the quarter ended June 30, 2018, the Company recorded an expense of non-recoverable input tax credits of \$15,301 compared to \$34,216 in the prior year.

Other items for the three months ended June 30, 2018 include realized and unrealized gains on investments, accretion of financial instruments and foreign exchange gains and losses. See Note 5 of the condensed interim consolidated financial statements for details of realized and unrealized gains. Foreign exchange gains for the three months ended June 30, 2018 related to the strengthening of the US dollar and its effect on the Company's financial instruments denominated in the US dollar.

For the six months ended June 30, 2018

The following table shows the results of operations for the six months ended June 30, 2018 compared to the same period last year:

	<u>Q1 to Q2 2018</u>	<u>Q1 to Q2 2017</u>	Increase/ (decrease) in \$	Increase/ (decrease) in %
Rental	\$ 178,558	\$ 56,405	\$ 122,153	217%
Advisory services	113,039	70,016	43,023	61%
Payment processing services	145,801	90,067	55,734	62%
Interest	206,396	132,887	73,509	55%
Total revenues	<u>\$ 643,794</u>	<u>\$ 349,375</u>	<u>\$ 294,419</u>	<u>84%</u>

The Company acquired its first rental property in Q3 of 2016 and has since acquired its twelfth rental property by Q2 of 2018, rental income had increased significantly in the first six months of 2018 compared to the same period of the prior year due to the increase of the number of rental units.

In Q3 and Q4 of 2017, the Company entered into advisory agreements with two companies, this accounts for a significant portion of the increase in advisory services revenue in the first six months of 2018 as compared to the same period in the prior year.

Payment processing services were provided by the Company during the whole six month period ended June 30, 2018 as opposed beginning in mid-Q1 of 2017. Therefore, there was an increase of \$55,734 in payment processing services revenue was earned during the same period in the prior year.

The interest earned in the first six months of 2018 had increased \$73,509 compared to the same period of the prior year since the Company had a more robust portfolio of loans in the first six months of 2018 compared to the same period in the prior year. These loans are all in good standing and bear interest rates ranging from 12% to 24%.



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The following table shows operating costs for the six months ended June 30, 2018 compared to the same period in the prior year:

	<u>Q1 to Q2</u> <u>2018</u>	<u>Q1 to Q2</u> <u>2017</u>	Increase/ (decrease) in \$	Increase/ (decrease) in %
Management fees	\$ 240,600	\$ 209,250	\$ 31,350	15%
Consulting and other professional fees	195,602	123,270	72,332	59%
General, office and administrative	147,796	112,406	35,390	31%
Property taxes and maintenance	135,070	44,964	90,106	200%
Mortgage and loan interest	58,786	17,972	40,814	227%
Amortization	58,399	22,080	36,319	164%
Marketing and investor relations	47,581	17,758	29,823	168%
Legal and audit fees	43,742	39,071	4,671	12%
Travel and accommodations	26,200	20,659	5,541	27%
Non-recoverable input tax credits	21,445	34,216	(12,771)	-37%
Transfer agent and filing fees	19,186	52,298	(33,112)	-63%
Bank service charges	3,496	3,393	103	3%
Share-based compensation	-	31,000	(31,000)	-100%
<b>Total operating costs</b>	<b>\$ 997,903</b>	<b>\$ 728,337</b>	<b>\$ 269,566</b>	<b>37%</b>

Operating expenses before other items for the six month period ended June 30, 2018 was \$997,903 compared to \$728,337 in the same quarter in the prior year.

Consulting fees of \$195,602 were incurred in the six months ended June 30, 2018 compared to \$123,270 during the same period in the prior year due to the hiring of an additional consultant in Q4 of 2017.

Management fees of \$240,600 were incurred in the six months ended June 30, 2018 compared to \$209,250 in the same period of 2017 due to directors fees and an increase in fees to the management of the Company approved by the Board of Directors of the Company in 2018.

A total of \$135,070 in property taxes and maintenance and \$58,786 of mortgage and loan interest were incurred in the first six months of 2018 as compared to \$44,964 and \$17,972, respectively in the same period of 2017 as the Company acquired seven additional rental properties since the second quarter of 2017 and the associated expenses have increased accordingly.

The Company has changed its method of recording HST input tax credits during Q2 2017 in that only HST input tax credits which are deemed refundable is recorded as HST receivables. When it is reasonably estimable that a portion of the input tax credits is not eligible for refund, the amount is recorded as an expense. The percentage of eligible input tax credits can fluctuate significant from one quarter to the next as it is based on the proportion of taxable and non-taxable income in any given quarter. During the six month period ended June 30, 2018, the Company recorded an expense of non-recoverable input tax credits of \$21,445 compared to \$34,216 in the prior.

