



## MONTFORT CAPITAL CORP.

### MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis is for the three and nine month period ended September 30, 2022 compared with the three and nine month period ended August 31, 2021. All amounts are in Canadian dollars unless otherwise indicated. This MD&A was approved by the Board of Directors on November 25, 2022.

This Management's Discussion and Analysis (MD&A) provides review of Montfort Capital Corporation's (the "Company") consolidated financial results for the three and nine month period ended September 30, 2022 and provides detailed information on the operating activities, performance and financial position of the Company. The "Company", "we", "us" or "our" refer to Montfort Capital Corp. and its consolidated entities. This analysis of the operating results and financial position of the Company should be read in conjunction with the September 30, 2022 consolidated Financial Statements and related Notes (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion and analysis may contain forward-looking statements about the Company's future prospects, and the Company provides no assurance that actual results will meet management's expectations. Additional information relating to Montfort Capital Corp. is available on SEDAR at [www.sedar.com](http://www.sedar.com). Montfort Capital Corp. is listed on the TSX Venture Exchange (the "TSX-V") trading under the symbol "MONT". Montfort Capital Corp. preferred shares trade under the ticker symbol MONT.PR.A.

#### FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking information" and "forward-looking statements", collectively "forward looking statements". All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "designed", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements. Based on current available information, the Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that those expectations will prove to be correct. The forward-looking statements in this MD&A are expressly qualified by this statement, and readers are advised not to place undue reliance on the forward-looking statements.

#### FINANCIAL HIGHLIGHTS

For the nine month period ended September 30, 2022 and for the nine month period ended August 31, 2021.  
*\*see Non-GAAP measures section for details of calculations.*

Financial Highlights	September 30, 2022	August 31, 2021	% Change
Revenue	17,408,180	4,516,168	285%
Loans receivable - net of ECL ( comparative December 31, 2021)	240,307,781	106,117,801	126%
Net income	2,768,550	1,033,754	168%
Net income (loss) attributable to shareholders	389,908	(820,776)	148%
Adjusted net income	4,654,850	1,271,917	266%
Adjusted net income attributable to shareholders	2,276,208	(582,613)	491%
Earnings per common share*	(0.01)	(0.02)	54%
Adjusted net income per common share*	0.02	(0.02)	213%

*\*reflects dividends paid*

For the three months ended September 30, 2022, compared to the three months ended August 31, 2021 the Company had the following highlights:

- Total revenue increased \$6,521,480 or 463% from \$1,407,679 to \$7,929,159;
- Interest income from investments was up \$4,486,964 or 360% to \$5,733,006 for the three month period compared to \$1,246,042 for the three month period last year. This increase is primarily driven by the acquisitions of Pivot and Brightpath;
- Similarly, income from transaction and other fees increased \$1,926,904 to \$2,088,541 from \$161,637 due to acquisition of Pivot and Brightpath;
- Performance fee income increased \$107,612 or 100% from \$0 to \$107,612 due to the acquisition of Pivot;
- Net income increased 67% or \$207,014 to \$514,175 compared to \$307,161 in the prior three month period;
- Brightpath acquisition closed August 15, 2022.

For the nine months ended September 30, 2022, compared to the nine months ended August 31, 2021 the Company had the following highlights:

- Total revenue increased \$12,892,012 or 285% from \$4,516,168 to \$17,408,180;
- Interest income from investments was up \$9,411,827 or 262% to \$13,010,557 for the nine month period compared to \$3,598,730 for the nine month period last year. This increase is primarily driven by the acquisitions of Pivot and Brightpath (closed August 15, 2022);
- Similarly, Income from transaction and other fees increased \$2,908,799 to \$3,312,539 from \$403,740 due to acquisition of Pivot and Brightpath;
- Income from settlements of loans increased \$241,408 or 47% from \$513,698 to \$755,106 as a result of more portfolio exits in the current period compared to exit activities in the comparative period;
- Net income increased 168% or \$1,734,796 to \$2,768,550 compared to \$1,033,754 in the prior nine month period.

## **BUSINESS OVERVIEW**

The Company builds and manages private credit limited partnerships that have focused investing strategies for the institutional and accredited investors markets under three divisions: TIMIA Capital (TIMIA), Pivot Financial (Pivot) and Brightpath Capital Corporation (Brightpath).

- TIMIA utilizes a proprietary loan origination platform to originate, underwrite and service private-market, high-yield loan opportunities in the technology space. TIMIA offers revenue-based investment to fast growing, business-to-business recurring revenue software businesses in North America.
- Pivot specializes in asset-based private credit targeting mid-market borrowers in Canada. Sources of revenue include interest income from loans receivable, as well as income from the settlement of loans and transaction fees from due diligence. In addition, Pivot earns loan servicing fees and performance fee income for loan management services performed.
- Brightpath uses investor loans to administer first and second mortgages secured by residential properties. Brightpath is a registered Mortgage Brokerage and Mortgage Administrator.

The Company builds and manages private credit limited partnerships that have focused investing strategies for the institutional and accredited investors markets. The Company's business principally involves managing invested capital and earning fee-related revenues from assets under management. The Company builds shareholder value by increasing the assets invested, through limited partnerships, as well as growth in assets managed under service agreements.

The capital for all of the Company's investments comes from institutions and private investors through Limited Partnerships, lender finance arrangements, loans payable, and co-investor syndication. The Company's corporate capital needs are met through the issuance of preferred and common shares.

The key contributors to growth in value to the shareholders of the Company are fee related earnings from our investing activity, continued improvement in efficiency at originating deals, acceleration in number of deals originated and maintaining economies of scale. Management will drive value for common

shareholders through building/acquiring focused lending strategies that can scale profitably.

In the technology space, the Company utilizes a proprietary loan origination platform to originate, underwrite and service private-market, high-yield loan opportunities. Sources of revenue include interest income from loans receivable, income from the settlement of loans as well as transaction, loan servicing fees and performance fees.

## **INVESTMENT STRATEGY**

### **Business Lending**

TIMIA targets companies seeking capital primarily in the following three subsectors: Software-as-a-Service (SaaS), software enabled service companies and hardware enabled service companies. Using proprietary software, the Company is able to efficiently originate transactions, automate underwriting as well as manage the loan portfolio and investors on an ongoing basis.

