

# ROCKSHIELD CAPITAL CORP.

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED MAY 31, 2018

This discussion and analysis of financial position and results of operation is prepared as at July 27, 2018 and should be read in conjunction with the unaudited condensed consolidated interim financial statements and the accompanying notes for the six months ended May 31, 2018, of Rockshield Capital Corp. ("Rockshield" or the "Company"). The following disclosure and associated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"). Except as otherwise disclosed, all dollar figures included therein and in the following management's discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Forward Looking Statements

This report includes certain statements that may be deemed "forward looking statements" within the meaning of applicable securities legislation. All statements, other than statements of historical facts that address such matters as future events or developments that the Company expects, are forward looking statements and, as such, are subject to risks, uncertainties and other factors of which are beyond the reasonable control of the Company. Such statements are not guarantees of future performance and actual results or developments may differ materially from those expressed in, or implied by, this forward looking information. With respect to forward looking statements and information contained herein, we have made numerous assumptions including among other things, assumptions about economics and competition surrounding the services provided by the Company, anticipated costs and expenditures and the Company's ability to achieve its goals. Although management believes that the assumptions made and the expectations represented by such statements or information are reasonable, there can be no assurance that a forward looking statement or information herein will prove to be accurate. Forward looking statements and information by their nature are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements or information. Factors that could cause actual results to differ materially from those in forward looking statements include such matters as continued availability of capital and financing and general economic, market or business conditions. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward looking statements or information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward looking statements or information. Any forward looking statements are expressly qualified in their entirety by this cautionary statement. The information contained herein is stated as of the current date and subject to change after that date and the Company does not undertake any obligation to update publicly or to revise any of the forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

### Company Overview

The Company was incorporated under the provisions of the B.C. Business Company Act on October 23, 2007. The Company's common shares trade on the Canadian Securities Exchange ("CSE") with the trading symbol of "RKS", on the OTCBB under the symbol "RKSCF" and the Frankfurt Stock Exchange under the symbol "6BC". The Company is a reporting issuer in British Columbia, Alberta and Ontario. The Company's principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

Since 2014 the Company focussed on providing venture capital funding to early stage seed investments and investment in marketable securities, focusing on high growth sectors. As a junior venture capital firm and merchant bank, the Company is subject to risks and challenges similar to other companies in a comparable stage. These risks include, but are not limited to, dependence on key individuals, investment risks, market risks, illiquid securities and the ability to maintain adequate cash flows.

The Company is focussing on capitalizing on prospective business opportunities as they arise and maximizing liquidity for its shareholders.

## **Spin-out Companies**

Pursuant to the terms of an arrangement agreement (the “Arrangement”) dated March 13, 2018 among the Company and Rockshield Acquisition Corp. (“AcquiCo) and Rockshield Opportunities Corp. (“OppCo”), private British Columbia companies incorporated on December 12, 2017, the Company would distribute the AcquiCo shares and OppCo shares, respectively, to the Company’s shareholders. Each Rockshield shareholder would hold one Rockshield share and its pro-rata share of each of the AcquiCo shares and the OppCo shares, respectively to be distributed under the Arrangement for each Rockshield share held.

On April 17, 2018 the Company held a special meeting of the shareholders of the Company and the shareholders approved the Arrangement. Additionally, on April 19, 2018, the Company obtained the final order of the Supreme Court of British Columbia approving the Arrangement. On June 7, 2018 the Company closed on the Arrangement Agreement between the Company, AcquiCo and OppCo. Pursuant to the Arrangement the Company spun out 130,000 shares in Plus Products Holdings Inc., a company in the cannabis sector, to AcquiCo, and 13,000 shares in Helius Medical Technologies Inc., a company in the life sciences sector, to OppCo.

Prior to closing of the Arrangement, AcquiCo and OppCo were wholly-owned subsidiaries of Rockshield and on closing, the Company distributed on a pro rata basis, without cost as a return of capital, all of its 3,159,592 shares in each of AcquiCo and OppCo to the Company’s shareholders. The Arrangement resulted in each of AcquiCo and OppCo being stand-alone corporations owned by the same shareholders that own the Company. AcquiCo and OppCo will be seeking to advance business opportunities in cannabis/life sciences sector. The Company will not be financing the costs of either company.

