

Target Capital Inc.

Management Discussion and Analysis
For the years ended March 31, 2019 and 2018
(In Canadian dollars)

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", or "Target") for the period ended March 31, 2019.

This MD&A should be read in conjunction with Target's audited consolidated financial statements for the twelve months ended March 31, 2019 and 2018, together with the accompanying notes found therein.

This document presents the views of management as at July 29, 2019. Additional information on Target can be found on SEDAR at www.sedar.com.

Information contained in the 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 MD&A 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.

COMPANY OVERVIEW

Target was incorporated on June 8, 1993, under the Business Corporations Act (Alberta). The Company has investment in a public cannabis retail operator, 2 private start-up cannabis companies and an in-active private real estate development company. 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.

The Company's Common Shares ("Common Shares") have been listed on the TSX-Venture Exchange (Symbol "TCI") since December 19, 2008 and on the Canadian Securities Exchange (CSE) since July 8, 2014 (Symbol "TCI").

The Company's registered office is located at Suite 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, AB, T2P 5C5.

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 private companies 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 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 private companies have raised capital via investments from Deferred Plans varying in size from nil to several million dollars.

Although Target has legal control over these private companies, we do not have control in accordance with IFRS because of the inability of our decisions to influence our returns and the restricted nature of the decisions that we can make which do not constitute "relevant decisions" as defined in IFRS 10 *Consolidation*.

BOND REDEMPTION

Prior to the Company's recapitalization transaction (see details below), the Company had \$1,349,769 outstanding in unsecured bonds. Concurrent with the closing of the Company's recapitalization transaction on December 19, 2017, the remaining principal and accrued interest on these bonds was fully repaid. During the 2018 fiscal year, the Company paid in aggregate \$473,388 in interest on these bonds.

RECAPITALIZATION

On November 21, 2017, the Company entered into a definitive reorganization and investment agreement (the "Agreement") with Sonny Mottahed, Bill Macdonald, David Cheadle and Jason Kujath which contemplated:

- i) A non-brokered private placement of up to an aggregate of \$5.0 million (the "Private Placement");
- ii) The appointment of a new management team and board of directors (collectively, the "New Management Team"); and
- iii) A rights offering (the "Rights Offering") to the holders of Common Shares.

The Company closed the Private Placement on December 19, 2017, issuing an aggregate of 91,666,675 units ("Units") at a price of \$0.06 per Unit for aggregate gross proceeds of approximately \$5.5 million to the New Management Team and other individuals identified by the New Management Team. Each Unit is comprised of one common share of the Company (a "Common Share") and, in the case of subscriptions by the New Management Team, one Common Share purchase warrant (a "Warrant") and, in the case of all other subscribers, one half of one Warrant. Each Warrant entitles the holder thereof to purchase one Common Share at a price of \$0.10 until December 15, 2022. All Warrants have vested and are exercisable.

On June 26, 2018, the Company completed the Rights Offering and issued 10,437,715 Units for gross proceeds of \$0.6 million. Each Unit issued under the Rights Offering consisted of one Common Share and one half of one Warrant that entitles the holder to purchase one Common Share at a price of \$0.10 until June 26, 2023.

OUTLOOK

The Company continues to explore and evaluate strategic alternatives to enhance shareholder value. The Company currently has 106.7 million Common Shares outstanding and 59.2 million Warrants with an exercise price of \$0.10 and a current cash balance of approximately \$2.8 million. The Company also has an estimated current non-cash working capital balance of approximately \$600,000 and holds 833,333 common shares of YSS Corp. ("YYS"), a publicly listed cannabis retail operator. The Company's existing revenue base from its private company fees is expected to fund a material portion of the Company's annual operating costs.

FISCAL 2019 HIGHLIGHTS

The following tables forth selected audited financial information of the Company for the years ended March 31, 2019 and 2018.

Income statement highlights

<i>(Amounts in \$000s, except per share amounts)</i>	2019	2018
Total revenue	\$ 593	\$ 704
Total expenses	(1,417)	(3,880)
Provision for impairment	(107)	(125)
Net loss	\$ (931)	\$(3,301)
Loss per share	\$ (0.01)	\$ (0.11)

Balance sheet highlights

<i>(Amounts in \$000s)</i>	2019	2018
Cash	\$2,768	\$2,196
Cash in trust	-	834
Convertible note receivable	118	-
Current assets	256	532
Other investments	325	-
Non-current assets	22	76
Total assets	3,489	3,638
Current liabilities	115	105
Shareholders' equity	3,374	3,533
Total liabilities and shareholders' equity	\$3,389	\$3,638

Cash flow highlights

<i>(Amounts in \$000s)</i>	2019	2018
Net cash provided (used by):		
Operating activities	\$ (641)	\$ (663)
Financing activities	697	3,373
Investing activities	(318)	(3)
Increase (decrease) in cash	\$ (262)	\$2,713
Cash beginning of year	3,030	317
Cash at end of year	\$2,768	\$3,030

Summary of Results

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 private company fees and special dividends. As a result, Target's quarterly performance has varied significantly.