Pivot addresses the borrowing needs of small to mid-sized enterprises in Canada with bespoke term debt structures, bridge loans, asset-based revolving loan facilities, and accounts receivable factoring facilities. Pivot portfolio companies typically have 1-100 employees and \$1-\$100 million in revenue.

### **Personal Lending**

Brightpath's Personal Lending loan portfolio includes a portfolio of over 600 mortgages. Mortgages are secured by residential property, located mainly in Ontario, and typically have a maturity of one year.

## **SUMMARY OF THE IMPACT OF CHANGING INTEREST RATES**

The increase in interest rates over the last quarter has led to a sizable correction in stock markets and a general tightening of credit availability. Interest rate fluctuations can impact Montfort in several ways:

- Improved new loan credit quality and pricing

Tightening venture capital and private equity markets have caused companies in the Montfort market space to seek alternative sources of capital. Both of the Montfort investment strategies have seen an increase in the number and credit quality of potential borrowers. We continue to write well priced facilities to very attractive credits.

- Continued strong performance of the existing portfolio

The Company continues to monitor the performance metrics of their portfolio investments and actively assist investees to manage their capital and cash needs. The Company has not seen factors that would indicate the need for substantial revisions in the expected credit loss provision during this period.

- Increased interest expenses

If the current prime interest rate had been in effect for the three quarters of the year the impact to common shareholders would have been an increase in interest expense by approximately \$570,000 (8% of total interest expense for the period).

- Maintained availability of capital to Montfort

Montfort sources its capital from alternative credit providers, institutional investors, and individuals, depending on the particular strategy. We have had conversations with our credit providers and institutional sources. In general they remain very supportive of Montfort. Additionally, we continue to add capital from new and existing individual investors.

## Structure and basis of consolidation

Our capital sourcing strategy has evolved from raising capital directly in the form of debt and equity, to raising non-dilutive capital in the form of limited partnerships and lender finance arrangements. Management expects to continue to use non-dilutive sources of capital to increase per share profitability for shareholders as well as improve our ability to scale with growth.

## Basis of consolidation

To date the following partnerships have been established:

- On March 6, 2019, the Company established its first Limited Partnership (“LP I”);
- On November 28, 2019, the Company established TIMIA Capital Holdings Limited Partnership for purposes of facilitating a lender finance arrangement to help fund growth in a warehouse format for future limited partnerships;
- On July 15, 2020, the Company established its third Limited Partnership (“LP II”);
- In September 2021, the Company established Pivot Financial I Limited Partnership (“Pivot LP”) for purposes of the acquisition of Pivot Financial Inc.; and
- On January 10, 2022, the Company formed its third fund, TIMIA Capital III Preferred Return Fund Limited Partnership and a related Trust, TIMIA Capital III Preferred Return Fund (“Preferred Return LP III”).

TIMIA Capital GP Inc. and TIMIA Capital II GP Inc. (wholly owned subsidiaries of the Company) each act on behalf of the general partners for LP I, LP II and Preferred Return LP III (together the limited partnerships). The Company owns 12.4%, 5.0% and 13.4% of total units as at September 30, 2022, respectively of LP I, LP II, Preferred Return LP III, while TIMIA Capital Holdings is 100% owned. All the benefits and rewards of ownership of the limited partnership flow to the limited partners; the external parties that funded the limited partnership. The Company earns a management fee and a performance fee for managing the business activities of the limited partnerships. In addition, this capital is non-dilutive to the common shareholders of the Company while providing the common shareholders with a share of the profit (loss) of the limited partnership.

LP II and Preferred Return LP III have a functional currency of US dollars. On consolidation the results are translated to the Company’s presentation currency of Canadian dollars. As a result, exchange differences arising on consolidation from this translation are recorded in other comprehensive income.

The financial results of the Company as at and for the three and nine months ended September 30, 2022 discussed in this MD&A include results of operations of:

- TIMIA Capital Corp.
- TIMIA Capital GP Inc.
- TIMIA Capital I Limited Partnership
- TIMIA Capital II Limited Partnership
- TIMIA Capital III Preferred Return Fund Limited Partnership
- TIMIA Capital III Preferred Return Fund
- TIMIA Capital II GP Inc.
- TIMIA Capital III GP Inc.
- TIMIA Capital Holdings Limited Partnership
- Pivot Financial Services Inc.
- Pivot Financial I Limited Partnership
- 2862454 Ontario Inc.
- Brightpath Capital Corporation
- Brightpath Residential Mortgage LP I
- Brightpath Servicing Corporation
- Albright Holdings Inc.
- 2754681 Ontario Inc.
- 9975756 Canada Inc.
- 10260835 Canada Corp.

## NON GAAP MEASURES

In addition to the IFRS prepared results and balances presented in the Financial Statements, the Company uses a number of other financial measures to monitor its performance and some of these are presented in this MD&A. These measures may not have standardized meanings or computations as prescribed by IFRS that would ensure consistency and comparability between companies using them and are, therefore, considered to be Non-GAAP measures. The Company primarily derives these measures from amounts presented in its Financial Statements which were prepared in accordance with IFRS. The Company's focus continues to be on IFRS measures and any other information presented herein is purely supplemental to help the reader better understand the key performance indicators used in monitoring its operating performance and financial position. This Management Discussion and Analysis refers to the following Non-GAAP measures:

**Adjusted net income and Adjusted net income per common share** - adjusted net income presents shareholders' net income before stock-based compensation, business acquisition expenses and amortization of intangible assets. Adjusted net income per common share is calculated as net income less dividends paid divided by the weighted average number of common shares outstanding. Management feels this metric is useful to understand the operating income of the Company's lending business before non-cash and expenses that are not directly related to lending activities.

