

**JUNE 30, 2017 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS – AMENDED**

Fountain Asset Corp.'s June 30, 2017 Condensed Consolidated Interim Financial Statements filed on August 28, 2017 contained an incorrect comparative period for the Statement of Changes in Equity. The filed statements presented December 31, 2016 comparatives. The statement should have presented June 30, 2016 comparatives.

The Condensed Consolidated Interim Financial Statements have been amended and re-filed on SEDAR to correct the Statement of Changes in Equity on page 4.

No other changes have been made to the Condensed Consolidated Interim Financial Statements.

This notice does not form part of the Condensed Consolidated Interim Financial Statements.



## **Fountain Asset Corp.**

**Condensed Consolidated Interim Financial Statements**

**For the six months ended June 30, 2017**

(Expressed in Canadian dollars)

(Unaudited)

## **Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4 subsection 4.3(3) (a), if an auditor has not performed a review of these condensed interim financial statements; they must be accompanied by a notice indicating that the unaudited condensed interim financial statements have not been reviewed by an auditor.

The management of Fountain Asset Corp. is responsible for the preparation of the accompanying unaudited condensed interim financial statements. The unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the unaudited condensed interim financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these unaudited condensed interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by a Company's auditor. These unaudited condensed interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the condensed interim financial position, results of operations and cash flows.

Signed: "**Jason Ewart**"  
Chief Executive Officer

Signed: "**David Darakjian**"  
Chief Financial Officer

Toronto, Ontario  
August 22, 2017

Fountain Asset Corp.  
Interim Consolidated Statements of Financial Position  
As at,  
(expressed in Canadian Dollars)

	June 30, 2017	December 31, 2016
<b>Assets</b>		
Cash	\$ 441,836	\$ 377,721
Short term investments [note 3]	40,000	40,000
Accounts receivable and sundry assets [note 14]	230,359	358,398
Loans and convertible debentures - amortized cost [note 6]	437,012	527,012
Loans and convertible debentures - fair value through profit or loss [note 6]	4,852,600	4,301,500
Investments - Fair value through profit or loss [note 4]	6,663,488	7,145,598
Investments - Available for sale [note 5]	6,035,244	2,765,792
	\$ 18,700,539	\$ 15,516,021
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 153,228	\$ 154,091
Due to brokers [note 9]	-	17,146
Syndicated loans [note 6]	764,362	764,362
	\$ 917,590	\$ 935,599
<b>Shareholders' Equity</b>		
Share capital [note 10]	\$ 27,107,741	\$ 27,107,741
Contributed surplus	5,410,786	5,321,816
Accumulated other comprehensive income	4,652,465	1,383,012
Deficit	(19,388,043)	(19,232,147)
<b>Total Equity</b>	\$ 17,782,949	\$ 14,580,423
	\$ 18,700,539	\$ 15,516,021

Contingencies and subsequent events (notes 16 and 17)

On Behalf of the Board

"Jason Ewart"  
Director

"Alec Regis"  
Director

The accompanying notes are an integral part of the Condensed Consolidated Interim Financial Statements.

Fountain Asset Corp.  
Interim Consolidated Statements of Changes in Equity  
For the periods ended June 30, 2017 and 2016  
(expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Accumulated other comprehensive income	Non- controlling interest	Total
<b>Balance, January 1, 2017</b>	<b>\$ 27,107,741</b>	<b>\$ 5,321,816</b>	<b>\$ (19,232,147)</b>	<b>\$ 1,383,012</b>	<b>\$ -</b>	<b>\$ 14,580,422</b>
Net income (loss)	-	-	(155,896)	-	-	(155,896)
Net income (loss) attributable to non-controlling interest	-	-	-	-	-	-
Adjustments to AFS investments, net of tax	-	-	-	3,269,453	-	3,269,453
Stock based compensation [note 10]	-	88,970	-	-	-	88,970
<b>Balance, June 30, 2017</b>	<b>\$ 27,107,741</b>	<b>\$ 5,410,786</b>	<b>\$ (19,388,043)</b>	<b>\$ 4,652,465</b>	<b>\$ -</b>	<b>\$ 17,782,947</b>
<b>Balance, January 1, 2016</b>	<b>\$ 27,107,741</b>	<b>\$ 5,273,980</b>	<b>\$ (20,264,998)</b>	<b>\$ 166,667</b>	<b>\$ 410,345</b>	<b>\$ 12,693,735</b>
Net income (loss)	-	-	612,449	-	-	612,449
Gain/(Loss) attributable to NCI	-	-	-	-	32,543	32,543
<b>Balance, June 30, 2016</b>	<b>\$ 27,107,741</b>	<b>\$ 5,273,980</b>	<b>\$ (19,652,550)</b>	<b>\$ 166,667</b>	<b>\$ 442,888</b>	<b>\$ 13,338,728</b>

The accompanying notes are an integral part of the Condensed Consolidated Interim Financial Statements.