Each Company shareholder has received such number of common shares in the capital of AcquiCo and OppCo equal to the number of Company shares held by such shareholder on April 4, 2018, multiplied by 0.0653.

## **Investment Portfolio**

In fiscal 2014 the Company determined to diversify its business and seek opportunities in the investment sector with a particular focus on investments in early stage, high growth companies at all stages of development, including pre-initial public offering and /or early stage companies requiring start-up or development capital. The Company’s investments in marketable securities include common shares and other equity instruments of Canadian and U.S. companies that are listed on various Canadian stock exchanges or the OTCBB in the United States of America. The majority of the marketable securities instruments are shares of companies in the mining, energy, financial technology, medical technology and cannabis industries.

Management has designated its investments in common shares and warrants of publicly traded companies as “investments in equity instruments” with the change in fair value recognized in profit or loss. The carrying values of the common shares have been directly referenced to published price quotations in an active market. The carrying values of unlisted private companies are valued at fair value using non-discernible market inputs based on specific company information and general market conditions. The carrying values of the unlisted warrants are valued at fair value using the Black-Scholes option pricing model.

The Company has been actively managing its investment portfolio. During the six months ended May 31, 2018 the Company made investment purchases totalling \$1,451,258 (2017 - \$1,286,267) and sold certain of its investment portfolio for proceeds totalling \$1,240,274 (2017 - \$2,844,779), recognizing a realized gain of \$408,173 (2017 - \$1,468,838). As at May 31, 2018 the carrying value of the investment portfolio was \$10,066,056 (November 30, 2017 - \$7,949,236), with an accumulated unrealized holding gain of \$5,252,977 (November 30, 2017 - \$3,755,315) from its cost basis of \$4,813,079 (November 30, 2017 - \$4,193,921).

## **Investment in REWP**

The Company owns approximately 32% of the outstanding share capital of Rockshield Engineered Wood Products ULC (“REWP”) and the investment in REWP has been accounted for under the equity method. Over the past years REWP has incurred significant losses. As at November 30, 2016 the Company had recorded equity losses in REWP totalling \$1,307,479. During fiscal 2017 the Company recorded an equity loss of \$192,521, reflecting the full impairment of its remaining investment in REWP. The Company had also made significant advances to REWP and, at

November 30, 2017, determined to record an impairment provision of \$1,675,425 for the advances made and accrued interest to reduce the carrying amount to a nominal amount of \$1.

During the six months ended May 31, 2018 the Company advanced a further \$179,207 to REWP and the Company has made an impairment provision of \$179,207.

### Selected Financial Data

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements of the Company.

Three Months Ended	Fiscal 2018		Fiscal 2017				Fiscal 2016	
	May 31, 2018 \$	Feb. 28, 2018 \$	Nov. 30, 2017 \$	Aug. 31, 2017 \$	May 31, 2017 \$	Feb. 28, 2017 \$	Nov. 30, 2016 \$	Aug. 31, 2016 \$
<b>Operations:</b>								
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expenses	(257,244)	(108,264)	(140,422)	(53,797)	(61,791)	(91,671)	(83,983)	(74,303)
Other items	1,342,699	392,993	815,821	1,023,468	(1,370,915)	3,295,779	1,526,459	167,222
Net income (loss)	1,085,455	284,729	(956,243)	969,671	(1,432,706)	3,204,108	1,442,476	92,919
Income (loss) per share - basic and diluted	0.02	0.01	(0.02)	0.02	(0.03)	0.07	0.03	0.00
Dividend per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Balance Sheet</b>								
Working capital	11,320,433	10,106,088	8,664,825	8,329,542	7,285,512	8,939,350	5,838,192	4,315,289
Total assets	11,357,486	10,128,675	8,762,143	9,632,435	8,626,847	10,095,854	6,857,734	5,405,521
Total long-term liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

### Results of Operations

#### *Three Months Ended May 31, 2018 Compared to Three Months Ended February 28, 2018*

During the three months ended May 31, 2018 (“Q2”) the Company reported net income of \$1,085,455 compared to net income of \$284,729 for the three months ended February 28, 2018 (“Q1”), a fluctuation of \$800,726. During Q2 the Company recorded realized and unrealized gain on investments totaling \$1,337,536 compared to \$568,300 in Q1 for a fluctuation of \$769,236. During Q1 the Company recorded an impairment provision in REWP of \$179,207 to reflect the advance made to REWP in Q1. No additional advances were made in Q2.