	Nine months ended September 30, 2022	Nine months ended August 31, 2021
<b>Reconciliation of adjusted net income:</b>		
IFRS reported net income	2,768,550	1,033,754
IFRS reported net income attributable to shareholders	389,908	(820,776)
Add:		
Acquisition costs	582,371	125,375
Share-based payments	380,485	112,788
Amortization	923,444	-
Adjusted net income	4,654,850	1,271,917
Adjusted net income attributable to shareholders	2,276,208	(582,613)
Adjusted net income per common share	0.02	(0.02)

**Nature of revenue** - Revenue for the Company is earned from a variety of sources. The table below summarizes the revenue earned by virtue of the operating activities and interest income earned by the investment vehicles (the limited partnerships). Management uses this information to better understand the sources of revenue attributed to common shareholders. The following selected financial information agrees in total to consolidated revenue per the financial statements.

	Operational entities	Limited Partnerships	Intercompany eliminations	Total consolidated
Interest income	1,696,955	12,175,120	(861,518)	13,010,557
Income from transaction and other fees	3,356,744	40,406	(84,611)	3,312,539
Income from settlement of loans	-	755,106	-	755,106
Performance/management fee income	2,101,644	-	(1,771,666)	329,978
Income from investment in LP's	217,363	-	(217,363)	-
	<b>7,372,706</b>	<b>12,970,632</b>	<b>(2,935,158)</b>	<b>17,408,180</b>

## REVENUE

Total consolidated revenue for the three and nine months ended September 30, 2022 was \$7,929,159 and \$17,408,180, compared to \$1,407,679 and \$4,516,168, a 463% and 285% increase respectively.

Interest income in the three and nine months ended September 30, 2022 was \$5,733,006 and \$13,010,557, compared to \$1,246,042 and \$3,598,730, a 360% and 262% increase respectively. This increase is largely driven by the acquisitions of Pivot and Brightpath and significantly increasing the loan portfolio.

The Company's revenue is primarily interest income generated from the loan portfolio. As the Company loan portfolio grows, interest revenue increases. Interest revenue also includes changes in amortized cost of loan values included in the portfolio.

Specific investee financings are contracted for various expected durations typically between 1 and 5 years. Payments are received monthly and each investment's value is assessed for impairment at each reporting date based on the performance of the investee's gross revenue and other financial performance measures.

Other sources of revenue include income from the settlement of loans. The current period had no income from early settlement of loans, consistent with the same period in prior year. While income from early repayment of loans is not the primary focus of the Company's revenue growth forecast, the Company does expect some loans to be repaid prior to maturity either due to change in business needs of the company invested in or as a result of change in ownership through acquisition.

Income from transaction and other fees was \$2,088,541 and \$3,312,539 in the three and nine months ended September 30, 2022 compared to \$161,637 and \$403,740 in the three and nine month comparative period. The growth in portfolio activity with the acquisitions of Pivot and Brightpath as well as new revenue streams acquired in both transactions have contributed to this growth. Pivot has two customer relationships earning revenue for sub-advisor and portfolio servicing fees. These fees are earned and recognized on a monthly basis.

The Company operates through three reportable segments: Business Lending, Personal Lending and Corporate Operations. Business Lending is composed of TIMIA Capital which operates primarily in the technology sector and Pivot Financial offering factoring facilities, both providing term loans for small to medium-sized enterprises. Investments are held in Limited Partnership's that are separate legal entities by the LP's. Limited partnerships consist of LP I, LP II, Preferred Return LP III, TIMIA Holdings Limited partnership (wholly owned) and Pivot LP (wholly owned). Personal Lending is composed of Brightpath who is a provider of first and second mortgages to individuals with contract terms on average of one year.

Total Revenues by segment for the nine month period ended September 30, 2022 and August 31, 2021:

September 30, 2022	Business Lending	Personal Lending	Corporate Operations	Total
Interest income	\$ 10,710,960	\$ 2,299,597	\$ -	\$ 13,010,557
Income from transaction and other fees	1,661,142	1,651,397	-	3,312,539
Income from settlement of loans	755,106	-	-	755,106
Performance fee income	329,978	-	-	329,978
<b>Total Revenue</b>	<b>\$ 13,457,186</b>	<b>\$ 3,950,994</b>	<b>\$ -</b>	<b>\$ 17,408,180</b>

August 31, 2021	Business Lending	Personal Lending	Corporate Operations	Total
Interest income	\$ 3,598,730	\$ -	\$ -	\$ 3,598,730
Income from transaction and other fees	403,740	-	-	403,740
Income from settlement of loans	513,698	-	-	513,698
Performance fee income	-	-	-	-
<b>Total Revenue</b>	<b>\$ 4,516,168</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,516,168</b>

The overall increase in revenue period over period is due to the acquisition of Pivot in Q4 of 2021 and Brightpath in Q3 2022 in addition to the other factors mentioned above.

## EXPENSES

During the nine month period ended September 30, 2022, the Company's operating expenses increased in relation to revenue growth and were driven by acquisition activity.

	Nine months ended September 30, 2022	Nine months ended August 31, 2021
Operational expense, not including interest expense and expected credit loss	7,124,797	2,379,169
Debenture interest expense	35,967	256,232
Interest expenses and expected credit loss	7,021,544	355,076
<b>Total Expenses</b>	<b>14,182,308</b>	<b>2,990,477</b>

Overall expenses have increased period over period due to the acquisition of Pivot in Q4 of 2021 and Brightpath in Q3 2022. Operational Expenses for the nine month period ended September 30, 2022 and August 31, 2021:

- Administrative, management and directors' fees increased \$2,030,140 or 194% to \$3,077,550 from \$1,047,410. This increase is mainly driven by acquisition-related headcount, bonus payments and bringing salary costs in line with industry.
- Office, travel, systems, and miscellaneous expenses increased \$216,853 or 53% from \$409,083 to \$625,936. Increased expense levels in the current period relating to new website launch, increased office and CAM costs, IT servicing costs with respect to loan origination process and increases related to acquiring Pivot and Brightpath.
- Marketing services and promotion expenses increased \$232,510 or 70% from \$332,906 to \$565,416. This increase is driven by increased use and expansion of online marketing tools.
- Accounting and legal expenses increased \$1,026,281 or 661% from \$155,253 to \$1,181,534. Current year increase is driven by growth in size of the business, increase in fees for audit and tax services and acquisition related audit expenses.
- Investor relations, communications and regulatory fees increased \$48,703 or 15% from \$321,729 to \$370,432. In January 2022 the Company launched its third fund, TIMIA Capital Preferred Return LP III resulting in an increase in fees in the current period. There was no comparable activity in the prior period.