Fountain Asset Corp.  
Interim Consolidated Statements of Comprehensive Income  
For the periods ended June 30, 2017 and 2016  
(expressed in Canadian Dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
<b>Revenue</b>		[note 19]		[note 19]
Structuring fees, consulting fees and bonuses	\$ 172,566	\$ 68,790	\$ 242,168	\$ 170,585
Interest and dividend income	299,676	276,733	493,182	506,613
Realized gains (losses) investments	143,536	249,315	139,828	(334,371)
Unrealized gains (losses) investments	(1,055,250)	69,875	(316,062)	617,858
Gain on sale of investment property	-	146,725	-	146,725
	<u>\$ (439,472)</u>	<u>\$ 811,438</u>	<u>\$ 559,115</u>	<u>\$ 1,107,410</u>
<b>Expenses</b>				
Salaries and consulting fees [note 13]	\$ 173,978	\$ 134,998	\$ 325,502	\$ 272,178
Filing and listing fees	12,294	8,648	13,340	15,148
Audit and legal fees	24,310	30,810	95,855	37,384
General and administrative	112,410	13,500	193,034	165,735
Foreign exchange loss (gain)	10,651	12,129	(1,689)	(11,949)
Stock based compensation expense [note 11]	88,970	-	88,970	-
Bad debt, loan provisions and permanent impairments	-	(16,077)	-	(16,077)
	<u>\$ 422,613</u>	<u>\$ 184,007</u>	<u>\$ 715,011</u>	<u>\$ 462,418</u>
<b>Income (loss) before income tax</b>	\$ (862,085)	\$ 627,431	\$ (155,896)	\$ 644,992
Income taxes provision	-	-	-	-
<b>Net income (loss)</b>	<u>\$ (862,085)</u>	<u>\$ 627,431</u>	<u>\$ (155,896)</u>	<u>\$ 644,992</u>
<b>Other comprehensive income</b>				
Unrealized gains on AFS investments, net of tax	946,797	-	3,269,453	-
<b>Net comprehensive income</b>	<u>\$ 84,712</u>	<u>\$ 627,431</u>	<u>\$ 3,113,557</u>	<u>\$ 644,992</u>
<b>Net income (loss) attributable to:</b>				
Parent company	\$ (862,085)	\$ 609,634	\$ (155,896)	\$ 612,449
Non-controlling interest	-	17,797	-	32,543
	<u>\$ (862,085)</u>	<u>\$ 627,431</u>	<u>\$ (155,896)</u>	<u>\$ 644,992</u>
<b>Net comprehensive income (loss) attributable to:</b>				
Parent company	\$ 84,712	\$ 609,634	\$ 3,113,557	\$ 612,449
Non-controlling interest	-	17,797	-	32,543
	<u>\$ 84,712</u>	<u>\$ 627,431</u>	<u>\$ 3,113,557</u>	<u>\$ 644,992</u>
<b>Net income (loss) per share - basic and diluted</b>	\$ (0.02)	\$ 0.01	\$ (0.00)	\$ 0.01
<b>Net comprehensive income (loss) per share - basic and diluted</b>	\$ 0.00	\$ -	\$ 0.06	\$ 0.01
<b>Weighted average number of shares outstanding – basic [note 12]</b>	54,154,463	54,154,463	54,154,463	54,154,463
<b>Weighted average number of shares outstanding – diluted [note 12]</b>	54,206,814	54,206,814	54,206,814	54,206,814

The accompanying notes are an integral part of the Condensed Consolidated Interim Financial Statements.

Fountain Asset Corp.  
Interim Consolidated Statements of Cash Flows  
For the six-month period ended June 30, 2017 and 2016  
(expressed in Canadian Dollars)

	2017	2016
<b>Operating activities</b>		
Net income (loss)	\$ (155,896)	\$ 644,992
Realized (gain)loss on sale of portfolio investments	(139,828)	334,371
Unrealized (gain)loss on sale of portfolio investments	316,061	(617,858)
Acquired loans and convertible debentures	(805,000)	(770,638)
Repayments of loans and convertible debentures	445,000	190,000
Purchase of investments	(521,350)	(810,000)
Proceeds from sale of investments	495,878	976,014
	<u>\$ (276,165)</u>	<u>\$ (53,119)</u>
Net changes in non-cash working capital balances [note 20]	357,425	62,681
<b>Cash flow from operating activities</b>	<b>\$ 81,261</b>	<b>\$ 9,562</b>
<b>Financing activities</b>		
Paid to brokers	(17,146)	(95,498)
<b>Cash flow used in financing activities</b>	<b>\$ (17,146)</b>	<b>\$ (95,498)</b>
<b>Increase (decrease) in cash</b>	<b>\$ 64,115</b>	<b>\$ (85,936)</b>
<b>Cash, beginning of period</b>	<b>377,721</b>	<b>657,205</b>
<b>Cash, end of period</b>	<b>\$ 441,836</b>	<b>\$ 571,269</b>

The accompanying notes are an integral part of the Condensed Consolidated Interim Financial Statements.

Fountain Asset Corp.  
Schedule of investments  
As at June 30, 2017  
(expressed in Canadian Dollars)

Investment	Classification	Market	Instrument	in Level	Average cost	Carrying/Fair value
Advantagewon Oil Corp.	Loans and convertible debt - amortized cost	Private	Convertible Debt	3	437,012	
					<b>\$ 437,012</b>	<b>\$ 437,012</b>
1616 Media Limited *	Loans and convertible debt - FVTPL	Private	Convertible Debt	3	\$ 32,500	
Auto repair finance company	Loans and convertible debt - FVTPL	Subsidiary	Term Debt	3	3,685,000	
MVC Technologies	Loans and convertible debt - FVTPL	Private	Convertible Debt	3	250,100	
Xylitol Canada Inc. *	Loans and convertible debt - FVTPL	Public	Convertible Debt	3	885,000	
					<b>\$ 4,852,600</b>	<b>\$ 4,852,600</b>
Auto repair finance company	Investments - FVTPL	Subsidiary	Equity	3	600,000	
Foothills Development Inc.	Investments - FVTPL	Subsidiary	Equity	3	1,085,872	
MariCann Inc.	Investments - FVTPL	Public	Warrants	3	-	
MBMI Resources	Investments - FVTPL	Public	Equity	1	-	
Namaste Technologies Inc.	Investments - FVTPL	Public	Equity	1	100,000	
Namaste Technologies Inc.	Investments - FVTPL	Public	Warrants	3	-	
Payfare Inc.	Investments - FVTPL	Private	Equity	3	100,000	
Poydras Gaming Finance Corp.	Investments - FVTPL	Public	Equity	1	2,803,375	
Smart Employee Benefits Inc	Investments - FVTPL	Public	Equity	1	770,000	
Smart Employee Benefits Inc	Investments - FVTPL	Public	Warrants	3	-	
Smart Employee Benefits Inc	Investments - FVTPL	Public	Options	3	-	
Somersby Park 2010 Ltd Partnership	Investments - FVTPL	Subsidiary	Equity	3	772,079	
Spectra7 Microsystems Inc.	Investments - FVTPL	Public	Equity	1	1,104,137	
Terrascent Corp.(formerly Solace Health Inc.)	Investments - FVTPL	Public	Equity	1	200,100	
The Hydropothecary Corporation	Investments - FVTPL	Public	Warrants	3	-	
The Intertain Group Limited	Investments - FVTPL	Public	Equity	1	-	
WeedMD RX Inc.	Investments - FVTPL	Public	Warrants	3	-	
Xylitol Canada Inc.	Investments - FVTPL	Public	Equity	1	25,343	
Xylitol Canada Inc.	Investments - FVTPL	Public	Options	3	49,338	
Xylitol Canada Inc.	Investments - FVTPL	Public	Warrants	3	-	
					<b>\$ 7,610,244</b>	<b>\$ 6,663,488</b>
Advantagewon Oil Corp.	Investments - AFS	Private	Equity	3	100,000	
Attorneys Title Guaranty Fund Inc.	Investments - AFS	Private	Equity	3	413,000	
The Hydropothecary Corporation	Investments - AFS	Public	Equity	1	1,082,781	
					<b>\$ 1,595,781</b>	<b>\$ 6,035,244</b>
					<b>\$ 14,495,637</b>	<b>\$ 17,988,344</b>

72% of investments are equity and 28% are non-equity

\* Due to change in reporting as an investment entity these investments are designated as FVTPL but would otherwise have been designated as loans and receivables or available for sale.