Other items for the three months ended June 30, 2018 include realized and unrealized gains on investments, accretion of financial instruments and foreign exchange gains and losses. See Note 5 of the condensed interim consolidated financial statements for details of realized and unrealized gains. Foreign exchange gains for the three months ended June 30, 2018 related to the strengthening of the US dollar and its effect on the Company's financial instruments denominated in the US dollar.



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**Liquidity and Capital Resources**

The following table summarizes cash flows from the three and six months ended June 30, 2018 compared to the same period in the prior year:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2016
CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (394,581)	\$ 68,789	\$ (657,690)	\$ 353,167
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES	124,489	617,977	(23,577)	1,724,081
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,176,405	(571,497)	832,891	(1,093,645)
	906,313	115,269	151,624	983,603
Cash, opening balance	238,066	995,953	992,755	127,619
Cash, end of period	<u>\$ 1,144,379</u>	<u>\$ 1,111,222</u>	<u>\$ 1,144,379</u>	<u>\$ 1,111,222</u>

In addition to the operating activities discussed above, the Company was provided with \$124,489 for the three months ended June 30, 2018 and used \$23,577 during the six months ended June 30, 2018 from financing activities (see the unaudited condensed interim consolidated financial statements for details of these transactions). The \$1,176,405 and \$832,891 provided by investing activities in the three and six month periods ended June 30, 2018 were primarily from repayment of a \$1,000,000 loan receivable.

As at June 30, 2018, Company had total current assets of \$2,916,464 to meet its current liabilities of \$813,197.

To successfully pursue its merchant banking model, the Company plans to continue to raise debt and equity in order to pursue additional deals and build scale.

The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from the treasury of the Company, control of the Company may change and shareholders may suffer dilution. If adequate financing is not available, the Company may be required to sell its interests in some or all of its assets / holdings or current properties and / or reduce or terminate its operations.

**Additional disclosures**

**Critical Accounting Estimates**

The preparation of financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as at the date of the financial statements. Each of these required estimates varies with respect to the level of judgment involved and the potential impact on the Company's reported financial results. Estimates are deemed critical when the Company's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. The Company's significant accounting policies are discussed in Note 3 of the notes to unaudited condensed interim consolidated financial statements. Critical estimates inherent in these accounting policies are discussed in the following paragraphs.





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### Changes in Accounting Policies and Future Pronouncements

Except as described below, the accounting policies applied in these unaudited condensed interim consolidated financial statements are the same as those applied in the Company's annual audited consolidated financial statements as at and for the years ended December 31, 2017 and 2016. The changes in accounting policies will also be reflected in the Company's annual consolidated financial statements as at and for the year ending December 31, 2018.

#### *(a) IFRS 9 – Financial Instruments*

On January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") which replaced IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39"). The standard is effective for annual periods beginning on or after January 1, 2018. The Company adopted the standard on January 1, 2018 utilizing the modified retrospective exemption which does not require the restatement of prior periods. The provision is computed as of January 1, 2018 and opening retained earnings (deficit) for January 1, 2018 are adjusted to reflect the change in provision. The comparative figures for 2017 are not adjusted.

#### (i) Financial Assets

Under IFRS 9, financial assets are classified into one of the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through the consolidated statement of income (loss)), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Company measures financial assets (except for those classified as fair value through profit or loss) at its fair value plus transaction costs. Transaction costs of financial assets carried at fair value through profit or loss ("FVPL") are expensed in the consolidated statement of income (loss).

#### Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the financial asset and the cash flow characteristics of the financial asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is recognized using the effective interest method. Foreign exchange gains and losses as well as any gain or loss arising on derecognition are recognized in the consolidated statement of income (loss).
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income ("FVOCI"). Movements in the carrying amount are recorded through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the consolidated statement of income (loss). When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to the consolidated statement of income (loss).
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the consolidated statement of income (loss).



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### Equity instruments

Unless an election is made, the Company subsequently measures all equity investments at fair value. Where the Company has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of income (loss) following the derecognition of the investment.

Changes in the fair value of financial assets at FVPL are recognized in the consolidated statement of income (loss). Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

### Impairment

Under IFRS 9, the Company assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

### (ii) Financial Liabilities

Under IFRS 9, the Company's financial liabilities are classified into one of the two categories: at FVPL or at amortized cost.