Interest and expected credit loss (ECL) expense

- Total interest expense was \$7,111,609 compared to \$615,021, an increase of \$6,496,588. The increase is mainly driven by additional loans payable acquired as part of the Pivot and Brightpath acquisitions offset by a decrease in debenture interest paid from settlement of debentures throughout 2020/2021. Interest expense related to Business Lending and Personal Lending is \$4,891,079 and \$2,190,826, respectively.

- ECL recovery was \$54,098 compared to a recovery of \$3,713 in the comparative nine month period. ECL is assessed at each period end and is expected to increase relative to the loan portfolio size. The recovery in the current and prior year was driven by investments exited and loan provision releases.

Operational Expenses by segment for the nine month period ended September 30, 2022 and August 31, 2021:

September 30, 2022	Business Lending	Personal Lending	Corporate Operations	Total
Administrative, management and directors fees	\$ 2,048,868	\$ 159,657	\$ 869,025	\$ 3,077,550
Office, travel, systems, and miscellaneous	202,638	31,675	391,623	625,936
Marketing services and promotion	557,691	3,543	4,182	565,416
Accounting and legal	245,613	(33)	935,954	1,181,534
Investor relations, communications and regulatory fees	90,005	-	280,427	370,432
Interest and financing fees	4,891,079	2,190,826	29,704	7,111,609
Expected credit loss	(146,518)	92,420	-	(54,098)

August 31, 2021	Business Lending	Personal Lending	Corporate Operations	Total
Administrative, management and directors fees	\$ 649,255	\$ -	\$ 398,155	\$ 1,047,410
Office, travel, systems, and miscellaneous	103,710	-	305,373	409,083
Marketing services and promotion	331,492	-	1,414	332,906
Accounting and legal	23,006	-	132,247	155,253
Investor relations, communications and regulatory fees	148,739	-	172,990	321,729
Interest and financing fees	355,055	-	259,966	615,021
Expected credit loss	(3,713)	-	-	(3,713)

The overall increase in expenses period over period is due to the acquisition of Pivot in Q4 of 2021 and Brightpath in Q3 2022 in addition to the other factors mentioned above.

## FOREIGN EXCHANGE AND FORWARD CONTRACTS

US dollar denominated investments and subsidiaries are converted to Canadian dollars quarterly at the then prevailing quarter end exchange rates. At the start of the Company's fiscal year, January 1, 2022, the US dollar was trading at 1.27 Canadian Dollars. By the end of the third quarter the US dollar had risen to 1.37 Canadian dollars. Common Shareholder income was affected by movements in foreign exchange rates in several ways including the recognition of unrealised gains/losses on US denominated assets owned directly by the Company, and also through the recognition of carried interest income earned by the Company in its capacity as the manager of the limited partnerships.

Foreign exchange gains and losses result from the conversion to Canadian dollars of investments that are denominated in US dollars. During the nine month period, \$192,492 of foreign exchange gains were recognized in the consolidated net income.

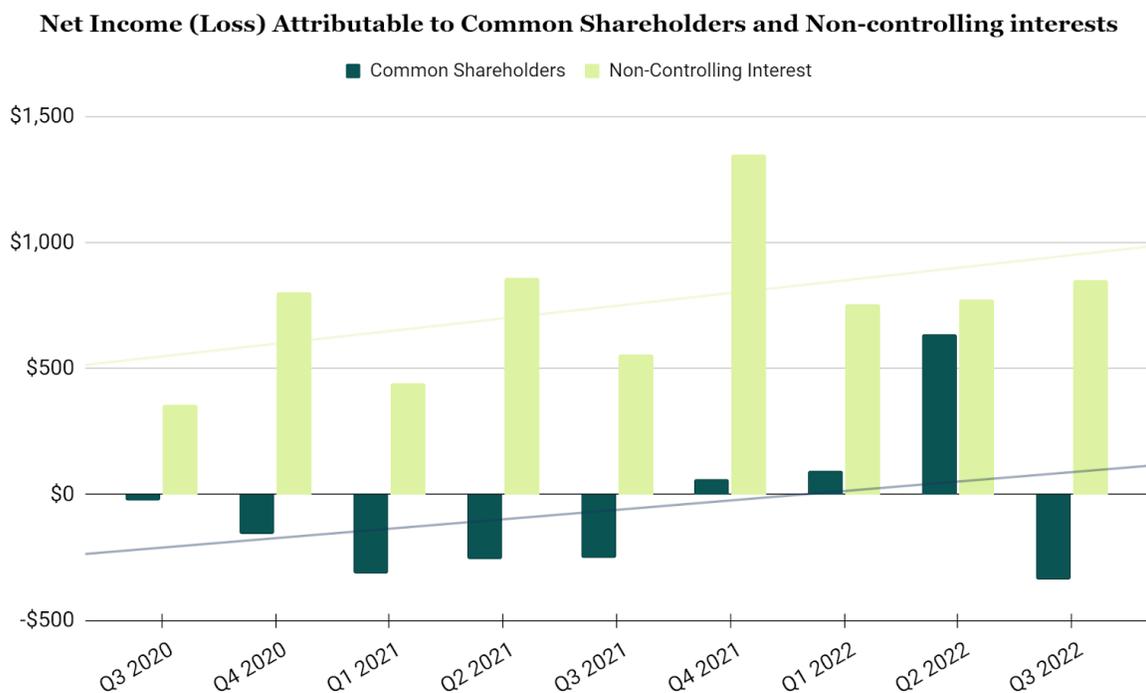
Foreign currency translation adjustment is a result of the conversion of the Company's US dollar denominated subsidiaries, LP II and LP III. These adjustments are included within net comprehensive income. During the three and nine month period, the translation adjustment was a gain of \$2,065,766 and \$2,600,560 respectively (August 31, 2021 - \$911,749 gain and \$567,169 loss respectively). This translation adjustment is a result of consolidation of LP II and Preferred Return LP III, US dollar-based partnerships formed in July 2020 and January 2022, respectively. Majority of this translation difference arises due to the fluctuation in USD to CAD exchange rates from the date of LP II and Preferred Return LP III capital initial closings in 2020 and 2022. The average exchange rate based on dates of LP II closings was 1.34 compared to a quarter end close rate of 1.37. The average exchange rate based on dates of Preferred Return LP III closings was 1.28 compared to a quarter end close rate of 1.37.