**Significant purchases, sales and changes in valuation or the six months ended June 30, 2017:**

**Auto repair finance company (Auto Co.)**

- The Company received \$200,000 from Maturing notes and re-issued \$450,000 in new promissory notes.

**MariCann Inc. (MariCann)**

- MariCann Inc. was listed on the Toronto Venture Exchange. The Company converted its debt to equity then liquidated its position completely, recognizing a gain of \$68,000. The Company continues to hold its Warrants.

**MVC Technologies (MVC)**

- MVC is pioneering the technology space in the global cannabis industry with its Virtual Clinic platform which facilitates online customers access to the legal marijuana industry
- The Company purchased \$250,000 of convertible debentures bearing 5% interest, together with detachable class A common share purchase warrants on the basis of 110 Warrants per \$1000 principal amount debenture.

**Payfare Inc.(Payfare)**

- Payfare has developed a fintech banking solution to be applied to multiple vertical industries across the on-demand cashless economy.
- The Company purchased 222,222 shares of at \$0.45 per share, for a total investment of \$100,000.

**Namaste Technologies Inc. (Namaste)**

- Namaste is a global leader in vaporizer product distribution and manufacturing. Namaste owns and operates over 30 online retail sites in 20+ countries.
- The Company purchased 400,000 shares in Namaste at \$0.25.

**The Hydrothecary Corporation (Hydrothecary)**

- Hydrothecary was listed on the Toronto Venture Exchange on March 22, 2017.
- A 1:6 share consolidation occurred March 15, 2017.

**Terrascend Corp. (Terrascend)**

- Solace Health Inc. changed its name to Terrascend Corp. and was listed on the Canadian Securities Exchange in May 2017.
- The Company sold part of its holding through public markets and recognized \$42,000 of gains.

**WeedMD RX Inc. (WeedMD)**

- WeedMD. was listed on the Toronto Venture Exchange. The Company converted its debt to equity then liquidated its position completely, recognizing a gain of \$38,000. The Company continues to hold its Warrants.

## 1. Nature of Business

Fountain Asset Corp. (the “Company”) is a publicly traded company incorporated and domiciled in Canada. The registered office is: 25 Adelaide Street East, Suite 1300, Toronto, Ontario M5C 3A1. The Company’s subordinate voting shares are listed on the TSX Venture Exchange (“TSXV”) under the symbol FA.

The Company is an investment company focused on creating shareholder value by offering various debt and/or equity financing solutions to companies across many industries such as oil and gas, mining, manufacturing, retail, financial services, technology and biotechnology.

## 2. Summary of Significant Accounting Policies

### *Statement of Compliance*

These condensed interim financial statements, are prepared, in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by IFRS, as issued by the International Accounting Standards Board (“IASB”). The condensed interim financial statements have been prepared with conformity with IAS 34 Interim Financial Reporting and do not include all the information required for full annual financial statements in accordance with IFRS and should be read in conjunction with the audited financials for the year ended December 31, 2016. Certain prior period financial statements amounts have been reclassified to conform to current period presentation without the impact on the interim statements of comprehensive income.

These condensed consolidated interim financial statements were approved by the Company’s Board of Directors on August 22, 2017.

### *Basis of Presentation*

The interim financial statements of the Company have been prepared on a going concern basis and under the historical cost convention, except for marketable securities and investments classified as fair value through profit or loss (“FVTPL”) and available-for-sale (“AFS”). These are measured at fair value. The presentation currency used for the consolidated financial statements is Canadian dollars. The functional currency used by the Company is Canadian dollars.

### *Use of Estimates and Judgements*

The preparation of these condensed interim consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Financial statement items subject to significant management judgment and estimates include:

- Determination of investment entity status – Management exercises judgement in applying criteria in IFRS10.
- Impairment of assets and provision for loans, notes and convertible debentures receivable losses – Management exercises judgement to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from amounts receivable.
- Valuation of deferred income tax assets – The valuation of deferred income tax assets requires judgement on their recoverability. Such judgements are made based on management’s estimate on the timing and amount of the Company’s future taxable earnings.
- Valuation methodology of level 2 and level 3 investments. Refer to note 8 for more details.

While management believes that the estimates and assumption are reasonable, actual results may differ materially from those estimates.

### 3. Short term investments

The Company has outstanding \$40,000 (June 30, 2016 - \$40,000) in a short-term guaranteed investment certificate with its financial institution. These investments are held as security on its credit card line with a Schedule A Canadian bank.

### 4. Investments – FVTPL

The following chart lists the investments carried at FVTPL. See pages 7 – 8 for further details and note 8 for fair value measurement techniques and evaluations.

Investments	Market	Instrument	Financial instrument hierarchy	Fair Value June 30, 2017	Fair Value December 31, 2016
Auto repair finance company [note 14]	Subsidiary	Equity	Level 3	\$ -	\$ -
Foothills Development Inc. [note 14]	Subsidiary	Equity	Level 3	1,249,442	1,582,051
MariCann Inc.	Public	Warrants	Level 3	32,647	-
MBMI Resources	Public	Equity	Level 1	-	193
Namaste Technologies Inc.	Public	Equity	Level 1	100,000	-
Namaste Technologies Inc.	Public	Warrants	Level 3	19,070	-
Payfare Inc.	Private	Equity	Level 3	100,000	-
Poydras Gaming Finance Corp.	Public	Equity	Level 1	1,385,491	2,276,728
Smart Employee Benefits Inc	Public	Equity	Level 1	277,200	311,600
Smart Employee Benefits Inc	Public	Options	Level 3	195	52,459
Smart Employee Benefits Inc	Public	Warrants	Level 3	47,518	28,350
Terrascend Corp.(formerly Solace Health Inc.)	Public	Equity	Level 1	519,269	200,100
Somersby Park 2010 Ltd Partnership [note 14]	Subsidiary	Equity	Level 3	1,356,050	1,137,486
Spectra7 Microsystems Inc.	Public	Equity	Level 1	1,061,608	1,061,608
The Hydropothecary Corporation [note 14]	Public	Warrants	Level 3	411,599	176,300
The Intertain Group Limited	Public	Equity	Level 1	-	93,800
WeedMD RX Inc.	Public	Warrants	Level 3	18,202	-
Xylitol Canada Inc.	Public	Equity	Level 1	18,000	25,000
Xylitol Canada Inc.	Public	Options	Level 3	15,376	49,338
Xylitol Canada Inc.	Public	Warrants	Level 3	51,822	150,585
<b>Totals</b>				<b>\$ 6,663,488</b>	<b>\$ 7,145,598</b>

### 5. Investments – Available for sale

The investments currently held as Available For Sale typically would be designated as an investment carried at FVTPL. However, in prior years the Company designated them as available or sale. IAS 39 restricts the reclassification of financial instruments into fair value through profit or loss after initial recognition. Until divestiture they will be designated as an investment available for sale and any unrealized gain or loss recognised as other comprehensive income. Any impairment expense is recognized within net income.