For the year ended March 31, 2019, the Company has reported net loss of \$931,184 compared to net loss of \$3,300,858 in 2018.

The key components contributing to the change in net loss from the year ended in March 31, 2019 compared to year ended March 31, 2018 are following:

- Private company investment fees – decreased 30% to \$593,076 from \$704,355 due to a reduction in the amount of capital the Company's private company clients raised during the period;

- Bad debts expense - increased 16% to \$289,837 from \$134,231 due to management’s assessment of the unlikelihood of collecting accounts over 90 days;
- Business development expenses – increased to \$78,746 compared to nil due to increased deal sourcing and due diligence expenses;
- General and administration expense – increased by 51% to \$186,049 from \$123,365 largely due to an increased focus on sourcing cannabis investment opportunities;
- Professional fees – decreased by 55% to \$178,029 from \$393,616 largely due to non-recurring legal fees incurred in connection with the Company’s recapitalization transaction on December 19, 2017;
- Salaries and related costs including payments to consultants – increased to \$532,159 from \$261,390 largely due to additional salaries and wages related to the Company’s New Management Team and additional employees that were put in place in connection with the Company’s recapitalization transaction on December 19, 2017; and
- Share based compensation – decreased to nil from \$2,310,260 due to no additional share based compensation being issued in 2019 from the 4.35 million Warrants that were issued to the New Management Team concurrent with the recapitalization transaction on December 19, 2017.

As at March 31, 2019, the Company had \$3.1 million in current assets (2018 – \$3.5 million) including \$2.8 million in cash (March 31, 2018 – \$3.0 million). The change in the Company’s current assets and cash during the period can largely be attributed to reduced private company fees offset by the improved collection of accounts receivables as well as \$427,513 that was invested in three cannabis start-up companies during the period. In addition, as at March 31, 2019, the Company had a working capital balance of \$3.0 million (March 31, 2018 – \$3.5 million) and no debt.

As of the date hereof, the Company has 106,715,629 Common Shares outstanding and 59,159,504 Warrants outstanding with an exercise price of \$0.10.

Summary of Quarterly Results

The following table sets out the quarterly financial information for each of the last eight quarters:

<i>(Amounts in \$000s, except per share amounts)</i>	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	\$ 185	\$ 170	\$ 127	\$ 112	\$ 238	\$ 237	\$ 101	\$ 128
Total expenses	(515)	(237)	(315)	(351)	(3,002)	(140)	(621)	(117)
Other income (expenses)	(107)	-	-	-	21	371	(496)	(21)
Net loss	\$ (437)	\$ (67)	\$ 188)	\$ (239)	\$ (2,743)	\$ 468	\$ (1,016)	\$ (10)
Loss per share	\$(0.01)	\$(0.03)	\$(0.07)	\$(0.01)	\$ (0.14)	\$0.10	\$ (0.13)	\$ -

Summary of operations

During the fiscal year, the Company made three cannabis investments – YSS. (formerly Solo Growth Corp.), JAEB Designs, Inc. (“JAEB”), and ICE Holdings Inc. (“ICE”) – and announced its intention, through a series of transactions involving 51st Parallel Inc. (“51st Parallel”) and LivWell Enlightened Health™, to create LivWell International Corp, which was subsequently terminated on January 24, 2019.

On May 31, 2018, the Company made a US\$90,000 (or \$117,513) investment in JAEB, which was structured as a convertible note. JAEB is a Denver-based, early-stage engineering company focused on designing and manufacturing cannabis accessories.

On June 14, 2018, the Company made a \$60,000 investment in ICE for an approximate 5% equity ownership position in the company. ICE is start-up, cannabis active lifestyle brand with a focus on health, wellness and sport. The Company impaired its investment in ICE due to ICE's limited business activities during the period.

On June 28, 2018, the Company made a \$250,000 investment for 5,000,000 common shares of YSS. YSS is a publicly listed cannabis retail operator executing on a vision to become a premier retailer and the trusted destination for cannabis in Canada. On March 31, 2019, YSS's common shares had market value of \$0.06 and the Company booked an unrecognized gain on its investment of \$75,000 through other comprehensive income. Subsequent to the Company's year-end, YSS completed a 1:6 share consolidation. As of the date hereof, the Company holds 833,333 common shares of YSS.