A significant portion of the foreign exchange gains/losses and all of the translation adjustments are unrealized, meaning that increases in the value of the US dollar may result in a reversal of these gains/losses in future periods.

Attribution of FX Gains/(Losses) For the nine months ended September 30, 2022	Common Shareholders	Non-Controlling Interests	Total
Forward contract gain/(loss)	-	-	-
Foreign exchange gain/(loss)	191,191	1,301	192,492
<b>Foreign exchange gain/(loss) in Net income</b>	<b>191,191</b>	<b>1,301</b>	<b>192,492</b>
Foreign currency translation adjustment	225,645	2,374,915	2,600,560
<b>Foreign exchange gain/(loss) in comprehensive income</b>	<b>225,645</b>	<b>2,374,915</b>	<b>2,600,560</b>

### ATTRIBUTION OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Transactions among LP I, LP II, Preferred Return LP III and the Company, including management and administration fees and performance fees earned, are fully eliminated on consolidation. The income statement shows an attribution of income (loss) between shareholders of the Company and the non-controlling interest (in this case, TIMIA's Limited Partners in both LP I, LP II and LP III). The following chart shows the progression of the attribution of income (loss) between the shareholders of the Company and the non-controlling interest over the last eight quarters:



Net Income (Loss) attributable to common shareholders improves in tandem with both increases in the size of the Company's investment portfolio and continued satisfactory rates of return, as well as the acquisition of Pivot and Brightpath which resulted in increased profits attributable to shareholders. As the Company has maintained its loan performance, it has attracted new limited partner investors, thereby increasing its investment portfolio and improving common shareholder Net Income (Loss). In addition to holding investments through Limited Partnerships, the Company holds investments directly as well. Interest income and any gains or losses that relate to these investments are attributed directly to common shareholders.

While Net Income (Loss) attributable to common shareholders includes foreign exchange gain/loss, a significant portion is unrealized and driven by US dollar loans receivable. Foreign exchange gains/loss will continue to fluctuate until the investments are exited. Management is specifically focused on Operating Income attributable to common shareholders as a key performance measurement.

The Net Income (Loss) and Comprehensive Income (Loss) for the three and nine months ended September 30, 2022 was attributed as follows:

#### *Non-controlling Interests*

- Net income attributable to non-controlling interests of \$851,752 and \$2,378,642 represents income from investments held by the Limited Partnerships (LP I, LP II and LP III) for the three and nine months ended, less allowable costs as defined under the Limited Partnership Agreement, including fees to the manager and expected credit losses.
- Comprehensive income attributable to non-controlling interests of \$2,739,205 and \$4,753,559 for the three and nine months ended includes foreign currency translation adjustments arising from the consolidation of LP II and LP III, a US denominated fund with a functional currency of US dollars.

#### *Shareholders of the Company*

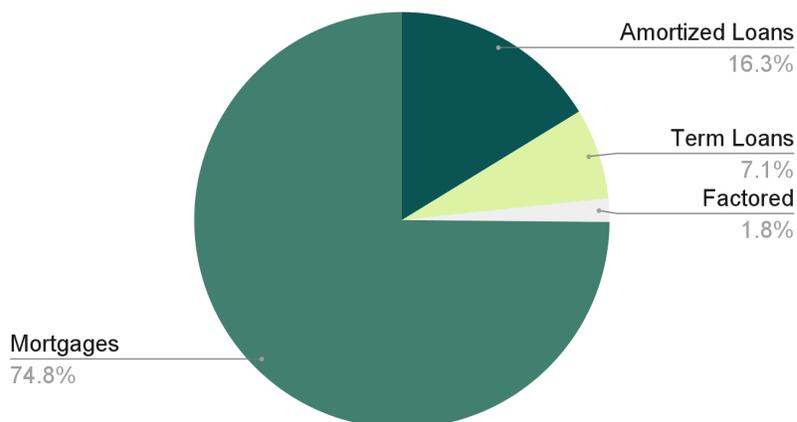
- Net income attributable to shareholders of the Company of (\$337,577) and \$389,908 and comprehensive income of (\$159,264) and \$615,551 for the three and nine months ended was allocated to the common share equity holders representing income from investments held by the Company, all transaction fee income, fees and carry earned from the Limited Partnerships and all expenses not incurred by the Limited Partnership as well as the Company's proportionate interest in LP I, LP II and LP III.

When the LP's cumulative returns indicate that carried interest is earned by the Company, the LP's recognize an allocation of capital to the Company.

## **REVIEW OF FINANCIAL POSITION**

Total assets increased by 141.5% to \$302,028,104 at September 30, 2022 compared to \$125,079,969 at December 31, 2021. Gross loans receivable before ECL are broken down as follows at September 30, 2022:

Loan Receivable by type



The following chart illustrates movement in the loan receivable balance from December 31, 2021 to September 30, 2022:

	September 30, 2022
Opening balance	\$ 106,916,931
Loans acquired in acquisition	158,474,872
Loans eliminated through intercompany consolidation	(43,344,472)
Advances on loans receivable	129,753,397
Interest revenue	6,976,785
Interest and principal payments	(79,533,211)
Net change in deferred lender fees	269,457
Settlement of investments	(41,335,490)
Foreign exchange	2,893,367
<b>Closing balance</b>	<b>\$ 241,071,636</b>