#### *Six Months Ended May 31, 2018 Compared to the Six Months Ended May 31, 2017*

##### *Operations*

During the six months ended May 31, 2018 (the “2018 period”) the Company reported a net income of \$1,370,184 compared to a net income of \$1,771,402 for the six months ended May 31, 2017 (the “2017 period”), a decrease in income of \$401,218. The fluctuation was primarily attributed to the following:

- (i) during the 2018 period the Company sold certain of its investments for proceeds of \$1,240,274 (2017 - \$2,844,779) recognizing a gain of \$408,173 (2017 - \$1,468,838). The Company also recorded an unrealized gain of \$1,497,663 (2017 - \$425,787) on investments held;
- (ii) during the 2018 period the Company recorded share-based compensation of \$166,806 on deferred share units granted (“DSUs” of 1,500,000. No DSUs were granted during the 2017 period; and
- (iii) during the 2018 period the Company recorded an impairment provision in REWP of \$179,207 to reflect the advance made to REWP in the 2018 period.

Expenses, not including share-based compensation increased by \$45,240, from \$153,462 during the 2017 period to \$198,702 during the 2018 period. Significant differences during the 2018 and 2017 periods include the following:

- (i) \$54,161 (2017 - \$79,001) for directors and officers compensation. Directors and officers compensation amounts have been disclosed in “Related Party Disclosures”;

- (ii) during the 2018 period the Company incurred \$18,059 (2017 - \$nil) for corporate development, during which the Company engaged various firms to provide corporate information on the Company;
- (iii) 29,600 (2017 - \$19,836) was incurred for accounting and administration of which \$29,600 (2017 - \$17,950) was incurred with a private company owned by the CFO of the Company and \$nil (2017 - \$1,886) was incurred by third parties for additional accounting services. See also “Related Party Disclosures”; and
- (iv) during the 2018 period the Company incurred \$12,210 (2017 - \$nil) for website development and maintenance.

During the 2018 period the Company recorded a total of \$6,426 (2017 - \$92,817) interest and other income of which \$6,426 (2017 - \$6,220) was attributed to interest from demand deposits held and \$nil (2017 - \$86,597) was from interest accrued on the promissory notes issued by REWP.

#### *Financing Activities*

During the 2018 period the Company completed a non-brokered private placement of 2,472,999 units of the Company at \$0.48 per unit for gross proceeds of \$1,187,040. The funds will be used by the Company to fund ongoing investments and general corporate purposes.

No financing activities were conducted by the Company during the 2017 period.

#### *Investment Activities*

During the 2018 period the Company made investment purchases totalling \$1,451,258 (2017 - \$1,286,267) and sold certain of its investments for \$1,240,274 (2017 - \$2,844,779). See also “Investments”. In addition the Company advanced a further \$179,207 to REWP. See “Investment in REWP”.

### **Financial Condition / Capital Resources**

As at May 31, 2018 the Company had a cash balance of \$1,276,896. The Company also has investments carried at \$10,066,056 and reported working capital of \$11,320,433. Any investment decision made by the Company will be dependent on its cash, investment portfolio and working capital situation at the time. The Company anticipates that it has sufficient funds to manage its investments and make additional investments over the next twelve months as opportunities arise. In addition, any other opportunities completed by the Company may entail significant expenditures and, as a result, the Company may be required to obtain additional financing or sell its investments as required. However, the investments are comprised of common shares in early stage development and the share prices are often volatile and there may be limited liquidity.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Proposed Transactions**

The Company has no proposed transactions.