Investment	Entity type	Instrument	Financial instrument hierarchy	Fair Value June 30, 2017	Fair Value December 31, 2016
Advantagewon Oil Corp. [note 14]	Private	Equity	Level 3	\$ 3,192,222	1,064,074
Attorneys Title Guaranty Fund Inc. [note 14]	Private	Equity	Level 3	200,000	200,000
The Hydropothecary Corporation [note 14]	Public (1)	Equity	Level 1	2,643,023	1,501,718
<b>Totals</b>				<b>\$ 6,035,244</b>	<b>\$ 2,765,792</b>

(1) On March 22, 2017 The Hydropothecary Corporation began trading on the TSX venture exchange.

## 6. Loans and convertible debentures

The Company's investment in loans and convertible debentures consist of the following:

Loans and convertible debentures at Amortized Cost	Instrument	Interest Rate	Term	Financial instrument hierarchy	Carrying Value June 30, 2017	Carrying Value December 31, 2016
<b>Valued at Amortized Cost</b>						
Advantagewon Oil Corp. [note 14]	Convertible debt	24%	> 1 year	Level 3	\$ 437,012	\$ 527,012
<b>Totals</b>					<b>\$ 437,012</b>	<b>\$ 527,012</b>

Note: Fair value of the loans and receivable carried at amortized cost is equal to the carrying value due to the interest rate being equal to the market rate of interest.

Loans and convertible debentures at FVTPL	Instrument	Interest Rate	Term	Financial instrument hierarchy	Fair Value June 30, 2017	Fair Value December 31, 2016
1616 Media Limited	Convertible debt	8%	< 1 year	Level 3	\$ 32,500	\$ 32,500
Auto repair finance company [note 14]	Term debt	15%	Prom. notes ending 1-30 months	Level 3	3,685,000	3,235,000
MariCann Inc. (1)	Convertible debt	10%	< 1 year	Level 3	-	100,000
MVC Technologies	Convertible debt	5%	< 1 year	Level 3	250,100	-
WeedMD RX Inc. (1)	Convertible debt	10%	< 1 year	Level 3	-	49,000
Xylitol Canada Inc.	Convertible debt	15%	> 1 year	Level 3	885,000	885,000
<b>Totals</b>					<b>\$ 4,852,600</b>	<b>\$ 4,301,500</b>

(1) Debt was converted to equity during the second quarter. The equity was then listed on the TSXV and liquidated.

See Schedule of Investments on pages 7 - 8 for further details.

As at June 30, 2017 any interest due was collected or collectible. Management has determined that none of the convertible debt is impaired.

On December 23, 2013, the Company completed a 15% secured credit facility for up to \$2,000,000 to the Auto repair finance company. On June 16, 2016, this facility was increased to \$4,000,000. The terms of the deal included a conversion of \$600,000 of debt for equity at the full discretion of the Company once \$1,000,000 was advanced. This conversion was exercised on December 9, 2016. The credit facility is used to expand company's lending program. The Company has a general security agreement executed with the borrower. As at June 30, 2017 the loan balance was \$3,685,000 (2016 - \$3,325,000).

During the 2016, certain promissory notes comprising the Auto repair finance company term debt were syndicated out to related and non-related parties. The total of all syndicated promissory notes was \$764,362. The syndicated loans carry similar terms and conditions as the promissory notes and have expiry dates tied to the corresponding promissory notes.

### Past Due, Renewals, Impairments and Provisions

Loans are considered past due when the loan is outstanding past the scheduled maturity date. This may arise in the normal course of business as a result of various factors including refinancing delays. As at June 30, 2017, there was \$nil (2016 - \$nil loans considered past due and not impaired).

At June 30, 2017, the total estimated fair value of the collateral of impaired loans, net of specific allowances is \$nil (December 31, 2016 - \$nil). Management estimates the fair value of the collateral taking into account a number of factors including the market value of securities held, real estate appraisals and management's knowledge of the collateral, credit, financial and real estate markets. In assessing the adequacy of the specific loan loss provision, management takes into account likely realizable values, legal costs and incorporates a time value and credit risk component into estimated future cash flows. Additional

## 6. Loans and convertible debentures, continued

changes to the amount or timing of future cash flows could result in further loan losses, or the reversal of previous loan losses, which would also impact the amount of subsequent interest income recognized.

### Write-downs

The Company has recorded specific loan loss write-downs (net of recoveries) of \$nil for the period ended June 30, 2017 (\$nil for the period ended June 30, 2016).

### Loans renewed or renegotiated during the period

In certain instances, the Company may choose to renegotiate or renew loans instead of enforcing its security on loans which have not been repaid. Certain loans whose terms have been renegotiated are no longer considered to be past due but are considered to be in good standing and are therefore accounted for as performing loans. If a substantial modification (based on present value of future cash flows test) is made to a loan on renewal, the Company records any difference between the present value of future cash flows arising from the contractual terms which is compared to the present value of future cash flows at renegotiated interest rate in net income (loss) immediately. When renewing loan terms, the Company may include changes in maturity dates, additional structuring fees and/or bonuses, interest terms and changes in collateral. During the period, no loans were renegotiated.

## 7. Subsidiaries and associates

The Company's subsidiaries and associated companies are as follows:

Subsidiary/Associate	Ownership	Place of business
Foothills Developments Inc	100.0%	United States
Newborn Realty Corporation	100.0%	United States
Newborn Ranch LLC	100.0%	United States
Somersby Park 2010 Limited Partnership	64.7%	United States
Robith, LLC	51.0%	United States
Auto repair finance company	50.0%	Canada

Foothills Development Inc. (Foothills) owns 100% of Newborn Realty Corporation which owned real estate in United States. The sole property was sold in 2016 for net proceeds of \$148,882 USD (\$191,358 CAD).

