

**PROSPECT PARK CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2018**

## **Introduction**

This Management's Discussion and Analysis ("MD&A") is dated May 30, 2018, unless otherwise indicated and should be read in conjunction with the unaudited interim financial statements of Prospect Park Capital Corp. (the "Corporation") for the three and six months ended March 31, 2018 and the audited financial statements for the year ended September 30, 2017, and the related notes thereto. This MD&A was written to comply with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations. Results are reported in Canadian dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results presented for the three and six months ended March 31, 2018 are not necessarily indicative of the results that may be expected for any future period.

The Corporation applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

Further information about the Corporation and its operations can be obtained from the offices of the Corporation or from [www.sedar.com](http://www.sedar.com).

## **Cautionary Note Regarding Forward-Looking Information**

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Corporation's ability to predict or control. Please also make reference to those risk factors referenced in the "Risk and Factors" section below. Readers are cautioned that such risk factors, uncertainties and other factors are not exhaustive. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement. Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: the Corporation's ability to meet its working capital needs at the current level for the next twelve-month period; management's outlook regarding future trends; sensitivity analysis on financial instruments, which may vary from amounts disclosed; and general business and economic conditions.

All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Corporation undertakes no obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information or future events or otherwise, except as may be required by law. If the Corporation does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

### **Description of Business**

The Corporation was incorporated under the *Business Corporations Act* (Ontario) on September 7, 2012 and is a public healthcare focused investment corporation listed for trading on the TSX Venture Exchange under the symbol PPK.

The Corporation currently has the following investments:

#### **Skyline Medical Inc. ("Skyline")**

Skyline, a NASDAQ listed company, has a fully automated, patented, and FDA cleared surgical fluid disposal device—the STREAMWAY System—that virtually eliminates operating room workers' exposure to blood, irrigation fluid and other potentially infectious fluids found in the surgical environment.

As at March 31, 2018, the Corporation owned 5,818 common shares of Skyline with a fair market value of \$8,089.

#### **Above the Fold ("ATF")**

Pursuant to a credit agreement dated February 26, 2015, as amended on April 26, 2016 and May 25, 2017, the Corporation agreed to advance a principal amount of up to US\$100,000 to ATF. The loan matures December 31, 2018, and bears interest at 12% per annum. ATF is dedicated to supporting families with severe food allergies and will use the proceeds for the purposes of funding its ongoing research and development and for general working purposes. Samuel Herschkowitz, an officer and director of the Corporation, Joshua Kornberg, a director of the Corporation, and Mr. Kornberg's spouse are shareholders and managing members of ATF. Mr. Kornberg's spouse is also an officer of ATF.

As at December 31, 2017, \$79,913 (US\$62,750) has been advanced as part of the loan and \$26,650 has been accrued as interest.

#### **IOI LLC Trailing Interest**

On November 9, 2015, the Corporation sold a US\$150,000 investment in IOI LLC to a private investment group. In consideration for selling its IOI LLC membership interest, the Corporation received its initial capital returned (US\$150,000) plus an 8% return (US\$12,000) and retained its ability to collect an additional amount (the "Maturity Amount") should the Serenity Pharmaceuticals, LLC ("Serenity") drug successfully receive approval by the United States Food and Drug Administration. On March 29, 2017, the Corporation announced that it will not receive the Maturity Amount, in light of Allergan Inc. exercising its unilateral right to terminate its license, transfer and development agreement with Serenity which effectively terminated Serenity's (and its partners) right to any milestone payments. Serenity ultimately received payment from another company and, on November 9, 2017, the Corporation received a milestone payment of US\$48,000 ("Trailing Interest"). Management does not anticipate receiving any further payments from that investment.

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**Discussion of Operations**

As at March 31, 2018, the Corporation had assets of \$129,157 compared to \$134,470 at September 30, 2017, and liabilities of \$267,934 (September 30, 2016 - \$298,347). Included in the assets are \$14,505 of cash and cash equivalents, \$8,089 of investments at fair value, the ATF loan receivable of \$79,913, and interest receivable on the ATF loan in the amount of \$26,650. The net asset value (calculated as total assets less total liabilities) per share as at March 31, 2018, was (\$0.01) compared to (\$0.02) at September 30, 2017.