- **FVPL:** Financial liabilities carried at FVPL are initially recorded at fair value and transaction costs are expensed in the consolidated statement of income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial liabilities held at FVPL are recognized in the consolidated statement of income (loss) in the period in which they arise, except for changes in fair value resulting from an entity's own credit risk which are recognized in other comprehensive income (loss). The deferred payments liability has been classified as a FVPL financial liability. The Company has determined that changes in its credit risk has not materially impacted the fair value of the deferred payments liability.
- **Financial liabilities at amortized cost:** Financial liabilities carried at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

The following table shows the classification and carrying value of the Company's financial instruments on adoption of IFRS 9:

	Measurement Category		January 1, 2018 Carrying Amount		
	Original (IAS 39)	New (IFRS 9)	Original (IAS 39)	New (IFRS 9)	Difference
<b>Financial assets:</b>					
Cash	Loans and receivables	Amortized cost	992,755	992,755	-
Accounts and other receivables	Loans and receivables	Amortized cost	97,449	97,449	-
Loans receivable	Loans and receivables	Amortized cost	1,077,532	1,077,532	-
Notes receivable	Loans and receivables	Amortized cost	1,347,907	1,347,907	-
US real estate participation loans	Loans and receivables	Amortized cost	312,428	312,428	-
Long-term investments	FVTPL	FVTPL	474,769	474,769	-
<b>Financial liabilities:</b>					
<b>Classification:</b>					
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	381,061	381,061	-
Due to related parties	Other financial liabilities	Amortized cost	5,374	5,374	-
Loans payable	Other financial liabilities	Amortized cost	160,464	160,464	-
Mortgages payable	Other financial liabilities	Amortized cost	1,916,621	1,916,621	-



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*(b) Other changes in accounting policies*

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 2 – Share-based payments (“IFRS 2”) was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

IFRS 15 – Revenue From Contracts With Customers (“IFRS 15”) replaced IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The adoption of IFRS 15 did not have any material impact on the condensed interim financial statements.

*(c) Standards, amendments and interpretations not yet effective*

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.



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### Financial Instruments

Financial assets and financial liabilities as at June 30, 2018:

	Assets & liabilities at amortized cost	Assets & liabilities at fair value through profit and loss	Total
<b>Jun 30, 2018</b>			
Cash	\$ 1,144,379	\$ -	\$ 1,144,379
Accounts and other receivables	350,618	-	350,618
Notes receivable	1,134,826	-	1,134,826
Loans receivable	54,839	-	54,839
Investments	-	484,512	484,512
Accounts payable and accrued liabilities	(293,224)	-	(293,224)
Loans payable	(136,258)	-	(136,258)
Mortgages payable	(3,192,282)	-	(3,192,282)

The Company's has loans receivable outstanding and a significant portion of the Company's assets are currently comprised of financial instruments which can expose it to several risks, including market, liquidity, credit and currency risks. As a result of the change in business, there are new risks, objectives, policies and procedures compared to the previous year as discussed below. A discussion of the Company's use of financial instruments and their associated risks is provided below:

#### *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 because of changes in market prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favorable prices. In addition, a significant portion of the Company's investments are in the resource sector. The Company mitigates this risk by attempting to have a portfolio which is not singularly exposed to any one issuer, with exception to the Company having two positions as at June 30, 2018 which made up of approximately 30% and 21%, respectively (December 31, 2017 – one position which made up 31%) of the total equity portfolio.

For the three and six months ended June 30, 2018, a 10% decrease in the closing price of this concentrated position would result in an estimated increase in net loss of \$24,700 (2017 - \$15,000).

For the three and six months ended June 30, 2018, a 10% decrease (increase) in the closing prices of its other portfolio investments would result in an estimated increase (decrease) in net loss of \$23,800 (December 31, 2017 - \$13,700).

#### Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage. As at June 30, 2018, the Company's current liabilities totaled \$813,196 and cash totaled \$1,144,379. The Company generates cash flow from advisory fees, loan interest, rental income and payment processing services.



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The Company manages liquidity risk by reviewing the amount of cash available, to ensure that it can meet its current obligations. There is no guarantee that the Company will be able to continue to meet its current obligations.

	Carrying amount	Contractual cash flows	Year 1	Year 2-3	Year 4-5	Greater than 5 years
Accounts payable and accrued liabilities	\$ 293,225	\$ 293,225	\$ 293,225	\$ -	\$ -	\$ -
Mortgages payable	3,192,282	4,507,915	194,957	389,915	389,915	3,533,128
Loans payable	136,258	154,086	71,412	51,216	16,800	14,658
<b>Total</b>	<b>\$ 3,621,765</b>	<b>\$ 4,955,226</b>	<b>\$ 559,594</b>	<b>\$ 441,131</b>	<b>\$ 406,715</b>	<b>\$ 3,547,786</b>

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts and other receivables and notes receivable.

