



**INTERIM MANAGEMENT DISCUSSION & ANALYSIS**

FOR THE SIX AND THREE MONTHS ENDED SEPTEMBER 30, 2017

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# Target Capital Inc.

## Management Discussion and Analysis

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This Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess the financial position and results of operations of Target Capital Inc. (the "Company", "Corporation", or "Target") for the period ended September 30, 2017.

This MD&A should be read in conjunction with Target's condensed consolidated financial statements for the six and three months ended September 30, 2017, as well as the MD&A found in Target's 2017 Annual Report, together with the audited consolidated financial statements and accompanying notes found therein.

This document presents the views of management as at November 10, 2017. Additional information on Target can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Information contained in the Management Discussion and Analysis ("MD&A") is presented on the same basis as the financial statements and was prepared in accordance with International Financial Reporting Standards (IFRS) and is presented in Canadian dollars, Target's functional currency.

### **Forward-looking statements**

The MD&A contains forward-looking statements and information within the meaning of applicable securities legislation. A statement we make is forward-looking when it uses what we know today to make a statement about the future. Forward-looking statements may include words such as *anticipate, believe, could, expect, intend, may, objective, plan and will*. The forward-looking statements contained or incorporated by reference in this Management Discussion and Analysis are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Target cautions readers against placing reliance on forward-looking statements when making decisions, as the actual results could differ appreciably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements, due to various material factors. These factors include, among other things, capital market activity; changes in government monetary, fiscal and economic policies; changes in interest rates, inflation levels and general economic conditions; legislative and regulatory developments; competition; credit ratings; scarcity of human resources; and technological environment.

Forward-looking statements include, but are not limited to, statements with respect to (1) Capacity to deliver results (2) Risk framework (3) Liquidity (4) Trade receivables and (5) Income taxes. All statements, other than statements of historical fact, which address activities, events or developments that we expect or anticipate will or may occur in the future, are forward-looking statements. We include forward-looking statements because we believe it is important to communicate our expectations to our investors. However, all forward-looking statements are based on management's current expectations of future events and are subject to risk and uncertainty.

There have been no events or circumstances that have occurred during the period to which the MD&A relates, or to a period that is not yet complete, that are reasonably likely to cause actual results to differ materially from the forward-looking information identified in this MD&A.

The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulations. The foregoing list of factors is not necessarily exhaustive.

## **Business Overview**

Target was incorporated on June 8, 1993, under the Business Corporations Act of Alberta. The Company has investments in listed public companies and private real estate development companies. The Company also makes investments in a majority of the voting shares of certain private companies. The Company receives its revenues from dividends, interest income and investment company fees. Its principal expense is the amortization on discount on its outstanding bonds.

The Company listed its shares on the TSX-Venture exchange (Symbol "TCI") on December 19, 2008 and on the Canadian Securities Exchange (CSE) on July 8, 2014 (Symbol "TCI").

### ***Our investment business***

Since its inception, Target has made strategic investments in companies that show strong potential for future growth. Historically, these have been 'buy and hold' type investments; however, over the last three years Target has also made some short-term investments. These investments include listed companies, small start-up operations, and land development corporations.

Starting in 2009, Target began acquiring controlling interests in private companies. The nature of the Company's investment in the controlled private companies ("CPC") enables the debt securities of the companies to be eligible for Deferred Plans. A Deferred Plan is a registered retirement savings plan, registered education savings plan, registered retirement income fund, a locked-in retirement account or a tax-free savings account. The promoters managing these companies use the capital raised at their own discretion, without reliance on the management or resources of Target. Target's management and capital are not committed to these controlled private companies.

Target earns fees from each company for enabling these companies to raise funds from Deferred Plans. The annual fee is generally the greater of \$2,500 or 0.5% of the total capital raised by each private company from Deferred Plans. The controlled private companies have raised capital via investments from Deferred Plans varying in size from nil to several million dollars.

Target does not consolidate these controlled private companies for accounting purposes. This is because Target has agreements with these companies that restrict Target's profits to the fees that it charges and its losses to the initial investment made and because Target is not the primary beneficiary of the success or failure of these private companies.

On December 1, 2015 the Company acquired from Eyelogic Systems Inc. (an affiliated entity) a portfolio of 53 Controlled Private Companies ("CPC") and associated controlling shareholder agreements and royalty agreements for an aggregate price of \$75,000.

## **Bond exchange**

During March 2017, the Company received all signed agreements from bondholders to exchange their outstanding bonds for partial cash repayments, a new bond issuance and TSX Venture approval was received. On March 24, 2017, the Company completed a bond exchange, which entailed partial redemptions and issuance of a new bond with an interest rate of prime plus 1.25%. The new bond bears no maturity date and will be partially redeemed when the Corporation has a cash balance of \$400,000 or more.

