



## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") provides additional analysis of the operations and financial position of Aylen Capital Inc. ("Aylen" or the "Company"). It is supplementary information and should be read in conjunction with the Company's financial statements and accompanying notes for the three and nine month periods ended September 30, 2014 and the year ended December 31, 2013.

Aylen was incorporated on October 28, 2010. Aylen carries on a web-based survey and data collection business under the name Grapevine Solutions ("Grapevine") as an unincorporated division of Aylen. In addition it has an investment in Leonardo Worldwide Corporation and a portfolio of marketable securities.

### Forward Looking Statements

*Included in this MD&A are matters that constitute "forward-looking" information within the meaning of Canadian securities law. Such forward-looking statements may be identified by words such as "plans", "proposes", "estimates", "intends", "expects", "believes", "may" or words of a similar nature. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially include among others, regulatory risks, risk inherent in foreign operations, commodity prices and competition. Most of these factors are outside the control of the Company. All subsequent forward-looking statements attributable to the Company or its agents are expressly qualified in their entirety by these cautionary comments. Except as otherwise required by applicable securities statutes or regulation, the Company expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.*

### Overall Performance in the Third Quarter 2014

The revenues of the Grapevine business in the third quarter of 2014 and in the first nine months of 2014 were significantly stronger than in the comparable periods in 2013 as a result of more effective sales and marketing efforts by Grapevine and the continued recovery of the North American economy, particularly in the US where a majority of Grapevine's customers reside.

North American financial markets were mixed in the third quarter of 2014. Aylen recorded a gain on sale of marketable securities of \$1,000 and an unrealized gain in its portfolio of marketable securities of \$1,000 for the quarter. At September 30, 2014, the Company had cash of \$21,000 (December 31, 2013 \$100,000), investments in marketable securities of \$184,000 (December 31, 2013 \$226,000) and a venture investment in Leonardo Worldwide Corporation totalling \$1,856,000 (December 31, 2013 \$1,844,000).

## The Grapevine Business

Grapevine, which operates as a division of Aylen, was acquired by a predecessor of the Company in October 2007 from TriNorth Capital Inc. ("TriNorth"). For accounting purposes, TriNorth's carrying value for Grapevine was nil and the acquisition of Grapevine was recorded at that carrying value. Grapevine's business is based in Markham, Ontario and it consists of licensing and selling web-based survey and data collection software to third parties, most of whom are companies based in North America. Its software is used to perform customizable employee evaluations, employee surveys, customer surveys, training surveys, web polls and data collection surveys. The business has two full-time employees and engages consultants to provide software programming and upgrading and design services.

The primary business objectives for Aylen over the next 12 months are to continue to grow the revenues of the Grapevine business and to establish Grapevine as a leading Human Resources online survey firm in North America. Grapevine's leading product offering is 360° employee evaluations, and the software for this product was upgraded in 2013.

The following is a summary of selected financial information for Grapevine extracted from the audited financial statements of Aylen.

		<u>Year ended December 31</u>		
	<b>2013</b>	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010<sup>(1)</sup></b>
Sales Revenues	625,606	645,797	480,656	450,337
Selling Expenses	466,400	422,300	406,742	393,221

<sup>(1)</sup> The results for 2011 and 2010 combine the results for Aylen and a predecessor company.

In addition to Grapevine's revenues of \$626,000 for 2013, Aylen recorded \$234,000 of deferred revenue as at December 31, 2013, relating to unearned subscription fees. In addition to Grapevine's revenues of \$646,000 for 2012, Aylen recorded \$232,000 of deferred revenue as at December 31, 2012, relating to unearned subscription fees.

With the exception of the 2013 year, Grapevine's revenues have generally increased over the past four years as a direct result of a slow but steady improvement in the US economy where the majority of Grapevine's revenues originate, and as a result of more effective sales and marketing efforts. The majority of Grapevine's sales are made in US dollars and a weaker Canadian dollar against the US dollar, which was the case in the first nine months of 2014, has a positive impact on revenues which are recorded in Canadian dollars.