## SUMMARY OF QUARTERLY RESULTS

	Q3 2022	Q2 2022	Q1 2022	Q4 2021 (4M)	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Revenue	7,929,159	5,251,087	4,227,934	5,095,456	1,407,679	1,837,674	1,270,815	1,756,853
Net income	514,175	1,406,053	848,322	1,410,056	307,161	602,034	124,559	645,182
Net income and Comprehensive income (loss)	2,579,941	2,354,005	435,164	1,545,938	1,218,910	(407,229)	(345,096)	506,440
Net income (loss) attributable to shareholders of the Company	(337,577)	633,994	93,491	60,906	(249,774)	(255,576)	(315,426)	(155,953)
Adjusted Net Income (loss)* attributable to shareholders	841,227	1,109,151	325,830	343,141	(102,769)	(209,157)	(270,687)	(112,870)
Net income attributable to non-controlling interests	851,752	772,059	754,831	1,347,041	556,935	857,610	439,985	801,135
Basic and diluted loss per share	(0.02)	0.02	(0.01)	0.00	(0.01)	(0.01)	(0.01)	(0.01)
Adjusted Net Income (Loss) per share*	0.00	0.02	-	0.01	-	-	(0.01)	-
Total assets	302,028,104	138,348,366	125,856,017	125,079,969	46,087,453	39,463,518	38,950,912	41,923,767
Total liabilities	257,059,272	122,328,099	110,508,655	111,952,707	6,939,295	6,669,109	5,579,992	7,569,075

\*see Non-GAAP measures section

## LIQUIDITY AND SOLVENCY

As at September 30, 2022, the Company's cash balance was \$5,453,721 and working capital was (\$11,120,623) compared with \$9,314,526 and \$1,840,078 respectively, as of December 31, 2021. During the nine month period, the Company secured a demand revolving line of credit grid promissory note from a lender. The amount that is available to be drawn under the facility is \$6,854,000 (\$5,000,000 USD) and due on demand of the lender. The full amount of principal was drawn on the facility as at September 30, 2022 and will bear an interest rate equal to the greater of 10.25% or prime +6.3%. A utilization fee of 2.45% is owing on the unutilized portion of the loan commitment. The credit facility contains general covenants and financial reporting requirements to be reported by the Company on a monthly basis. The secured loans payable is a revolving

credit facility from a senior lender and has a combined authorized limit of \$60,000,000. The security on the secured loan payable to the lender is a general security agreement and directly related to a specific loans receivable. The loan is designated as FVTPL to ensure measurement consistency with the credit risk associated with the related loans receivable that is security to the loan.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

Related party transactions are all in the normal course of business with individuals (as well as their family members or entities they control) who are related to the Company either as key management personnel or a member of the board of directors. Any such transactions are in the normal course of operations and are measured at market based on exchange amounts.

The Company has loaned funds (loans receivable) on a secured basis to companies whereby an officer of the Company is also a significant shareholder and/or director. Of the total loans receivable at December 31, 2021 of \$106,916,931, \$48,398,641 was receivable from a related party. With the acquisition of Brightpath, this loan is now fully eliminated on consolidation at September 30, 2022.

The Financial Statements include related party note disclosure detailing the nature of transactions, the following chart is a summary:

	2022	2021	Relationship
Interest expense paid	\$ 4,438	\$ 20,745	Directors, officers and corporations controlled by/family members of directors/officers
Accounts payable	138,995	17,586	Director/Officers
Rent expense paid	29,055	14,238	Corporation controlled by family member of management
Investment in Limited Partnerships	6,399,098	4,824,909	Directors, officers and corporations controlled by/family members of directors/officers
Loans receivable from related parties	-	48,398,641	Company officer has an ownership interest in investee of the Company. As of September 30 this loan is eliminated on consolidation.
Fees recognized from related parties	297,115	-	Company officer has an ownership interest in investee of the Company

## OUTLOOK

The Company has had significant growth in loans disbursed, both organically and through acquisition over the last year. To support growth, the Company anticipates using a variety of financing instruments including but not limited to the issuance of preferred shares, the arrangement of additional credit facilities and the utilization of limited partnerships and other special purpose vehicles.

The Company develops, raises and manages funds focused private credit strategies that generate attractive risk-adjusted returns with loan structures that limit credit losses, healthy financial outlooks and proven records of growth. The Company invests heavily in its origination platform to source and evaluate potential additional to the portfolio. This scalable technology-forward approach allows for growth in the portfolio in a cost efficient manner, an approach management believes is unmatched by its current competitors.

## **SUBSEQUENT EVENTS**

On October 3, 2022, the Company announced that it has entered into a definitive share purchase agreement to acquire 78% of Langhaus Financial Partners Inc. ("Langhaus"). Langhaus is the parent company of Langhaus Financial Corporation ("LFC"), Canada's largest independent provider of insurance policy backed loans, with a specific focus on high-net-worth individuals and entrepreneurs. The purchase price of the acquisition is \$9,360,000 by way of a \$7,020,000 cash payment plus contingent payments totaling \$2,340,000 to be paid upon the achievement of certain financial targets during an earn-out period.

In connection with the closing, the Company and Langhaus have entered into a lock-up agreement with certain holders of non-voting preferred shares of LFC who are also selling shareholders of Langhaus, representing approximately 53% of the outstanding preferred shares of LFC having an aggregate original purchase price of \$6,570,000 (the "Lock-Up Agreement"). The Lock-Up Agreement provides for a 6-month period post-closing of the acquisition for these holders of existing preferred shares of LFC to exchange their shares for a new series of preferred shares to be issued by LFC that will, subject to certain conditions, be redeemable in cash on October 3rd, 2024 for the original purchase price of the existing preferred shares of LFC and any accrued and unpaid dividends or, at the option of the holder, exchangeable into a new class or series of preferred shares of the Company having substantially similar terms and ranking on an equivalent basis to the outstanding Series A Preferred Shares of the Company, including the option to convert such preferred shares into common shares of the Company.

As the transaction was recently completed, the initial accounting for the acquisition, including allocation of the purchase price to the net assets acquired and liabilities assumed, has not been completed.

On November 1, 2022 the Company announced its intention to commence a normal course issuer bid to repurchase for cancellation up to 4,575,286 common shares of the Company.