Holders of outstanding Target bonds with an aggregate face value of less than \$10,000 agreed to settle and release Target with respect to all amounts owed with respect to such outstanding Target bonds in return for payment equal to the aggregate face value of the outstanding Target bonds.

Holders of outstanding Target bonds with an aggregate face value greater than \$10,000 agreed to settle and release Target with respect to all amounts owed with respect to such outstanding Target bonds in return for the issuance of a new Target bond with a face value equal to 35% of the aggregate face value of the outstanding Target bonds held and a cash payment equal to 65% of the aggregate face value of the outstanding Target bonds held.

At issuance, the calculated estimated fair value of the new bonds payable was based on a discount rate of 15%.

## Results of Operations for the three months ended September 30, 2017

SUMMARY OF FINANCIAL RESULTS FOR THE THREE MONTHS ENDED			
(\$ thousands, except EPS)	September 30, 2017	September 30, 2016	Variation 17 to 16
Total revenue	\$ 101	\$ 127	(20%)
Total expenses	(124)	(224)	(45%)
Other income (expense)	(497)	(1,554)	(68%)
Net earnings (loss) before tax	(520)	(1,651)	(69%)
Income tax (recovery)	(29)	(7)	>100%
Net earnings (loss)	\$ (491)	\$ (1,645)	(70%)
Net earnings (loss) attributable to owners of the Company	(0.10)	(0.41)	(76%)
Net earnings (loss) per share – Basic and diluted	(0.10)	(0.41)	(76%)

### Overview

Target's total revenue decreased 20% or \$25,445 to \$101,414 from \$126,859 mainly due to reduced dividends.

Total operating expenses decreased 25% or \$99,178 to \$124,874 from \$224,052 due to lower salaries and wages, general & administration, and amortization.

As a result, Target reports a net loss of \$490,413 compared to \$1,644,854 in the comparative quarter.

### Revenue

#### *Controlled private company fees*

Controlled private company ("CPC") fees were relatively stable with an increase of 1% to \$97,188 from \$95,844.

#### *Dividends*

Dividend revenue decreased 100% to \$nil from \$55,200 due to the sale of 55,200 Olympia shares that occurred on March 24, 2017, as part of the bond settlement.

### Expenses

#### *Interest on bonds*

Interest on bonds decreased to \$18,658 from \$88,095 as a result of the bond exchange which took place on March 24, 2017. The new bonds bear an interest rate of prime plus 1.25%. In the quarter, the prime rate increased 0.5% to 3.10%

#### *Salaries and wages*

Salaries and wages decreased 64% to \$13,736 from \$38,423 due to fewer staff.

#### *Royalties*

Royalties increased slightly to \$13,433 from \$13,304. The increase in royalties is a direct result of amounts billed relating to a new royalty contract with Transparent Investments. As part of the CPC portfolio purchase from Eyelogic Systems on December 1, 2015, Target Capital purchased one CPC contract which included a royalty payable to Tarman Inc. (an affiliated entity).

#### *Amortization of equipment and leasehold improvements*

Equipment and leasehold amortization decreased 10% to \$6,780 from \$7,555 as the majority of the Company's office equipment became fully depreciated at the end of fiscal 2017 and the approaching full depreciation of leasehold improvements.

#### *Amortization of discount on bonds*

Amortization of discount on bonds increased 100% to \$400,336 from nil in the comparative quarter.

#### *Impairment loss*

Impairment loss decreased 95% to \$75,000 from \$1,565,403. In the current period, an impairment was made to the loan receivable from OrganicKidz Inc. In the comparative quarter in the prior fiscal year, the impairment was made on the property under development. The property was sold in Q4 2017.

## Results of Operations for the six months ended September 30, 2017

SUMMARY OF FINANCIAL RESULTS FOR THE SIX MONTHS ENDED			
(\$ thousands)	September 30, 2017	September 30, 2016	Variation 17- 16
Total revenue	229	282	(19%)
Total expenses	(242)	(426)	(43%)
Other Income (expense)	(496)	(1,554)	(68%)
Net earnings (loss) before tax	(509)	(1,698)	(70%)
Income tax (recovery)	(20)	(27)	(26%)
Net earnings (loss)	(489)	(1,672)	(71%)
Net earnings (loss) per share – Basic	(0.13)	(0.42)	(69%)
Net earnings (loss) per share – Diluted	(0.13)	(0.42)	(69%)

*The calculation of variation is based on whole figures and not on rounded thousands.*

### Revenue

Controlled private company (“CPC”) fees increased slightly to \$219,683 from \$219,554 due to timing of annual fees invoiced and additional capital raising fees invoiced to CPCs compared to same period in prior year.

Dividend revenue decreased 100% to \$nil from \$55,200 due to the sale of 55,200 Olympia shares that occurred on March 24, 2017, as part of the bond settlement.