Foothills holds 51% ownership of Robith LLC (Robith), which in turn owns 25% of a commercial building in the United States. The property was recently appraised at \$18,650,000 USD (\$25,041,355 CAD).

Somersby Park 2010 Limited Partnership (Somersby) owns vacant real estate in the United States. There were no lot sales in the period ending June 30, 2017. In 2016, there were 3 individual lot sales.

In 2016, the Company converted \$600,000 of debt to a 50% equity position in the Auto repair finance company. The equity value was decreased to \$0 as the company continues to incur annual losses but generating positive cash flow. The Company also holds term debt of \$3,685,000, which through various promissory notes is due within 1 to 27 months. Interest is received monthly.

## 8. Fair Value Measurements

The following table presents the Company's financial assets as categorized on the statement of financial position measured at fair value and classified into levels of the fair value hierarchy:

<b>As at June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash	\$ 481,836	\$ -	\$ -
Loans and convertible debt - FVTPL	-	-	4,852,600
Investments - FVTPL	3,361,568	-	3,301,921
Investments - AFS	2,643,022	-	3,392,222
	<b>\$6,486,426</b>	<b>\$ -</b>	<b>\$11,546,742</b>

  

<b>As at December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash	\$ 417,721	\$ -	\$ -
Loans and convertible debt - FVTPL	-	-	4,301,500
Investments - FVTPL	3,768,929	-	3,376,669
Investments - AFS	-	-	2,765,792
	<b>\$4,186,650</b>	<b>\$ -</b>	<b>\$10,443,961</b>

Transfers in and out of Level 3 are due to changes in the observability of market data, such as a recent new transaction or due to the passage of time respectively

### Fair value estimation

The Company's management review and approve the valuation results of all investments in the portfolio based on all observable and non-observable inputs. The Company also will engage an independent valuation firm to perform an independent valuation in situations where it requires additional expertise. The valuation results are reviewed with the audit committee as part of its quarterly approval of the Company's consolidated financial statements.

The fair value of the Company's investments is determined as follows:

#### Listed securities

The fair value of securities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Company uses the last traded market price where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Company determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The fair value of securities that are subject to trading restrictions are recorded at a value which takes into account the length and nature of the restrictions, if needed.

#### Unlisted securities

For investments that are not publicly traded, subsequent to initial recognition, the fair value of these investments is determined by the Company using the most appropriate valuation methodology in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio.

## 8. Fair Value Measurements, continued

### For unlisted equity instruments:

- Investments are valued at cost for a limited period after the date of acquisition, if the purchase price remains representative of the fair value at the reporting date; otherwise, investments are valued using one of the other methodologies detailed below.
- Investments in which there has been a recent or in-progress funding round involving significant financing from external investors are valued at the price of the recent funding, whereby the various shareholder categories rights are taken into account in the valuation. The price is adjusted, where appropriate, if an external investor is motivated by strategic considerations.
- Investments in which there has been a recent private secondary market trade of meaningful volume and the transaction is undertaken by a sophisticated, arm's-length investor are valued at the price of the recent trade and are adjusted, as appropriate, if the purchaser is motivated by strategic considerations.
- Investments in established companies for which there has not been any recent independent funding or secondary private market transaction are valued by using revenue or earnings multiples. When valued on a multiple basis, the maintainable revenue or earnings of a portfolio company are multiplied by an appropriate multiple. The multiple is derived from the market capitalization of a peer group. Companies are selected for the peer group that are comparable with the portfolio company to be valued as to their business model and size. If the portfolio company to be valued differs in certain aspects compared with features of companies in the peer group, discounts or premiums are applied to the relevant multiple or resulting valuation.
- Investments in early-stage companies not generating sustainable revenue or earnings and for which there has not been any recent independent funding are valued using alternative methodologies. The Company considers investee company performance relative to plan, going concern risk, continued funding availability, comparable peer group valuations, exit market conditions and general sector conditions and calibrates its valuation of each investment as appropriate.
- For public company warrants, options and conversion features on debt (i.e., the underlying security of which is traded on a recognized stock exchange), valuation models such as Black-Scholes are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. To the extent that the market inputs are insufficient or unreliable, the warrants are valued at their intrinsic value, which is equal to the higher of the closing price of the underlying security less the exercise price of the warrant, or nil. For private company warrants, the underlying security is not traded on a recognized stock exchange, therefore fair value is determined consistent with other investments that do not have an active market, as described above.
- Loans, debentures and promissory notes issued by investees are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The Company may employ discounted cash flow analysis, market comparable analysis of listed debt instruments with similar credit quality or liquidation value analysis to determine the fair value of the debt instrument.

## 8. Fair Value Measurements, continued

### For unlisted equity instruments, continued

The Company may apply a further illiquidity discount to the fair value of an investment if conditions exist that could make it challenging to monetize the investment in the near term at a price indicated by the valuation models. The amount of illiquidity discount applied requires considerable judgement and is based on the facts and circumstances of each investment.

The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties, and the resulting values may differ significantly from values that would have been used had a ready market existed for the investments. These differences could be material to the fair value of investments in the portfolio.

The following table presents the changes in fair value of investments classified as Level 3:

	Six months ended June 30, 2017	Year ended December 31, 2016
Opening balance	\$ 10,443,961	\$ -
Transfers in	-	4,748,007
Transfers (to)from Level 1	(1,701,818)	-
Transfers (to)from Level 2	-	666,667
Purchases	800,100	4,185,380
Conversion of debt	(149,000)	(600,000)
Investments received for services	-	49,338
Gain on deconsolidation	-	587,093
Dispositions	-	(103,932)
Unrealized gains/losses - net income	25,351	(304,937)
Unrealized gains/losses - other comprehensive income	2,128,148	1,216,345
Closing balance	<u>\$ 11,546,742</u>	<u>\$ 10,443,961</u>

During the six-months ended June 30, 2017 there were no transfers between levels 1 and 2.

During the six-months ended June 30, 2017 The Hydropothecary Corporation was listed on the Toronto Venture Exchange and moved from Level 3 to Level 1.

During the year ended December 31, 2016 there were no transfers between levels 1 and 2.