For the three and six months ended March 31, 2018, the Corporation had a net loss of \$(10,885) and net income of \$25,100 (with basic and diluted income per share of \$0.00) respectively, compared to a net loss of \$(34,986) and \$(55,587) for the for the three and six months ended March 31, 2017 (with basic and fully diluted loss per share of \$0.00 and \$0.01).

Summary of investment income:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Net investment gains (losses)				
Loss on foreign exchange	\$ -	\$ (1,092)	\$ -	\$ -
Net change in unrealized loss on investments	629	(5,533)	(2,479)	(14,952)
Net investment (losses) gains	629	(6,625)	(2,479)	(14,952)
Other income	2,790	1,836	66,131	3,974
	\$ 3,419	\$ (4,789)	\$ 63,652	\$ (10,978)

Net change in unrealized loss on investments represents the change in the unrealized gain on the Skyline shares, including the unrealized impact of foreign exchange. Other income for the six months ended March 31, 2018 comprised the Trailing Interest payment of \$60,878 (\$US48,000) and \$5,253 (December 31, 2016 - \$3,974) of interest charged on the loan to ATF. For the three months ended March 31, 2018, the amounts comprised solely of the interest charged on the loan to ATF.

The breakdown of operating, general and administrative expenses are as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Legal fees and disbursements	\$ 2,743	\$ 10,000	\$ 12,243	\$ 11,530
Accounting and audit	9,826	10,780	21,606	21,560
Transfer agent	1,258	3,396	3,828	4,320
Regulatory fees	-	5,876	-	5,876
Office	477	145	875	1,323
	\$ 14,303	\$ 30,197	\$ 38,551	\$ 44,609

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**Selected Quarterly Information**

A summary of selected information for the quarter presented below is as follows:

Three Months Ended	Net Revenues (\$)	Net Income (Loss)	
		Total (\$)	Basic and Diluted Income (Loss) Per Share <sup>(1)</sup> (\$)
March 31, 2018	-	(10,885)	(0.00)
December 31, 2017	-	35,985	0.00
September 30, 2017	-	(41,300)	(0.00)
June 30, 2017	-	(27,723)	(0.00)
March 31, 2017	-	(34,986)	(0.00)
December 31, 2016	-	(20,600)	(0.00)
September 30, 2016	-	(69,600)	(0.01)
June 30, 2016	-	10,842	0.00

<sup>(1)</sup> Per share amounts are rounded to the nearest cent, therefore aggregating quarterly amounts may not reconcile to year-to-date per share amounts.

**Liquidity and cash flow**

At March 31, 2018, the Corporation had working capital (deficiency) of (\$138,777) (September 30, 2017 – (\$265,211)). Net cash used in operating activities, and net cash in cash during the period, was \$8,064 (2017 - \$20,937).

**Capital Resources**

The Corporation relies upon various sources of funds for its ongoing operating and investing activities. These sources include proceeds from dispositions of investments, interest income from investments, capital raising activities such as private placement debt and equity financings, and corporate borrowings from the Corporation's bank and brokers.

Management recognizes the need for improved cash flow and liquidity for future operations and growth. Management closely monitors the Corporation's current cash position and the short-term and long-term cash requirements. The Corporation may be required to obtain additional funding to take advantage of the market opportunities. If additional funding is required, an issuance of common shares or debt will most likely be a component of the funding.

The Corporation's operations currently generate negative cash flow and may depend on equity sales or other means of financing to assist in financing its operations, cover administrative costs and finance growth. The ability of the Corporation to continue operations is dependent upon obtaining additional financing. The timing and ability to do so will depend on the liquidity of the financial markets as well as the acceptance of investors to small cap companies, in addition to the results of the Corporation's operation. There can be no guarantee that the Corporation will be able to secure any required financing.