### Expenses

#### *Interest on bonds*

Interest on bonds decreased 79% to \$36,101 from \$173,889, as a result of the bond exchange. Due to the bond exchange which took place on March 24, 2017. The new bonds bear an interest rate of prime plus 1.25%.

#### *Salaries and wages*

Salaries and wages decreased 49% to \$35,044 compared to \$68,960 for the prior year.

#### *Professional fees*

Professional fees increased 20% to \$27,414 from \$22,940 due to nonrecurring costs associated with legal fees to wind-up Industrial Avenue Development Corp.

#### *Bad debts*

Total bad debt expenses were \$52,185 during the period, an increase of \$26,032 or 100% from \$26,153 in the prior period. Bad debt expense relates to allowances made for receivables from controlled private companies and the actual write-off of accounts that were deemed uncollectable.

#### *Royalties*

Royalties decreased to \$22,137 compared to \$28,765 for the prior year, due to royalties agreement with Tarman Inc., which remained in place after the purchase of CPCs from Eyelogic Systems on December 1, 2015.

*Rent*

Rent decreased \$9,136 compared to \$26,153 for the prior year, as a result of rent allocation amongst related parties.

*Impairment loss*

Impairment loss decreased 95% to \$75,000 from \$1,565,403. In the current period, an impairment was made to the loan receivable from OrganicKidz Inc. In the comparative quarter in the prior fiscal year, the impairment was made on the property under development. The property was sold in Q4 2017.

*Amortization of discount on bonds*

Amortization of discount on bonds increased 100% to \$421,406 from nil in the comparative quarter.

### ***Comparison of financial condition at period end with the prior year-end***

The table summarizes the financial condition of the company as at September 30, 2017 compared to the year ended March 31, 2017:

<b>COMPARISON OF FINANCIAL CONDITION</b>			
<b>(\$ thousands)</b>	<b>September 30, 2017</b>	<b>March 31, 2017</b>	<b>Variation</b>
Cash	\$ 253	\$ 317	(20%)
Accounts receivable	321	312	3%
Advances Receivable	50	50	0%
Income tax recoverable	28	-	100%
Prepaid expenses	2	3	(47%)
<i>Total current assets</i>	<b>654</b>	682	(4%)
Investments and advances	-	75	(100%)
Equipment and leasehold improvements	2	16	(89%)
Controlled private companies	64	64	0%
Controlling shareholder agreements	17	24	(30%)
<b>TOTAL ASSETS</b>	<b>83</b>	861	(90%)
Accounts payable and accrued liabilities	69	88	(22%)
Income tax payable	-	43	(100%)
Interest payable	6	2	>100%
<i>Total current liabilities</i>	<b>75</b>	133	43%
Long-term bonds	1,771	1,350	31%
<b>TOTAL LIABILITIES</b>	<b>1,846</b>	1,483	(1%)
<b>NET ASSETS</b>	<b>\$ (1,110)</b>	\$ (622)	18%

## Quarterly Results

The following table presents the most recent quarterly results along with the previous 8 quarters:

QUARTERLY COMPARISON									
	2018		2017				2016		
(\$ thousands)	<u>30- Sep- 17</u>	<u>30- Jun- 17</u>	<u>31- Mar- 17</u>	<u>31- Dec- 16</u>	<u>30- Sep- 16</u>	<u>30- Jun- 16</u>	<u>31- Mar- 16</u>	<u>31- Dec- 15</u>	<u>30- Sep- 15</u>
Total revenue	101	128	1,298	322	127	155	245	359	195
Total expenses	(621)	(117)	(153)	(243)	(1,778)	(202)	(207)	(1,473)	(273)
Earnings (loss) before income taxes	(520)	11	1,145	79	(1,651)	(47)	38	(1,114)	(78)
Net Earnings (loss)	(490)	2	1,086	73	(1,645)	(27)	37	(785)	(15)
Net Earnings (loss) - Per share	(0.13)	0.00	0.28	0.02	(0.41)	(0.01)	0.01	(0.20)	(0.00)

Due to the nature of Target's business, certain revenues are consistent and earned on a regular basis, such as dividend revenue and loan interest; however other types of revenue are unpredictable due to timing, such as CPC fees and special dividends. As a result, Target's quarterly performance has varied significantly.

## ***Outstanding Share Data***

The following table indicates the common shares and stock options issued and outstanding at November 10, 2017, September 30, 2017 and March 31, 2017; indicating no changes.

OUTSTANDING SHARE DATA			
	November 10, 2017	September 30, 2017	March 31, 2017
Common Shares	3,851,863	3,851,863	3,851,863
Stock Options	-	-	-
Weighted average number of shares outstanding during the period Basic and Diluted	3,851,863	3,851,863	3,851,863

## ***Business Risks***

### *Leadership*

Target is dependent on members of its senior management and operational staff. A loss of one or more of these individuals could adversely affect Target's business. Target has minimized the impact of losing any one individual by cross-training senior management and operational staff to assume a variety of roles within the Company.