## 8. Fair Value Measurements, continued

The table below presents the valuation techniques and the nature of significant inputs used to determine the fair values of the Level 3 investments as at June 30, 2017:

Investment	Fair Value	Instrument	Valuation method	Inputs	Range	Fair Value Range		Footnote
						Lower	Upper	
1616 Media Limited	\$ 32,500	Convertible Debt	Transaction price	Recent purchase price	+/- 10%	\$ 29,250	\$ 35,750	4
Auto repair finance company	3,685,000	Term debt	Transaction price	Recent purchase price	+/- 10%	3,316,500	4,053,500	4
Advantagewon Oil Corp.	3,192,222	Equity	Transaction price	Third party transactions	+/- 10%	2,873,000	3,511,444	2
Attorneys Title Guaranty Fund Inc.	200,000	Equity	Earnings multiple	5x net earnings multiple	3x / 7x	133,760	312,106	5
Foothills Development Inc.	1,249,442	Equity	Appraisal value	Market sales and capitalization rates	+/- 10%	1,124,498	1,597,872	3
MariCann Inc.	32,647	Warrants	Transaction price	Market prices, volatility, risk free rate	+/- 10%	29,382	35,912	4
MVC Technologies	250,100	Convertible Debt	Transaction price	Recent purchase price	+/- 10%	225,090	275,110	4
Namaste Technologies Inc.	19,070	Warrants	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	18,650	25,484	1
Payfare Inc.	100,000	Equity	Transaction price	Recent purchase price	+/- 10%	90,000	110,000	4
Smart Employee Benefits Inc	195	Options	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	25,119	45,234	1
Smart Employee Benefits Inc	47,518	Warrants	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	8,552	21,031	1
Somersby Park 2010 Ltd Partnership	1,356,050	Equity	Market prices	Recent sales	+/- 10%	1,220,445	1,491,655	3
The Hydrothecary Corporation	411,599	Warrants	Black Scholes model	Market prices, volatility, risk free rate	+/- 10%	370,439	452,759	2
WeedMD RX Inc.	18,202	Warrants	Black Scholes model	Market prices, volatility, risk free rate	+/- 10%	16,382	20,022	1
Xylitol Canada Inc.	15,376	Options	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	24,365	29,396	1
Xylitol Canada Inc.	51,822	Warrants	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	77,681	92,694	1
Xylitol Canada Inc.	885,000	Convertible Debt	Transaction price	Recent purchase price	+/- 10%	796,500	973,500	2
	<u>\$ 11,546,742</u>							

(1) inputs taken from TSX/TSXV/CSE closing prices and price volatility.

(2) Valued based on recent completed third party transactions including external funding rounds and secondary market trades near the measurement date.

(3) Values include accounts receivable from the related party.

(4) Represents investments valued at cost which is representative of fair value at the measurement date.

(5) Industry based multiple. Most recent annual earnings used discounted for minority and liquidity interest.

## 9. Due to Brokers

As at June 30, 2017, the Company had due to broker accounts totalling \$nil (2016 - \$17,146). Due to brokers consists of margin borrowings collateralized by the Company's investments held at brokers. In the normal course of business, the Company uses the margin borrowings to finance some of its investment activities. Interest is charged on the outstanding balance.

## 10. Share Capital

Authorized:

Unlimited multiple voting shares ("MVS")

Unlimited subordinate voting shares ("SVS")

Unlimited preferred shares

The rights of MVS and SVS shares are identical other than voting rights. MVS shares are entitled to four votes per share whereas SVS shares are entitled to one vote per share.

Shares issued and outstanding:	June 30, 2017		December 31, 2016	
	No. of shares	Amount	No. of shares	Amount
Multiple voting shares	1,035,719	\$1,888,523	1,035,719	\$1,888,523
Subordinate voting shares	53,118,743	25,219,218	53,118,743	25,219,218
	54,154,462	\$27,107,741	54,154,462	\$27,107,741

Stock options outstanding	June 30, 2017		December 31, 2016	
	Number of	Weighted Average	Number of	Weighted Average
	Options	Exercise Price	Options	Exercise Price
Balance, beginning of the period	1,465,000	\$ 0.40	2,138,333	\$ 0.40
Options granted during the period	450,000	\$ 0.30	-	-
Options cancelled during the period	-	-	(273,333)	0.25
Options forfeited during the period	-	-	(400,000)	0.47
Balance, end of the year	1,915,000	\$ 0.38	1,465,000	\$ 0.41

Exercise Price	Options Outstanding June 30, 2017		Options Exercisable June 30, 2017	
	Number of	Weighted Average	Number of	Weighted Average
	Options	Life (years)	Options	Life (years)
\$0.20	240,000	0.9	240,000	0.9
\$0.30	450,000	4.6	450,000	4.6
\$0.40	355,000	1.6	355,000	1.6
\$0.47	870,000	2.8	480,000	2.8
	1,915,000	2.7	1,525,000	3.4

Exercise Price	Options Outstanding December 31, 2016		Options Exercisable December 31, 2016	
	Number of	Weighted Average	Number of	Weighted Average
	Options	Life (years)	Options	Life (years)
\$0.20	240,000	1.4	240,000	1.4
\$0.40	355,000	2.1	355,000	2.1
\$0.47	870,000	4.3	480,000	3.3
	1,465,000	2.7	1,075,000	2.5

In January 2017, the Company approved the granting of 450,000 incentive stock options (the "Options") pursuant to the Company's Stock Option Plan to certain directors of the company. The Options are exercisable at a price of \$0.30 per share expiring on January 24, 2021.

## 11. Stock-Based Compensation Plan

The Company has a stock option plan (the "Plan") which was approved by the Board of Directors of the Company. The total number of shares reserved for issuance under the Plan is equal to 10% of the outstanding Subordinate Voting Shares.

The Plan is for the benefit of the employees, officers and directors of the Company. The Plan is administered by the Compensation Committee of the Board of Directors of the Company. The Compensation Committee may from time to time designate individuals to whom options to purchase shares of the capital stock of the Company may be granted, the number of shares to be optioned to each and the vesting terms of such options. The option price per share which is the subject of any option shall be fixed by the Board of Directors when such option is granted. The option price can be discounted according to the rules of the Exchange at the time the option is granted. The options may not be assigned, transferred or pledged. Subject to any grace period allowed under the policies of the Exchange, and notwithstanding any specific agreements with the Company, the options will expire upon the termination of the employment or office with the Company or any of its subsidiaries or death of an individual. The total number of shares to be optioned to any one individual cannot exceed five percent of the total of the issued and outstanding shares. It has been the Company's policy for options to vest upon issuance, however it remains open to change at the Boards discretion.