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

As of the date of this filing, the Corporation does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Corporation including, without limitation, such considerations as liquidity and capital resources that have not previously been discussed.

### **Related Party Transactions**

Related parties include officers of the Corporation, the Board of Directors, close family members, enterprises and others that the Corporation does not deal with at arm's length. The below noted transactions are in the normal course of business. The Corporation considers its directors and officers to be key management. During the period, key management charged \$13,560 (six months ended March 31, 2017 - \$13,560) in remuneration (i).

(i) During the period, the Corporation was charged \$13,560 (six months ended March 31, 2017 - \$13,560) by CFO Advantage Inc., a company owned by Kyle Appleby, the Chief Financial Officer of the Corporation. As at December 31, 2017, \$50,540 (September 30, 2017 - \$45,980) is included in accounts payable and accrued liabilities.

(ii) During the period the Corporation was charged \$nil (six months ended March 31, 2017 - \$11,530) by McMillan LLP for legal services (including disbursements). Robbie Grossman was a partner of McMillan LLP (during the period) and an officer and director of the Corporation. Included in the March 31, 2018 accounts payable and accrued liabilities is \$182,263 (September 30, 2017 - \$193,168) due to McMillan LLP.

(iii) Management fee – The Manager will receive a monthly management fee (a "Management Fee") equal to 1/12th of 2% of the net asset value of the Corporation, inclusive of any taxes payable by the Corporation in respect of the Management Fee, calculated as of the last business day of each month.

No management fees were charged during the three and six months ended March 31, 2018 or March 31, 2017. As at March 31, 2018, \$1,404 (September 30, 2017 - \$1,404) of management fees were included in accounts payable and accrued liabilities.

Joshua Kornberg (a director of the Corporation) and Dr. Samuel Herschkowitz (a director and officer of the Corporation) are the limited partners of the Manager and the sole officers, directors and shareholders of the general partner of the Manager.

(iv) Performance fee - the Manager will receive in respect of each fiscal year of the Corporation, a performance fee (the "Performance Fee") equal to 20% of the net appreciation in the net asset value of the Corporation calculated as of the last day of such fiscal year in excess of the net asset value of the Corporation calculated as of the last day of the previous fiscal year, less any taxes payable by the Corporation in respect of the Performance Fee. Performance Fees are calculated and accrued monthly and shall be paid to the Manager in cash annually. Where the cash on hand is insufficient to satisfy the Performance Fee in full on the date on which such payment is required, the Performance Fee shall be paid as to the amount of such cash, net of the Corporation's working capital requirements as reasonably determined by the Manager available on the required date and the balance shall be accrued and paid as cash becomes available.

For the three and six months ended March 31, 2018 and 2017, no performance fees were earned.

(v) The Corporation is party to a credit agreement with ATF to loan ATF up to US\$100,000 (see note 4 to the unaudited condensed interim financial statements for the three months ended March 31, 2018). As of March 31, 2018, \$26,650 CAD has been included in interest receivable (September 30, 2017 - \$21,421) and \$79,913 CAD has been included in principal receivable (September 30, 2017 - \$79,914) relating to this agreement. The Corporation is related due to Dr. Samuel Herschkowitz, one of the directors and officers of the Corporation, Josh Kornberg, a director of the Corporation, and Mr. Kornberg's spouse, being the managing members of ATF. Mr. Kornberg's spouse is also an officer of ATF.

### **Risk Factors**

An investment in the securities of the Corporation is highly speculative and involves numerous and significant risks. Such investment should be undertaken only by investors whose financial resources are sufficient to enable them to assume these risks and who have no need for immediate liquidity in their investment. Prospective investors should carefully consider the risk factors that have affected, and which in the future are reasonably expected to affect, the Corporation and its financial position. Please refer to the section entitled "Risk Factors" in the Corporation's most recently filed annual management's discussion & analysis for the fiscal year ended September 30, 2017, available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Recent Accounting Pronouncements**

(i) IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. The Corporation is in the process of assessing the impact of this pronouncement.