### *Financing*

With the exception of bond redemptions and interest on bonds payable, the Company has sufficient cash facilities to pay all amounts due within the next year.

### *Regulation*

The Company is subject to various laws and regulations; any changes to these statutes, or court decisions, regarding their application could negatively impact the Company. Specifically, Target's investments in controlled private companies are reliant on regulations under the Income Tax Act, and there can be no assurance that the Government will not adopt laws or regulatory requirements that could adversely affect this line of business.

### *Credit risk*

Credit risk arises from the Company's accounts receivable due from customers. There is always the potential that a customer will fail to perform its financial obligations. The Company has a significant number of customers, thus minimizing the concentration of risk. Target is committed to a policy of closely monitoring the Company's risk and exposure in the area of accounts receivable. During the period ended September 30, 2017, the Company expensed \$52,185 (September 30, 2016 - \$26,153) in uncollectable accounts receivable balances.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Management regularly reviews future cash requirements to ensure adequate funds are available. At quarter end, Target had a current ratio of 8.03:1 compared to 5.14:1 ratio at the previous year end.

## RELATED PARTY TRANSACTIONS

**(a) During the year, the Company entered into transactions with the following related parties:**

Bears paw Tree Farm Inc., Common management  
Controlled private companies, Subsidiaries  
Exempt Experts Inc. ("Exempt"), Common management  
Eyelogic Systems Inc. ("Eyelogic"), Common management  
National Exempt Markets Association ("NEMA"), Common management  
Olympia Financial Group Inc. ("OFGI"), Common management  
Olympia Benefits Inc. ("OBI"), Common management  
OrganicKidz Inc. ("OKI"), Significant common share holdings  
Tarman Inc. ("Tarman"), Common management

**(b) Transactions**

The following table summarizes the related party transactions that occurred during the three months ended:

	September 30, 2017	September 30, 2016
<b>Revenue</b>		
<i>Controlled private company fees</i>		
Controlled private companies	\$ 219,683	\$ 219,554
Exempt Experts	2,763	4,304
<i>Dividends</i>		
Olympia Financial Group Inc.	-	55,200
<i>Interest income</i>		
OrganicKidz Inc.	6,267	6,267
<i>G&amp;A and Rent Reimbursements</i>		
Exempt Experts	51,628	20,759
NEMA	6,009	3,149
Olympia Financial Group	52,229	61,272
	<b>\$341,342</b>	<b>\$ 370,505</b>

	<b>September 30, 2017</b>	September 30, 2016
<b>Expenses</b>		
<i>General and Administration</i>		
Olympia Financial Group Inc.	<b>\$ 14,346</b>	\$ 3,014
Olympia Benefits Inc.	<b>3,354</b>	7,077
<i>Bad Debt</i>		
Controlled private companies	<b>52,185</b>	26,153
<i>Royalties</i>		
Tarman Inc.	<b>3,389</b>	19,927
Transparent Investments Inc.	<b>5,258</b>	-
	<b>\$ 78,531</b>	\$ 56,171

These transactions are in the normal course of operations and have been valued at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(c) **Accounts receivable, notes receivable and related party loans include amounts receivable from:**

	<b>September 30, 2017</b>	March 31, 2017
Controlled private companies	<b>\$ 249,581</b>	\$ 329,203
Bad debt allowance for controlled private companies	<b>(11,887)</b>	(108,503)
OrganicKidz Inc.	<b>56,267</b>	127,123
Exempt Experts Inc.	<b>66,548</b>	82,019
Olympia Financial Group Inc.	<b>10,598</b>	6,450
NEMA	<b>-</b>	1,083
	<b>\$ 371,107</b>	\$ 437,375

(d) **Accounts payable and accrued liabilities include amounts payable to:**

	<b>September 30, 2017</b>	March 31, 2017
Olympia Financial Group Inc.	<b>\$ 2,786</b>	\$ 3,360
Tarman Inc.	<b>17,616</b>	15,371
Transparent Investments Inc.	<b>5,471</b>	405
	<b>\$25,873</b>	\$ 19,136

## CORPORATE INFORMATION

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### **Directors**

Anne Louise Bartlett<sup>123</sup>  
Gerard Janssen<sup>123</sup>  
Brian Newman<sup>123</sup>  
Rick Skauge  
Greg Walter<sup>123</sup>

### **Officers**

Rick Skauge  
Chief Executive Officer & President  
Royce Lee  
Chief Financial Officer

### **Board Committees**

<sup>1</sup> Audit Committee  
<sup>2</sup> Corporate Governance and  
Nomination Committee  
<sup>3</sup> Compensation Committee

### **Head Office**

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### **Auditors**

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