On November 14, 2022, the Company announced a special meeting of its shareholders will be held December 9, 2022 to seek shareholder approvals necessary to modify the capital share structure of the Company. The Company is proposing amendments to the special rights and restrictions to existing common shares and series A preferred shares and to authorize the special rights and restrictions for two new preferred share classes: Class B preferred shares and Class C preferred shares.

On November 24, 2022, the Company's board of directors declared a quarterly cash dividend of \$0.02 per Series A Preferred Shares, payable on December 30, 2022, to Series A preferred shareholders of record as of December 21, 2022.

## FINANCIAL INSTRUMENTS AND RISK

### Financial instruments

The following table summarizes information regarding the carrying values and classification of the Company's financial instruments as of the periods ended September 30, 2022 and December 31, 2021:

	Classification	September 30, 2022	December 31, 2022
Cash & restricted cash	FVTPL	\$ 12,233,576	\$ 9,758,032
Accounts receivable	Amortized Cost	4,507,905	687,596
Loans receivable	Amortized Cost	240,307,781	106,117,801
Equity investments	FVTPL	1,269,332	1,333,618
Forward contract receivable	FVTPL	-	290,500
Accounts payable	Amortized Cost	3,266,447	5,674,751
Loans payable (Note 13)	Amortized Cost	153,864,487	26,810,891
Loans payable (Note 13)	FVTPL	60,000,000	41,000,000
Revolving credit facilities	Amortized Cost	-	4,485,129
Debentures & co-investment obligations	Amortized Cost	9,285	1,468,518
Non-controlling interests	Amortized Cost	36,091,130	30,513,576

The estimated fair values of cash and accounts payable approximate their respective carrying values due to their nature and short terms to maturity. Equity investments and forward contract receivable are carried at their fair value. Loans receivable, accounts receivable, co-investment obligations, revolving credit facility, and debentures are carried at amortized cost. Loans payable are split between amortized cost and FVTPL.

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- (a) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The following table presents the Company's financial instruments, measured at fair value on the consolidated statements of financial position and categorized into levels of the fair value hierarchy:

	Balance at September 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 12,233,576	\$ 12,233,576	\$ -	-
Equity investments	1,269,332	21,429	-	1,247,903
Loans payable	60,000,000	60,000,000	-	-

No financial instruments were transferred between levels during the period (2021 - \$nil).

The investment operations of the Company's business involve the purchase and sale of securities, and accordingly, a portion of the Company's assets are currently composed of financial instruments. The use of financial instruments can expose the Company to several risks, a discussion of which is provided below.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company maintains sufficient cash balances to meet current working capital requirements. The Company is dependent on obtaining regular financings in order to continue as a going concern. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash consists of cash deposited in business accounts held by high credit quality financial institutions.

	Carrying amount	Contractual cash flows	Within 1 year	Within 2 years	Within 5 years
Accounts payable	\$ 3,266,447	\$ 3,266,447	\$ 3,266,447	\$ -	-
Loans payable	213,864,487	213,864,487	213,864,487	-	-
Non-controlling interests	36,091,130	36,091,130	5,496,171	13,698,088	16,896,871
Debentures & Co-investment obligations	9,285	9,285	9,285	-	-
Lease liability	156,975	156,975	84,931	72,044	-
<b>Total</b>	<b>\$ 253,388,324</b>	<b>\$ 253,388,324</b>	<b>\$ 222,721,321</b>	<b>\$ 13,770,131</b>	<b>\$ 16,896,871</b>

Cash flows relating to non-controlling interests are based on expected cash flows. The Company is obligated to return the net assets attributable to limited partners at the end of each partnership agreement. Timing in the above table is based on estimated cash flows and expected maturities of the investments held.

### Foreign exchange risk

The Company's foreign exchange risk is due to the Company's loan investments totaling US\$33,561,549 which are currently valued at \$46,002,816.

The Company also consolidates two limited partnerships which operate with a functional currency of US dollars. Changes in US and Canadian dollar exchange rates will give rise to foreign currency translation adjustments that may have a material impact on the other comprehensive income recognized by the Company. A 10% movement in the US dollar exchange rate would increase/decrease the accumulated other comprehensive translation adjustment on the consolidated statement of financial position by \$1,596,789.

### Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash, loans receivable as it relates to mortgages, and loans payable. The Company's practice has been to invest cash at floating rates of interest in order to maintain liquidity, while achieving a satisfactory return for shareholders. A 10% change in the interest rate would result in an increase in interest expense of \$775,000.

As of September 30, 2022, 15% of mortgage loans receivable bear interest at fixed rates and 85% of mortgages receivable bear interest at variable rates. The interest rate risk associated with variable rate mortgages receivable is mitigated by a minimum interest rate being the greater of the stated variable rate and fixed rate determined at mortgage origination for each respective variable rate mortgage loan receivable. Changing interest rates may result in fair value changes of mortgage loan receivable. The extent of the future impact on the market rates of interest and the corresponding effect on the fair value of the Company's mortgage receivable could be significant. See 'Market risk' for sensitivity analysis of interest rate risk on mortgages receivable.

### Market risk

Market risk is the risk that the fair value of, or future cash flows from the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, the Company adjusts its investments to fair value 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 could have a significant unfavourable effect on the Company's financial position.

The Company manages market risk by having a portfolio of investments not singularly exposed to any one issuer; however, its investment activities are currently concentrated primarily in the technology and energy sectors. The Company also manages its market risk by reviewing commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

#### *Mortgages receivable*

The measurement of fair value of mortgage investments includes the use of certain unobservable inputs, the most significant of which are the loan-to-value ratio, which is dependent on the fair values of the underlying properties associated with specific mortgages receivable, and the discount rate. As at September 30, 2022, the average loan-to-value ratio of the mortgages receivable was 79.1%. The analysis below estimates the impact of possible changes to the key assumptions underlying the Company's valuation of its mortgages receivable, being the discount rate and loan-to-value ratio.