(ii) In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, "Revenue", IAS 11, "Construction Contracts", and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. The Company has not yet determined the impact of the amendments on the Company's financial statements.

(ii) IFRS 16 – Leases – The standard was issued by the IASB on January 13, 2016, and will replace IAS 17, "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company is assessing the impact of this standard on the Company's financial statements.

**Financial Instruments**

(a) Credit Risk:

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Corporation to concentrations of credit risks consist principally of cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with a major Canadian chartered bank, from which management believes the risk of loss to be minimal. Loan receivable consists of a loan from a related party. During the year, the repayment terms of the loan was extended by a year and 10 months. The loan was assessed for impairment. Total exposure to credit risk is \$106,563, which comprised of the total interest and principal receivable from the related party (September 30, 2017 - \$101,334).

(b) Interest Rate Risk:

The Corporation is not exposed to any significant interest rate risk.

(c) Liquidity Risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Corporation raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs.

(d) Capital Management:

The Corporation's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares. The Corporation's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets. The Corporation does not have any externally imposed capital requirements to which it is subject. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares.

(e) Currency Risk:

The Corporation is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these risks due to cash and investments holdings in United States dollars.

**March 31, 2018**

Currency	Exposure			Impact on net assets		
	Cash	Investments	Total	Cash	Investment s	Total
United States Dollar	\$ 9,785	\$ 7,828	\$ 17,613	\$ 97	\$ 78	\$ 176

**December 31, 2017**

Exposure			Impact on net assets		
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Currency	Cash	Investments	Total	Cash	Investment s	Total
United States Dollar	\$ 9,687	\$ 5,876	\$ 15,563	\$ 97	\$ 58	\$ 156

As at March 31, 2018, if the Canadian dollar had strengthened or weakened by 1% in relation to all currencies, with all other variables held constant, net assets attributable to the shareholders could have decreased or increased, respectively, by approximately 1% (\$176) (September 30, 2017 – \$181).

(a) Fair value measurements:

(i) Financial hierarchy:

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

(ii) Determination of investments fair values:

The determination of fair value requires judgment and is based on market information, where available and appropriate. At the end of each financial reporting period, the Corporation's management estimates the fair value of investments based on the criteria below and reflects such valuations in the interim statements.

The Corporation is also required to disclose details of its investments (and other financial assets and liabilities for which fair value is measured or disclosed in the interim statements) within three hierarchy levels (Level 1, 2, or 3) based on the transparency of inputs used in measuring or disclosing the fair value, and to provide additional disclosure in connection therewith. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value our financial assets and liabilities are described below:

For publicly traded companies, securities including shares, options and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the statements of financial position dates or the closing trade price on the last day the security traded if there were no trades at the statements of financial position dates. These are included in Level 1.

Securities which are traded on a recognized securities exchange but which are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value to a maximum of 10%. In determining the discount for such investments, the Corporation considers the nature and length of the restriction. These are included in Level 2.

For options and warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available or reliable, the warrants and options are valued at intrinsic value, which is equal to the higher of the closing trade price at the statements of financial position dates of the underlying security less the exercise price of the warrant or option, and zero. These are included in Level 2.

All privately-held investments (other than options and warrants) are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more valuation indicators. These are included in Level 3. Options and warrants of private companies are carried at their intrinsic value.

### **Capital Management**

The Corporation's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares. The Corporation's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to identify, evaluate and then acquire an interest in a business or assets. The Corporation does not have any externally imposed capital requirements to which it is subject. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares.

### **Outlook**

The Corporation continues to evaluate opportunities to invest in early stage companies or in technologies that are developed and validated but may be in the early stage of commercialization or in companies that require strategic guidance and thus are undervalued.

### **Share Capital**

As of the date of this MD&A, the Corporation had 9,819,117 issued and outstanding common shares. In addition, the Corporation had stock options outstanding exercisable for 1,596,285 common shares. Therefore, the Corporation had 11,415,402 common shares on a fully diluted basis.