## Investments

### Leonardo Worldwide Corporation

At September 30, 2014 Aylen owned a 12.6 % equity interest in Leonardo Worldwide Corporation ("Leonardo"), 11.6 % on a fully-diluted basis, should all warrants and options be exercised. At September 30, 2014 Aylen owned 15,075,359 common shares and 2,436,658 Class A convertible preference shares in the capital of Leonardo. The Class A and Class B preference shares have a priority over the common shares on liquidation, winding-up and sale of the company. The Class A preference shares which are owned by Aylen represent approximately 2.6% of all outstanding Class A and Class B preference shares.

Leonardo, which is headquartered in Toronto, Ontario, has developed an online video and rich media advertising platform and distribution network that allow advertisers to distribute informational rich media marketing content to highly targeted consumers across thousands of relevant sites and electronic channels. Currently, Leonardo provides off-platform technology-driven rich-media solutions, connectivity

and interactivity for the hotel, lodging and the online travel distribution industries. Leonardo's end-to-end media management and distribution solution is a content "hub" that aggregates hotel and travel-related digital rich media content such as videos, 360° virtual tour images, Flash productions and still images, and automates its distribution to travel websites and any other points of contact where rich media can be viewed by consumers researching and booking travel accommodations.

Leonardo is the world's largest provider and distributor of online visual content for the hotel and travel industry. Leonardo's content library includes more than one million digital photographs, videos and 360° virtual tours for over 80,000 hotels and resorts worldwide. Through VScape®, Leonardo distributes this content to its online media network of Global Distribution Systems and 30,000 plus travel-related channels including online travel agencies, travel research and supplier web sites, search portals and major travel intermediaries. For more information, visit Leonardo's website at [www.leonardo.com](http://www.leonardo.com).

## Portfolio Investments

Aylen's portfolio investments consist of a broadly diversified selection of Canadian and U.S. dividend producing instruments, securities and equities. At September 30, 2014, the market value of the portfolio investments was \$184,000. The portfolio is managed by a group of two independent managers.

The portfolio is invested approximately as follows:

	September 30, 2014	December 31, 2013
	(%)	(%)
Canadian Equities		
Canadian Large Cap Equity	51.3	50.1
International Equities	48.7	49.9
	<b>100.0</b>	<b>100.0</b>

The portfolio realized a gain of \$1,000 in the third quarter of 2014.

## Results of Operations

Grapevine had sales revenue of \$240,000 and selling expenses of \$125,000 for the third quarter ended September 30, 2014 (the "current quarter"), compared to sales revenue for the second quarter of 2013 of \$154,000 and selling expenses of \$99,000. The Company's other primary source of revenue arises from interest and other income from its cash and marketable securities, which for the third quarter of 2014 was \$1,000 (\$2,000 for the third quarter of 2013).

Unrealized mark-to-market gains and losses on the Company's portfolio of marketable securities held for trading are recognized in computing net income. Such amounts totalled unrealized gains of \$1,000 in the third quarter of 2014 (unrealized gains of \$2,000 for the third quarter of 2013). A gain of \$1,000 was realized for the third quarter of 2014 on the sale of marketable securities (a gain of \$17,000 for the third quarter of 2013).

General and administrative expenses were \$107,000 for the third quarter of 2014 (\$100,000 for the third quarter of 2013).

As a result of the foregoing, the Company recorded net income and comprehensive income of \$10,000 (\$0.001 per share) for the third quarter of 2014 compared with a net loss and comprehensive loss of \$25,000 (\$(0.002) per share) for the third quarter of 2013.

Unrealized gains and losses on the Company's publicly-traded investments available for sale are recognized in other comprehensive income, net of taxes. There is no other comprehensive income in the current period and for the year.

## Summary of Quarterly Information

	Quarter to September 30 2014	Quarter to June 30 2014	Quarter to March 31 2014	Quarter to December 31 2013	Quarter to September 30 2013	Quarter to June 30 2013	Quarter to March 31 2013	Quarter to December 31 2012
Revenue								
Sales	239,948	219,440	230,040	165,841	153,770	157,488	148,507	\$143,886
Interest and investment income	1,199	1,577	1,091	1,532	2,317	2,999	2,193	3,067
Gain (loss), realized and unrealized, on marketable securities	814	7,275	6,982	12,103	18,250	5,900	21,083	8,206
Net Income (Loss)								
Total	9,655	50,736	54,571	(120,445)	(25,151)	(42,695)	(14,779)	(89,347)
Per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Per share (diluted)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Comprehensive income (Loss)	9,655	50,736	54,571	(120,445)	(25,151)	(42,695)	(14,779)	(89,347)