## 12. Net Income (loss) per Share

Net income (loss) per share has been calculated using the weighted average number of multiple and subordinate voting shares outstanding during the period. Diluted income (loss) per share is calculated in a similar manner, except that the weighted average number of multiple and subordinate voting shares outstanding is increased to include potentially issuable subordinate voting shares from the assumed exercise of stock options, if materially dilutive. The potential effect of the exercise of stock options does not impact the presentation of the basic net income (loss) per share for the periods ended June 30, 2017 and 2016.

## 13. Compensation of Key management

The remuneration of directors and other key management personnel of the Company for the six months ended June 30 was as follows:

	2017	2016
Salaries	\$195,500	\$ 175,000
Options	88,970	-
	<u>\$284,470</u>	<u>\$ 175,000</u>

## 14. Related Party Transactions

Related party transactions occur during the normal course of Company operations.

Related party	Income for quarters ended		Income for six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Foothills Developments Inc	\$ -	\$ -	\$ -	\$ -
Newborn Realty Corporation	-	-	-	-
Somersby Park 2010 Limited Partnership	-	-	-	-
Robith, LLC	172,901	-	172,901	58,500
Auto repair finance company	152,680	124,058	287,331	224,140
AdvantageWon Oil Corp.	28,608	39,154	59,509	80,945
Attorney Title Guaranty Fund	-	-	-	-
The Hypothecary Corporation	-	23,759	-	46,881

#### 14. Related Party Transactions, continued

Related party	Income for quarters ended		Income for six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Foothills Developments Inc	\$ -	\$ -	\$ -	\$ -
Newborn Realty Corporation	-	-	-	-
Somersby Park 2010 Limited Partnership	-	-	-	-
Robith, LLC	172,901	-	172,901	58,500
Auto repair finance company	152,680	124,058	287,331	224,140
AdvantageWon Oil Corp.	28,608	39,154	59,509	80,945
Attorney Title Guaranty Fund	-	-	-	-
The Hydrotheftary Corporation	-	23,759	-	46,881

Related party	Accounts Receivable		Accounts Payable		Investment	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Foothills Developments Inc	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Newborn Realty Corporation	-	-	-	-	-	-
Somersby Park 2010 Limited Partnership	274,680	161,893	-	-	1,356,050	1,137,486
Robith, LLC	-	343,037	-	-	1,249,442	1,582,051
Auto repair finance company	43,274	98,116	-	-	3,685,000	3,235,000
AdvantageWon Oil Corp.	24,142	26,243	-	-	3,629,234	1,591,086
Attorney Title Guaranty Fund	-	-	-	-	200,000	200,000
The Hydrotheftary Corporation	-	-	-	-	3,054,622	1,678,019

Members of the Company's board of directors also serve as board members of Bradstone Capital which is one of the parties that participated in the syndicated loans with the auto repair finance company.

In March 2017, The Hydrotheftary Corporation completed a Qualifying Transaction with BFK Capital Corp., a Capital Pool Company, listed on the TSX Venture Exchange. Members of the Company's Board of Directors are shareholders of BFK Capital Corp.

Investment	Ownership	Position held
Foothills Developments Inc	100%	Director & Officer
Newborn Realty Corporation	100%	Director & Officer
Somersby Park 2010 Limited Partnership	64.7%	Director & Officer
Robith, LLC	51%	Director & Officer
Auto repair finance company	50%	Director
AdvantageWon Oil Corp.	13.4%	Director
Attorney Title Guaranty Fund	16.1%	Director
The Hydrotheftary Corporation	<10%	Director

#### 15. Risk Management and Sensitivity Analysis

The primary goals of the Company's risk management programs are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance. The Company's investment strategy requires a level of risk in exchange for an above average return on investment. The Company plans to maintain an appropriate risk and reward balance while protecting the Company's financial operations from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk tolerance with the Company's business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventative controls and transferring risk to third parties.

## 15. Risk Management and Sensitivity Analysis, continued

The success of the Company is dependent upon its ability to assess and manage all forms of risk that affect its operations. The Company is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

### Capital Management

The Company considers the items included in shareholders' equity as capital. The Company's capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support continued asset growth. A strong capital position also provides flexibility in considering accretive growth opportunities. It is the intention of the Company in the long term to pay out a portion of its future annual earnings to shareholders in the form of dividends. There has been no change in the capital management approach from the prior period.

### Credit Risk

Concentration of credit risk may arise from exposures to a single debtor or to a group of debtors having similar characteristics such that their ability to meet their current obligations is expected to be affected similarly by changes in economic or other conditions. Senior management is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- obtaining collateral guarantees;
- the investigation of the creditworthiness of all borrowers;
- the engagement of qualified independent consultants such as lawyers and real estate appraisers, to whom management may reach for professional advice.
- the segregation of duties to ensure that qualified staff are satisfied with all due diligence requirements prior to funding; and
- the prompt initiation of recovery procedures on overdue loans.

As at June 30, 2017, gross accounts receivable of \$nil were past due and not impaired (December 31, 2016 - \$237,229).

The maximum exposure to credit risk is:

	June 30, 2017	December 31, 2016
Accounts receivable, excluding HST	\$ 112,412	\$ 347,217
Loans and convertible debentures	5,289,612	4,828,512
<b>Total Credit Exposure</b>	<b>\$ 5,402,024</b>	<b>\$ 5,175,729</b>

A significant amount of the Company's credit exposure lies with Auto repair finance company. The debt at June 30, 2017 is \$3,685,000. This accounts for 20% (December 31, 2016 - 21%) of the Company's total investments. The Company holds a general security agreement with Auto repair finance company and ranks first among other investors. The loan portfolio of Auto repair finance company is secured by the Retail Storage and Liens Act of Ontario which gives the lien holder first right over any other form of lien. The Company closely monitors LTV (loan to value) coverage as well as loan default rates. The credit risk of the debt is linked to the credit risk of the underlying auto repair loans. Management continuously evaluates and monitors the credit worthiness of such auto repair loans.

**15. Risk Management and Sensitivity Analysis, continued**

Market Risk

The Company is exposed to certain market risk that the value of, or future cash flows from, the Company's financial assets will significantly fluctuate due to changes in market prices. The value of the financial assets can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments, and unfavorable market conditions could result in dispositions of investments at less than favorable prices. Additionally, the Company is required to mark to market its fair value through profit or loss investments at the end of each reporting period. This process could result in significant write-downs of the Company's investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on the Company's financial position. The Company manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers. The Board monitors changes in the market on an ongoing basis and adjusts the Company's lending and investing practices and policies when necessary to reduce the impact of the above risks.

The Company's investments include publicly-listed entities that are listed on a Canadian stock exchange. Changes in the fair value of investments designated as fair value through profit and loss are reported in the statement of comprehensive income.