### **Financial Instruments and Risk Management**

#### *Categories of Financial Assets and Financial Liabilities*

Financial instruments are classified into one of the following categories: fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale; and other financial liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	May 31, 2018 \$	November 30, 2017 \$
Cash	FVTPL	1,276,896	802,973
Amounts receivable	Loans and receivables	-	2,190
Investments	FVTPL	10,066,056	7,949,236
Advances	Loans and receivables	1	1
Accounts payable and accrued liabilities	Other financial liabilities	(37,052)	(97,317)

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Fair Value*

The fair values of the Company's financial assets and liabilities approximates the carrying amounts either due to their short-term nature or because the interest rates applied to measure their carrying amount approximate current market rates.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

The following is an analysis of the Company's financial assets measured at fair value as at May 31, 2018 and November 30, 2017:

	As at May 31, 2018		
	Level 1 \$	Level 2 \$	Level 3 \$
Cash	1,272,896	-	-
Investments	9,747,356	251,200	67,500
	<u>11,024,252</u>	<u>251,200</u>	<u>67,500</u>
	As at November 30, 2017		
	Level 1 \$	Level 2 \$	Level 3 \$
Cash	802,973	-	-
Investments	5,491,157	293,395	2,164,684
	<u>6,294,130</u>	<u>293,395</u>	<u>2,164,684</u>

#### *Credit Risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

#### *Liquidity Risk*

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

Contractual Maturity Analysis at May 31, 2018					
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	1,276,896	-	-	-	1,276,896
Investments	10,066,056	-	-	-	10,066,056
Investment in and advances to associated company	-	-	1	-	1
Accounts payable and accrued liabilities	(37,052)	-	-	-	(37,052)

Contractual Maturity Analysis at November 30, 2017					
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	802,973	-	-	-	802,973
Amounts receivable	2,190	-	-	-	2,190
Investments	7,949,236	-	-	-	7,949,236
Investment in and advances to associated company	-	-	1	-	1
Accounts payable and accrued liabilities	(97,317)	-	-	-	(97,317)

### *Market Risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices. These fluctuations may be significant.

#### (a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash and demand deposits bear floating rates of interest. The interest rate risk on cash and subscription held in trust and on the Company's obligations are not considered significant.

#### (b) Equity Price Risk

The Company holds investments in publicly traded equity securities. Market prices for equity securities are subject to fluctuation and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value.

#### (c) Concentration Risk

As at May 31, 2018, \$8,657,342 of the Company's portfolio of investments were held in five companies. These investments represents approximately 86% of the Company's investment portfolio and poor performance in the market price of these investments could adversely affect the Company's results.

### *Capital Management*

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its investment activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital. The Company will continue to assess new investment opportunities as they arise and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There have been no changes to the Company's approach to capital management during the six months ended May 31, 2018. The Company is not subject to any externally imposed capital requirements.

## Changes in Accounting Policies

There are no changes in accounting policies.

## Related Party Disclosures

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors and executive officers.

(i) During the 2018 and 2017 periods the following compensation amounts were incurred:

	2018	2017
	\$	\$
Mr. Dave Doherty, President, CEO and Director <sup>(1)</sup>	27,161	28,001
Mr. Nick DeMare, CFO and Director	15,000	15,000
Mr. Daniel Sorger, Director <sup>(3)</sup>	12,000	-
Mr. Frank Taggart, Director (and former President and CEO) <sup>(1) (2)</sup>	-	15,000
Mr. Marc Cernovitch, Director	-	15,000
Mr. Luke Norman, Director	-	6,000
	<u>54,161</u>	<u>79,001</u>

(1) On June 1, 2016 Mr. Doherty replaced Mr. Taggart as the President and CEO of the Company.

(2) On November 9, 2017 Mr. Taggart declined to be nominated as a Director at the Company's AGM.

(3) Mr. Sorger was appointed a director on December 11, 2017.

As at May 31, 2018 \$nil (November 30, 2017 - \$76,440) remained unpaid.

(ii) During the 2018 period the Company incurred a total of \$29,600 (2017 - \$17,950) by Chase Management Ltd. ("Chase"), a private corporation owned by Mr. DeMare, for accounting and administration services provided by Chase personnel, excluding Mr. DeMare. As at May 31, 2018 \$8,500 (November 30, 2017 - \$8,300) remained unpaid.

## Outstanding Share Data

The Company's authorized share capital is unlimited common shares without par value. As at July 27, 2018 there were 48,385,854 issued and outstanding common shares and 1,236,499 warrants outstanding at an exercise price of \$0.80 per share. In addition the Company has 1,500,000 DSUs outstanding which will vest one-third on January 5, 2019, one-third on January 5, 2020 and the remaining one-third on January 5, 2021.