Revenues at Grapevine are subject to the influences of North American economic conditions and are also subject to some seasonal fluctuations. The demand for Grapevine's product offerings, which consist primarily of surveys and polls for businesses, including employee surveys and evaluations, is directly affected by economic conditions generally. In difficult economic times such as the period from 2008 to 2010, businesses tend to reduce discretionary spending, which would include Grapevine's products and conversely in more robust economic times spending on discretionary items tends to increase. In addition there is a limited amount of seasonality to Grapevine's revenues. Businesses tend to conduct the majority of employee surveys and polls at or towards the end of the calendar year and sales tend to slow down in the summer months due to vacations. As a result Grapevine's revenues are somewhat stronger in the fourth and first quarter and tend to be somewhat softer in the second and third quarters.

## Liquidity and Financial Position and Capital Resources

The Company's ability to generate sufficient cash to fund its operations and working capital requirements depends upon the following factors: (i) the ability of the Grapevine business to generate positive cash flow, and (ii) the interest, other income and proceeds, if any, from the sales of the Company's portfolio of marketable securities. Grapevine's ability to generate positive cash flow from its business requires it to have revenues in excess of its costs. The table set out below shows Grapevine's revenues and costs for the years 2010 to 2013 and the net amount of cash generated by Grapevine and the portfolio of marketable securities which is available to fund other Company expenses. Historically, the cash generated by Grapevine and from the interest and gains from the portfolio of marketable securities has not been sufficient to cover the Company's general and administrative expenses and the Company has experienced negative cash flow and negative working capital as shown in the following table.

## Summary of Negative Cash Flow and Negative Working Capital

	2013	2012	2011 <sup>(1)</sup>	2010 <sup>(1)</sup>
Grapevine Revenues	625,606	645,797	480,656	450,337
Grapevine Costs	466,400	422,300	406,742	393,211
Interest, other income	68,088	12,311	15,128	16,646
Net Amount of cash available to fund other Company expenses	227,294	253,808	89,042	73,772
Proceeds from sale of marketable securities, net of purchase	192,166	112,612	153,810	401,081
Company's working capital (before deducting promissory note payable)	8,316	185,352	322,473	596,632

(1) The results for 2011 and 2010 combine the results for Aylen and a predecessor company.

At September 30, 2014, the Company had working capital of \$111,000 after deducting deferred revenue of \$67,000 but before deducting the promissory note. At December 31, 2013 working capital calculated on the same basis was \$8,000. With respect to the Company's working capital requirements, the general and administrative expenses of the Company were \$107,000 in the third quarter of 2014 (\$100,000 in the third quarter of 2013 and \$403,000 in 2013). The general and administrative expenses in the third quarter of 2014 are substantially all committed and non-discretionary expenses. The general and administrative expenses for the 2013 year are representative of the approximate amount of general and administrative expenses which would likely be incurred by the Company in a year in the normal course of business. It is possible that the cash generated by Grapevine and the interest and gains from the portfolio of marketable securities will not be sufficient to cover all of the Company's operating expenses. In such event the Company will need to raise cash from the sale of marketable securities or other assets or from the sale of equity to continue its operations.

Current liabilities were \$146,000 at September 30, 2014, and this amount includes \$67,000 of deferred revenue which represents the unearned portion of subscription fees collected from customers amortized on a straight – line basis over the remaining life of the contract. At September 30, 2013 current liabilities were \$367,000 including \$234,000 of deferred revenue. At December 31, 2013 current liabilities were \$367,000 including \$234,000 of deferred revenue.

The portfolio of marketable securities included in working capital together with cash and cash equivalents was \$205,000 at September 30, 2014 (\$313,000 at September 30, 2013 and \$326,000 at December 31, 2013). Accounts receivable included in working capital were \$25,000 at September 30, 2014 (\$36,000 at September 30, 2013 and \$32,000 at December 31, 2013). Aylen has sufficient cash and cash equivalents and marketable securities to provide liquidity to the Company for the next 12 months.

These capital resources, along with the income and gains, if any, from the marketable securities, and the income, if any, from the operations of Grapevine, are used to fund Aylen's financial requirements.