The following table shows the estimated sensitivity on the statement of comprehensive income for the six months ended June 30, 2017 from a change in closing price of the Company's publicly-listed investments of \$6,701,020 with all other variables held constant as at June 30, 2017:

Percentage of Change in Closing Prices	Change in comprehensive income from % increase in closing price	Change in comprehensive income from % decrease in closing price
5%	\$ 335,051	\$ (335,051)
10%	\$ 670,102	\$ (670,102)

Interest rate risk

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in value of financial instruments whose cash flows are fixed in nature.

As at June 30, 2017, the Company holds the following fixed-rate debt instruments:

(a) \$ 1,354,512 (December 31, 2016 – \$1,593,512) in convertible debentures with a weighted average interest rate of 17.7. % (December 31, 2016 – 17.3%) and a weighted average term to maturity of approximately 2.1 years (December 31, 2016 – 2.3 years); and

## 15. Risk Management and Sensitivity Analysis, continued

### Interest rate risk, continued

(b) \$3,685,000 (December 31, 2016 – \$3,235,000) in in term debt which was issued in several tranches with an interest rate of 15% (December 31, 2016 – 15%) that are due 3 years from the date of each advance. As at June 30, 2017 the traches mature within 1-27 months of quarter end [December 31, 2016 – 6-33 months]. At December 9, 2016 \$600,000 of the debt was converted into equity.

Should market interest rates rise, then the fair value of these convertible debentures and term debt may decrease. Conversely, should market interest rates fall, the fair value of these assets may increase. The effect of changes in interest rates on the fair value of these debt instruments is partially muted by the nature of the investments. Convertible debentures placed in early stage investees are typically less sensitive to changes in market interest rates than non-convertible debt instruments placed in more mature investees. Additionally, the economic exposure to interest rate risk is mitigated by the Company's intention to either convert the debentures into the related underlying equities or, in the case of nonconvertible debentures, to hold the instrument until maturity.

As at June 30, 2017, if interest rates were higher by 1% per annum, the potential effect to the Company would be a decrease in net income of approximately \$47,895 (December 31, 2016 – \$48,000). If interest rates were lower by 1% per annum, the potential effect would be an increase in net income of approximately \$47,895 (December 31, 2016 – \$48,000).

### Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from making loan advances and receiving loan repayments. The goal of liquidity management is to ensure that adequate cash is available to honour all future loan commitments. As well, effective liquidity management involves determining the timing of such commitments to ensure cash resources are optimally utilized. The Company manages its liquidity risk by monitoring loan advances and repayments.

In managements' opinion, the Company has sufficient resources to meet its current cash flow requirements.

The Company's accounts payable, accrued liabilities and due to broker, all have contractual maturities of less than 30 days and are subject to normal trade terms. The syndicated loans carry similar terms and conditions and have various terms ranging from 1 to 24 months.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Company's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Company's operations in the long-term. However, the Company may procure debt or equity financing from time to time to fund its operations.

### Currency Risk

Foreign exchange risk exposures arise from transactions and balances denominated in foreign currencies. The Company's foreign currency risk arises primarily with respect to the United States dollar. Fluctuations in the exchange rates between the United States dollar and the Canadian dollar could have a material effect on the

## **15. Risk Management and Sensitivity Analysis, continued**

Currency risk, continued

Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

The Company has cash and cash equivalents, certain receivables, convertible debentures and investments in companies denominated in a foreign currency. Sensitivity to a plus or minus 10 percent change in existing rates would increase or decrease the Company's net income by \$215,000 (December 31, 2016 - \$289,000).

## **16. Contingencies**

### **Contingent liabilities**

The Company is the parent company of the general partner of GC Global Capital Lending Partners Limited Partnership and Somersby Park 2010 General Partner Inc. The General Partner has unlimited liability for the liabilities and obligations of the partnerships in excess of the contributions of the limited partners. As at June 30, 2017 and December 31, 2016 there were no outstanding liabilities or obligations for which the Company was contingently liable.

## **17. Subsequent Events**

In July, Fountain's investee company, Advantagewon Oil Corp. completed its listing on the Canadian Stock Exchange (the "CSE"). Advantagewon Oil Corp. trades under the symbol "AOC". Advantagewon is a Toronto-based oil and gas company with a focus on development opportunities in Texas, U.S.A.

In August, Fountain completed the sale of its 12.5% ownership of the one million square foot commercial complex called Fletcher Business Park LLC, located in North Carolina for cash proceeds of \$2.2 million.

## **18. New and Revised Standards and Interpretations**

New standards and interpretations not yet adopted

The following pronouncements issued by the IASB and interpretations published by IFRIC will become effective for annual periods beginning on or after the dates detailed below, with earlier adoption permitted. The Company is currently assessing the impact of the adoption of these new standards and interpretations.

Pronouncements effective for annual periods beginning on or after January 1, 2018:

IFRS 9, Financial Instruments amends the requirements for classification and measurement of financial assets, impairment, and hedge accounting. IFRS 9 introduces an expected loss model of impairment and retains, but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss, and fair value through other comprehensive income (loss). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

## 18. New and Revised Standards and Interpretations, continued

IFRS 15, Revenue from Contracts with Customers will supersede current revenue recognition guidance, which is currently found across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. IFRS 15 provides a framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

Pronouncements effective for annual periods beginning on or after January 1, 2019:

IFRS 16, Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The effective date for IFRS 16 is January 1, 2019. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than those subject to the two exceptions listed below, will be recorded in the Statement of Financial Position with a “right of use” asset and a corresponding lease liability. This will impact the timing and classification related expenses, as lease costs will now be reflected in the depreciation of the right of use asset and interest on the lease liability. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets and short-term leases.

## 19. Prior year comparatives

Certain comparative figures have been reclassified to conform to the presentation in the current year.

## 20. Supplementary Cash Flow Information

	Six months ended		Year ended	
<b>Net change in non-cash working capital balances</b>	June, 2017		December 31, 2016	
Accounts receivable, interest, and dividends receivable	\$	359,913	\$	106,230
Prepays		(1,625)		4,944
Accounts payable and accrued liabilities		(863)		(48,493)
	\$	357,425	\$	62,681

	Quarter ended June		Quarter ended June		Six months ended		Six months ended	
<b>Interest received and paid</b>	30, 2017		30, 2016		June 30, 2017		June 30, 2016	
Interest received	\$	204,721	\$	188,434	\$	393,404	\$	418,313
Interest paid		36,603		26,981		54,305		33,522