In addition to its cannabis investments, the Company generated \$593,076 in investment fees from its portfolio of private company investments. Currently the company has majority of voting shares in 37 private companies (2018 – 184) and the Company's maximum exposure to losses is limited to its initial investment in each private company. Total exposure amounts to \$22,932 (2018 – \$62,932). The Company's assessment of private companies led to the impairment of 147 companies and an impairment charge of \$46,900. These investments are measured at fair value through other comprehensive income.

Related Party transactions

Operating transactions

Year ended March 31, 2019:

Through common shareholding and/or directorship, the Company is related to 51st Parallel, Cheadle Investments Inc., and Black Spruce Merchant Capital. The related entities during the year ended March 31, 2019 are different from that in the previous year as a result of change in shareholding, directorship and/or key management team that took place in December 2017.

There were no related party transactions with 51st Parallel and Black Spruce Merchant Capital. The fees paid to Cheadle investments Inc. are included in the key management compensation.

Year ended March 31, 2018:

Through common shareholding and/or directorship, the Company is related to 51st Parallel, Cheadle Investments Inc., Black Spruce Merchant Capital, Bearspaw Tree Farm Inc., Exempt Experts Inc., Eyelogic Systems Inc., National Exempt Markets Association, Olympia Financial Group Inc., Olympia Benefits Inc., OrganicKidz Inc., Tarman Inc., Transparent Investments Inc.

Through common shareholding and/or directorship, the Company paid the following amounts to the related parties:

	2018
Total revenue	\$29,879
Total expense reimbursement	82,752
Total expenses	53,297
Total receivables	242,022
Total payables	14,004

Key management compensation

Key management personnel are the persons responsible for the planning, directing and controlling of the activities of the Company and includes both executive and non-executive directors. The Company considers all of its directors and executive management team members to be key management personnel.

The Company paid \$407,785 in management compensation for the year ended March 31, 2019 compared to \$2,764,146 for the year ended March 31, 2018 which included \$2,310,260 in share-based compensation.

On Mach 15, 2019, Jason Kujath, General Counsel, and William McDonald, Executive Vice President resigned from the Company.

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.

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 private companies are reliant on regulations under the Income Tax Act (Canada), 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 potential that a counterparty will fail to perform its contractual obligations and arises principally from the Company's receivables from customers. The carrying amount of accounts receivable represents the maximum credit exposure. The Company is exposed to credit risk from its trade customers. The credit risk is influenced mainly by the individual credit characteristics of each client. Geographically, there is a concentration of risk in the Alberta region. The Company makes use of the following techniques to reduce its credit risk:

- Private companies do not receive final approval, and therefore cannot raise funds, until the investment fee for the first year (\$2,500) is paid; and
- The Company does not require collateral with respect to accounts receivables. The Company has a significant number of customers, which minimizes concentration of credit risk. Accounts receivable are monitored on a regular basis.

At period end, the Company had \$201,422 in receivables outstanding for more than 91 days, totalling 46% of outstanding receivables (March 31, 2018 - \$242,990 or 37%). Additionally, the Company directly wrote-off accounts receivable that were determined to be uncollected as bad debts amounting to \$289,837 (2018 - \$134,231). Management believes all amounts, net of the allowances made, are collectable.

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 year end, Target had a current ratio of 24:1 compared to 34:1 ratio at the previous year end.

The maturity profile of the Company's liabilities as at March 31, 2019 and 2018 is included below:

2019	Total	Within 1 year	2-5 years	Over 5 years
Accounts payable and accrued liabilities	\$115,194	\$115,194	\$ -	\$ -
Total	\$115,194	\$115,194	\$ -	\$ -

2018	Total	Within 1 year	2-5 years	Over 5 years
Accounts payable and accrued liabilities	\$91,068	\$91,068	\$ -	\$ -
Due to related parties	14,004	14,004	-	-
Bonds	40	40	-	-
Total	\$105,112	\$105,112	\$ -	\$ -

As at March 31, 2019, the Company has a working capital surplus of \$3,025,927 (2018 - \$3,456,173) and Company has adequate cash to pay its liabilities as and when they fall due.

Commitments

The Company has no lease agreement or commitments for the year ended March 31, 2019.

Subsequent Events

On July 26, 2019, William Macdonald resigned from the Board of Directors of the Company.