## Analysis of Financial Condition and Financial Performance

The financial condition of the Company is directly dependent on the performance of Grapevine and the performance of the portfolio of marketable securities. In the third quarter of 2014 Grapevine's revenues were \$240,000 and in the first nine months of the year the revenues were \$689,000. This was a significant improvement over the performance in 2013 when Grapevine's revenues were \$154,000 in the third quarter and \$460,000 in the first nine months of the year. The portfolio of marketable securities

decreased to \$184,000 at September 30, 2014, a decrease of \$42,000 from the value at December 31, 2013. The decrease in marketable securities the third quarter of 2014 was primarily the result of the sale of securities to fund operations.

The majority of Grapevine's customer base resides in the US. The products offered by Grapevine are heavily focused on the human resources sector of businesses and include products such as employee surveys and evaluations. These products represent discretionary, non-critical expenses for most businesses. In difficult economic times, such as the period from 2007 to 2010 in North America, businesses in general often try to reduce discretionary spending as a first measure to survive during the period of reduced demand for their goods and services. The modest economic recovery which began in early 2010, combined with more effective sales and marketing efforts, have had a beneficial effect on Grapevine's revenues which have generally increased in the period from 2010 to 2012. Grapevine's revenues of \$689,000 in the first nine months of 2014 were \$230,000 greater than the revenues for the same period in 2013.

### **Related Party Transactions**

In the third quarter of 2014 the Company paid \$6,000 in legal fees (\$nil in second quarter of 2013 and \$21,000 in 2013) to a law firm of which an associate is a party related to the Company.

### **Commitment**

The Company has contracted with a third party to provide operations and sales management services to Grapevine for an annual fee of \$103,600 plus applicable taxes. The contract may be terminated by either party on one month's notice. If the Company terminates the contract it will be liable to pay a termination fee equal to four (4) months compensation under the contract.

### **Risk Factors and Risk Management**

Aylen shareholders and potential investors in Aylen should carefully consider the following risk factors and all the other information contained in this prospectus when evaluating Aylen and its common shares.

An investment in Aylen's shares involves a number of risks, many of which are beyond its control. The risks and uncertainties set out below are all of the known risks which are deemed to be material to the Company's business or the results of its operations. When reviewing forward-looking statements and other information contained in this prospectus, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry-specific factors that may adversely affect the Company's future results. If any of these risks should actually occur, the Company's business, financial condition, results of operations, cash flows and prospects could be harmed. Such risks and uncertainties are not the only ones the Company faces. Additional risks and uncertainties of which the Company is currently unaware or that are deemed immaterial may also adversely affect the Company's business, financial condition, results of operations, cash flows and prospects.

### **Limited Cash and Working Capital and Negative Cash Flows**

Historically, the Company has had negative cash flow from operating activities and has had to fund its operations with cash on hand and the sale of marketable securities. The Company's cash on hand and marketable securities at quoted market value less liabilities (other than the promissory note which is payable only out of the proceeds of sale of assets) at September 30, 2014 was \$60,000 (December 31, 2013: \$(41,000)). This amount may prove to be inadequate to continue to fund the Company's operations beyond the next 12 months in which case the Company would have to sell assets such as the Grapevine business, or raise funds through the sale of additional equity or a combination of those two things, failing which it would have to discontinue its operations. There may not be a ready market for the

sale of its assets and it may not be possible to issue additional shares or other securities, or the issue of additional shares or other securities if it were to be possible may result in significant dilution to the interests of existing shareholders.

The Company's negative cash flow and limited cash and working capital also means that the Company is not able to invest any significant amount of additional funds in Grapevine or Leonardo in the event they should need additional funding and this may result in a discontinuance of operations of that particular business or a significant dilution of the Company's investment.

### **Limited Diversification of Investments**

Due to the small size of the Company and the fact that it has only a limited number of investments, the Company is subject to a greater risk of a downturn in one or more of its investments. A concentration of the Company's invested funds in its portfolio of marketable securities, its Grapevine business and its investment in Leonardo means that in the event that any such business or industry or investment is unsuccessful or experiences a downturn, this will likely have a material adverse effect on the Company's business, results from operations, and financial condition. It also means that the Company is more exposed to business cycles than it would be if it owned a larger number of investments which were diversified over various industries with differing business cycles in different geographic areas.

### **Dependency on Private Company Operations**

The Company owns a 12.6 % equity interest (11.6% fully diluted) in Leonardo which is a private company. Due to the small size of its equity investment the Company does not have any significant influence over Leonardo or its operations nor does the Company have the ability to exercise control over Leonardo.