The Company monitors the credit risk and credit standing of its customers on a regular basis. See Note 4 of the unaudited condensed interim consolidated financial statements for an aging analysis of other receivables.

Security was obtained against specific assets of the counterparty, in case of non-performance on the notes receivable. The total carrying value of these financial instruments at June 30, 2018 was \$1,134,826 (December 31, 2017 - \$1,347,908). Three lendees make up 38%, 21% and 17% of the Company's notes receivable balance, respectively, at June 30, 2018 (December 31, 2017 – three lendees make up 21%, 19% and 15%). Management considered the potential impairment of loans and receivables and concluded that an impairment was not necessary for the three and six months ended June 30, 2018.

The Company's consulting fee revenues are primarily derived from a small number of customers within Canada. The Company did not have any customers who represented a significant portion of consulting fees revenues in the six months ended June 30, 2018 (year ended December 31, 2017 consulting fees revenue – one customer who represented 76% consulting fee revenues). There can be no assurance that all or any of the Company's customers will continue to engage in the Company's services. The loss of any such customer may have a materially negative impact on the Company's business conditions and financial results.

### Currency Risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and a portion of its loans receivable and investments are in United States dollars. A significant change in the currency exchange rates between the United States dollar relative to the Canadian dollar could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

### ***Fair value of financial instruments***

The Company has determined the carrying values of its financial instruments as follows:

- i. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their fair values due to the short-term nature of these instruments.
- ii. Notes receivable, long-term notes receivable and long-term investments are carried at amounts in accordance with the Company's accounting policies as set out in Note 3 of the condensed interim financial statements.
- iii. Mortgages payable approximate their fair values due to the short time since they were received.
- iv. Prior to maturity, the outstanding notes receivable are carried at their discounted value. Following their maturity, loans receivable are carried at their estimated realizable value.



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The following table illustrates the classification and hierarchy of the Company's financial instruments, measured at fair value in the condensed interim consolidated statements of financial position as at June 30, 2018 and December 31, 2017:

	Level 1 (Quoted market price)	Level 2 (Valuation technique - observable market inputs)	Level 3 (Valuation technique - non-observable market inputs)	Total
Investments, fair value				
Publicly traded investments	\$ 238,530	\$ 50,982	\$ -	\$ 289,512
Private investments	-	-	195,000	195,000
June 30, 2018	\$ 238,530	\$ 50,982	\$ 195,000	\$ 484,512
Publicly traded investments	\$ 348,713	\$ 31,055	\$ -	\$ 379,768
Private investments	-	-	95,000	95,000
December 31, 2017	\$ 348,713	\$ 31,055	\$ 95,000	\$ 474,768

#### Level 3 Hierarchy

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the six months ended June 30, 2018 and 2017. These financial instruments are measured at fair value utilizing non-observable market inputs. The net realized losses and net unrealized gains are recognized in the condensed interim consolidated statements of loss.

#### Contractual Obligations and Commitments

The Company is party to certain management contracts. These contracts contain aggregate minimum commitments of approximately \$315,000 (December 31, 2017 - \$315,000) ranging from 12 to 18 months and additional contingent payments of up to approximately \$240,000 (December 31, 2017 - \$240,000) upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

The Company has discontinued mining operations in various jurisdictions and has written down the carrying value of the related assets to nominal amounts. An estimate of the total liability, if any, for which the Company might become obligated as a result of its role as operator, guarantor or indemnifier, is not determinable, nor expected to be material, and no amount has been provided for in these condensed interim consolidated financial statements.

The Company may become party to legal proceedings and other claims in the ordinary course of its operations. Litigation and other claims are subject to many uncertainties and the outcome of individual matters is not predictable. Where management can estimate that there is a loss probable, a provision is recorded in the consolidated financial statements. Where proceedings are at a premature stage or the ultimate outcome is not determinable, then no provision is recorded. It is possible that the final resolution of any such matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated and may differ significantly from any amounts recorded in these consolidated financial statements. Should the Company be unsuccessful in its defense or settlement of one or more of legal actions or other claims, there could be a materially adverse effect on the Company's financial position, future expectations, and cash flows.