The analysis below shows the impact on the fair value of the mortgages receivable of possible changes in discount rate assumptions, assuming no changes in loan-to-value ratio assumptions:

	Sensitivity	September 30, 2022
Discount rate	+ 1.50%	\$ (473,975)
Discount rate	- 1.50%	467,881

The analysis below shows the impact on the fair value of the mortgage loans receivable of possible changes in loan-to-value ratio, assuming no changes in discount rate assumptions:

	Sensitivity	September 30, 2022
Change in loan-to-value ratio	+ 10.0%	\$ 76,137
Change in loan-to-value ratio	- 10.0%	(93,981)

## Concentration Risk

Concentration risk arises related to the mortgage loans receivable as a result of the concentration of geographical locations and security position. The following is a summary of the Company's concentration risk:

	September 30, 2022
1st charge	82.88%
2nd charge	17.12%
South Western Ontario	56.01%
Greater Toronto Area	26.03%
North Eastern Ontario	11.28%
Other	6.68%

## Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and loan receivables. The Company limits exposure to credit risk by maintaining its cash with financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The Company's maximum exposure to credit risk at the reporting date is the carrying value of cash, restricted cash, accounts receivable, forward contract and loans receivable.

### *Credit risk measurement*

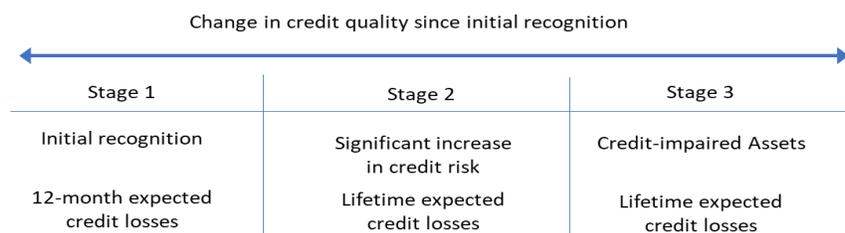
In monitoring credit risk, the Company performs ongoing credit evaluations of its investees' financial condition. The evaluation considers delinquency trends, sales volumes and the investee's ability to maintain its financial condition. In accordance with IFRS 9, the Company calculates an expected credit loss as outlined below.

### *Expected credit loss measurement*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

The following diagram summarizes the impairment requirements under IFRS 9:



The Company assigns each loan in the portfolio to a credit quality stage of Stage 1, Stage 2 or Stage 3. This credit quality staging is then used to calculate the lifetime ECL. The lifetime ECL is the maximum loss in default adjusted for the probability of loss. At each reporting period, the ECL is calculated for each loan receivable. The Company periodically reviews the ECL model to determine if industry trends or macro-economic factors have changed, causing a need to adjust the ECL model. The expected credit loss recorded in the consolidated statement of net income (loss) is a recovery of \$54,098 for the nine months ended September 30, 2022 and the expected credit loss accrued on the consolidated statement of financial position is \$763,855 as at September 30, 2022.

#### *Significant increase in credit risk (SICR)*

The Company considers a financial instrument to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

- The investment is more than 30 days but less than 90 days in arrears on its contractual payment obligations;
- The Company's management believes the cash resources available to the investment may not be sufficient to meet ongoing needs; or
- The investment has significantly underperformed with respect to revenue growth and expense control.

A loan is considered to be in stage 3 if:

- The borrower is 90 days past due on contractual payments;
- The borrower is in long-term forbearance;
- The borrower is insolvent; or
- The borrower is in material breach of financial covenants.

#### *Expected credit loss model*

The Company determines the lifetime expected credit loss to be the maximum loss in a default adjusted for the probability of loss. At each reporting period, the ECL is calculated for each loan receivable.

The maximum default loss is a function of the relative exposure of the Company to a particular investment. The Company assesses this as a ratio of the enterprise value of the underlying entity to the amortized loan balance. Based on this ratio, the Company assigns the loan receivable to a maximum default loss band. Each band has a loss percentage based on historic experience.

The probability of default represents the likelihood that the borrower defaults on its financial obligation. As such it is dependent on the stage of the investment at the measurement date. An investment in stage 3 is in default by definition so the likelihood of default is 100%. Stage 1 and stage 2 credits are assigned default probabilities based on historic experience and an assessment of forward looking macro-economic trends. If Company management determines that a segment of the portfolio is facing macro-economic trends that differ from other investments in the portfolio, the probability of default will be adjusted accordingly for that segment.

The Company reviews the stage of each loan receivable and recalculates the ECL every reporting period. Changes to the ECL are recognized on the consolidated statement of income (loss) in the period of the change.

#### *Credit risk exposure*

The Company's credit risk exposure by ECL staging is included in a table in Note 4 Loans receivable of the Financial Statements.

## **MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are to: a) identify and to invest in investments with strong cash-flow and long-term growth potential; b) to maintain financial strength, to protect its ability to meet its ongoing liabilities and to continue as a going concern and maintain creditworthiness; c) maximize returns for shareholders over the long-term. If the Company does not receive sufficient cash flows from its activities, it may have to undertake a private placement to cover its cash outflows.

The Company is subject to certain restrictions on its assets as described in Notes 11, 12, and 13. The Company's share capital is not subject to external restrictions. The capital of the Company comprises shareholders' equity, Limited Partnership capital, note payable, revolving credit facility, debentures and co-investment obligations.

The Company manages and adjusts the capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In compliance with the requirements of National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, the Certifying Officers have reviewed and certified the Financial Statements for the three and nine month period ended September 30, 2022 and the three and nine month period ended August 31, 2021, together with other financial information included in the Company's interim securities filings. The Certifying Officers have also certified that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the Company is made known within the Company and that they operated effectively during the year.

## **OUTSTANDING SHARE DATA**

As of September 30, 2022, the Company had 91,127,006 common shares outstanding, 28,485,994 preferred shares outstanding, 6,320,000 stock options, 700,000 restricted stock units, 5,400,000 performance share units and 2,511,681 share purchase warrants outstanding. As of the date of this MD&A, the Company had 91,505,730 common shares outstanding, 28,485,994 preferred shares outstanding, 6,930,000 stock options, 700,000 restricted stock units, 6,320,000 performance share units and 2,511,681 share purchase warrants outstanding.

## **ON BEHALF OF THE BOARD:**

*"Michael Walkinshaw"*  
Chief Executive Officer  
**MONFORT CAPITAL CORP.**