### **Operating Liquidity**

Both the Grapevine business and Leonardo's business are not fully developed and may continue to require additional funding to continue operations or to develop their business plans until they become self funding. The Company has limited cash resources and is unable to provide any significant amount of additional funding to Grapevine or Leonardo if it should be required. In such an event, if no other source of funding is available, the operations would have to terminate and it would not be possible for the Company to recover its investment. If an additional source of funding is found, it may result in significant dilution of the Company's investment.

### **Industry Risks**

Each of Grapevine and Leonardo is subject to the risks inherent in the industry in which it operates. In the case of Grapevine, the business is very dependent on the continued demand for on-line surveys and polls by businesses, particularly those surveys and polls relating to employees, and particularly in North America. In the case of Leonardo, its business is very dependent on the strength of the hotel segment of the travel industry and the continued use by travellers of on-line services in planning travel and booking hotels. Each business would be adversely affected by a significant downturn in its particular industry segment or a change in the demand by consumers for its products and services.

## **Competition**

Both Grapevine and Leonardo face intense competition, including competition from other companies with greater financial and other resources, and more advanced technological development. There can be no assurance that they will be able to successfully compete against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations and cash flows.

## **Effect of General Economic Conditions**

The Company's results of operations in the period prior to 2010 were adversely affected by the global economic downturn and there is a significant risk that global economic conditions or economic conditions in North America will deteriorate again which will have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. In the case of both Leonardo and Grapevine, its products and services represent discretionary expenses to the customers they serve and would be among the most likely expenses to be eliminated if economic conditions deteriorate.

## **Currency Fluctuations**

The majority of the Company's costs are incurred in Canadian dollars and more than half of its revenues are received in U.S. dollars. The recent deterioration in the value of the Canadian dollar against the U.S. dollar has a positive effect on the Company's revenues, financial condition, results of operations and cash flows. The Company does not use currency derivatives to hedge against adverse currency fluctuations.

## **Legal Claims and Other Contingencies**

Aylen, Grapevine and Leonardo may become parties to law suits, claims and litigation arising in the ordinary course of business. In 2009 and in 2013 Leonardo was sued by competitors in the US claiming damages for breach of US anti-trust laws and other matters.. While these law suits were settled, a similar law suit could threaten the company's ability to continue its operations and the Company's investment in Leonardo would not be recovered. .

Similarly a law suit against Grapevine or the Company could result in significant costs and the outcome of such law suits could have a material negative impact on the Company's financial position, operating results, or the Company's ability to continue to carry on its business activities.

## **Lack of Market for Aylen's Shares**

The Company's shares are listed on the Canadian Securities Exchange and trade under the symbol AYL but there can be no assurance there will be a liquid market for the shares and any market price for the shares may not reflect the underlying value of the Company's business and assets.

## **Internal Controls**

### **Disclosure controls and procedures**

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators.



## **Internal controls over financial reporting**

Management of the Company is responsible for designing internal controls over financial reporting for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. ***International Financial Reporting Standards***

The Company's financial statements for the three and nine months ended September 30, 2014 and for the year ended December 31, 2013 and the comparative information presented in the financial statements for the year ended December 31, 2012 have been prepared in accordance with IFRS applicable to the presentation of financial statements.

## ***Future Direction***

The Company intends to continue to grow the revenues of its Grapevine business, and to increase the value of its investment in Leonardo and its portfolio of marketable securities. The Company does not have the necessary capital to make any additional investments in Grapevine or Leonardo and it is unable to make any new investments without raising new equity or selling some of its assets and there are no plans at the present time to attempt to raise new capital or sell assets.

## ***Outstanding Share Data***

The Company has authorized an unlimited number of common shares, an unlimited number of Class A common shares and an unlimited number of preferred shares issuable in series. As at September 30, 2014 and at December 31, 2013, there were 16,856,632 common shares issued and outstanding and 1,185,663 common shares reserved for issuance under the Company's stock option plan.

At the date of this MD&A there were 16,856,632 common shares issued and outstanding and 1,185,663 common shares reserved for issuance under the Company's stock option plan.

## ***Other Available Information***

Additional information concerning the Company including its regulatory filings may be found on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

November 20, 2014