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The Company leases its office under a lease agreement which commenced October 1, 2016, the following is a summary of its lease commitments for the term of the lease:

< 1 year from reporting date	\$	44,702
1 to 2 years from reporting date		45,136
2 to 3 years from reporting date		45,136
3 to 4 years from reporting date		22,568
	\$	<u>157,542</u>

Outstanding share data

As at June 30, 2018, the Company had 31,510,256 common shares issued and outstanding, 532,830 preferred "Class – A" shares issued and outstanding and 33,550 preferred "Class – B" shares issued and outstanding. In addition, the Company has 16,561,137 common share purchase warrants outstanding priced at between \$0.12 and \$0.25 and 2,250,000 stock options entitling the holder to acquire an additional common share by paying \$0.10 to \$0.12 per common share.

As at August 29, 2018, the Company had 31,510,256 common shares issued and outstanding, 538,580 "Class- A" preferred shares issued and outstanding and 33,550 "Class – B" preferred shares issued and outstanding. In addition, the Company has 16,561,137 common share purchase warrants outstanding priced at between \$0.12 and \$0.25 and 2,250,000 stock options entitling the holder to acquire an additional common share by paying \$0.10 to \$0.12 per common share.

Transactions with Related Parties

*JIT Financial Inc.*

During the year ended December 31, 2017, the Company loaned \$31,538 to JIT, in which the Company acquired a 12.5% ownership stake. As result of this stake, the Company appointed one of its officers to the Board of Directors of JIT. JIT is in the cash clearing business. The loan bears interest at a rate of 10% per annum and the Company charges a royalty of \$0.05 per transaction on certain transactions processed by JIT. The loan is repayable on a basis of \$0.25 per transaction on certain transactions processed by JIT. The loan is secured by a first charge and security interest in all of the present and after-acquired personal property and assets of the borrower pursuant to a general security agreement.

During the year ended December 31, 2017, the Company loaned \$1,000,000 to JIT, through a promissory note and a number of amendments of the promissory note. The loan bears interest at a rate of \$0.30 per transaction on certain transactions processed by JIT. The loan is secured by a first charge and security interest in all of the present and after-acquired personal property and assets of the borrower pursuant to a general security agreement. During the six months ended June 30, 2018, this loan was fully repaid to the Company.

*Other related parties*

During the three and six month periods ended June 30, 2018 and 2017, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

	Revenue earned from services			
	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Meryllion Resources Corporation	\$ 7,500	\$ -	\$ 15,000	\$ -
Bitblox Technologies Inc.	17,000	-	34,000	-



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The Company has two common officers with Meryllion Resources Corporation and Bitblox Technologies Inc. Included in accounts receivable are \$11,325 owing from Meryllion and \$13,560 owing from Bitblox as at June 30, 2018 (2017 - \$nil).

*Compensation of key management personnel of the Company*

The remuneration of directors and other members of key management personnel during the period was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Short-term benefits	\$ 94,800	\$ 74,500	\$ 147,600	\$ 128,000
Share-based payments	-	15,500	-	15,500

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

As at June 30, 2018, the Company owed \$nil (December 31, 2017 - \$5,374) to an officer of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

Off Balance Sheet Arrangements

The Company has not entered into any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, derivative financial obligations, or with respect to any obligations under a variable interest equity arrangement.

Proposed Transactions

The Company is not party to any proposed transactions that have not been disclosed elsewhere in this MD&A.

Subsequent Transactions

Subsequent to June 30, 2018, the Company raised \$57,500 with the issuance of 5,750 Class – A preferred shares for \$10 per share.

On July 30, 2018, the Company invested in an additional US rehabilitation property of USD \$125,655 (\$163,907).

Subsequent to June 30, 2018, the Company issued a convertible debenture of \$750,000 for consideration of 500,000 common shares of Astro Aerospace Ltd. (OTCQB: ASDN). On the date of receipt, these shares had a fair market value of USD 965,000 (\$1,263,368), resulting in a gain of \$513,368 in the transaction. The debenture has an interest rate of 10% per annum and interest is payable quarterly with common shares of the Company. The maturity date of the debenture is two years after issuance and on that that date, the debenture will automatically convert into 15,000,000 common shares of the Company.

Subsequent to June 30, 2018, this loan was fully repaid by AOC with 65,560 Class – A preferred shares of the Company owned by AOC. These shares have a fair value of \$655,600.

Subsequent to June 30, 2018, the Company declared and paid a dividend of \$0.20 per “Class – A” preferred shares and “Class – B” preferred shares for a total of \$109,314.

Additional Information

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).