

TRENCHANT CAPITAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Six Months ended September 30, 2017 and 2016

Date of Report: November 28, 2017

INTRODUCTION

This management's discussion and analysis (this "MD&A") is prepared as of November 28, 2017, and provides a review of the performance of Trenchant Capital Corp. (formerly Echelon Petroleum Corp.) (the "Company"). It should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the six months ended September 30, 2017 and audited consolidated annual financial statements for the fiscal year ended March 31, 2017, and related notes thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). All of the financial data herein has been prepared in accordance with IFRS, unless otherwise indicated, and all figures are stated in Canadian dollars.

Additional information on the Company is available on the SEDAR website at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute "forward-looking statements". When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, and known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking information will not be realized.

Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that any forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated. The reader is cautioned not to place undue reliance on any forward-looking statements contained in this MD&A. Such forward-looking statements are presented for the purpose of assisting investors in understanding the Company's expected financial and operating performance and the Company's plans and objectives in making an investment decision and may not be appropriate for other purposes. All forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events, except as required by applicable laws.

RISKS AND UNCERTAINTIES

Risk factors applicable to the Company and its business include:

- that the Company has only recently commenced business as an investment issuer, and may be unsuccessful in developing this business or generating material revenues from it;
- that the Borrower (as defined herein) may be unable to service the Initial Investment (as defined herein), and that the Company may default in its obligations with respect to the Debentures (as defined herein) as a result thereof;
- that the security underlying the Initial Investment may be insufficient to adequately satisfy any losses the Company may suffer as the result of any default by the Borrower under the Initial Investment;
- portfolio exposure risks and sensitivity to macro-economic conditions;
- risks related to the Company's investments in private issuers and illiquid securities, and the potential concentration of the Company's investments;
- due diligence risks and risks relating to non-controlling interests;
- that the Company may be unable to identify sources of income to generate material cash flow and revenue, and even if identified, such sources of income may be unavailable to the Company;
- that the Company is heavily reliant on its directors and management, and they only devote part of their time and efforts to the affairs of the Company;
- the possible tightening of the credit markets, global economic uncertainty, and counterparty risk;
- risks related to the Company's investment approach, objectives and strategy;
- that the Company's expectations regarding the performance of certain sectors may be incorrect;
- the ability of the Company to identify other potential investment opportunities on satisfactory terms or at all;
- that the price of the Company's common shares on the TSX Venture Exchange (the "TSXV") is volatile;
- risks relating to available investment opportunities and competition for investments;
- the ability of the Company to obtain future financing on acceptable terms or at all; and
- other risks that may arise from time to time that are beyond the knowledge and/or control of the Company.

Additional risk factors with respect to the Company's business and operations can be found in the Company's filing statement dated April 20, 2017 (the "Filing Statement"), as filed on SEDAR on April 25, 2017, which is available under the Company's profile at www.sedar.com.

OVERALL PERFORMANCE

Nature of Business and Overall Performance

The Company was incorporated under the *Business Corporations Act* (British Columbia) on December 17, 2009. The Company's common shares are listed on the TSXV under the trading symbol "TCC" and the Debentures are listed on the TSXV under the trading symbol "TCC.DB".

The Company's head office is located at 1021 West Hastings Street, 9th Floor, Vancouver, BC, V6E 0C3. The Company has one subsidiary, 0960128 B.C. Ltd. (the "Subsidiary"), which is wholly-owned by the Company.

The Company was initially listed on the TSXV as a Capital Pool Company (as defined in the policies of the TSXV). In May 2011, the Company completed its Qualifying Transaction (as defined in the policies of the TSXV), pursuant to which it became designated as a Resource Issuer, engaged in the exploration and development of natural resource properties. The Company subsequently became inactive, with the listing of its common shares moved to the NEX board of the TSXV.

In May 2016, the Company announced its intention to pursue a change of business to become an Investment Issuer on the TSXV (the "Change of Business"), and changed its name to Trenchant Capital Corp.

The Debenture Offering

On March 7, 2017, the Company filed and obtained a receipt for a preliminary prospectus with security regulatory authorities for a proposed public offering of a minimum of 5,000 and a maximum of 20,000 9% secured convertible debentures (the "Debentures") priced at \$1,000 per Debenture, for gross proceeds of a minimum of \$5,000,000 and a maximum of \$20,000,000 (the "Debenture Offering").

The Debenture Offering was made on a best efforts, through a syndicate of agents led by Industrial Alliance Securities Inc. (collectively, the "Agents"), pursuant to the terms of an agency agreement dated May 18, 2017. The Debenture Offering closed in three tranches for aggregate gross proceeds of \$7,744,000. The first tranche, pursuant to which gross proceeds of \$5,522,000 were raised through the issuance of 5,522 Debentures, closed on May 18, 2017. The second tranche, pursuant to which gross proceeds of \$1,488,000 were raised through the issuance of 1,488 Debentures, closed on June 26, 2017. The third tranche, pursuant to which gross proceeds of \$730,000 were raised through the issuance of 730 Debentures, closed on July 19, 2017. In connection with the Debenture Offering, the Company paid the Agents aggregate cash commissions equal to 6.5% of the gross proceeds raised under the Debenture Offering and were reimbursed for their reasonable expenses.

The Debentures mature on March 31, 2022 and bear interest at the rate of 9.0% per annum, payable quarterly in cash. The terms of the Debentures are set out in a debenture indenture dated May 18, 2017, a copy of which is available on SEDAR, between the Company and Computershare Trust Company of Canada ("Computershare"). Commencing on May 18, 2018, the outstanding principal amount of the

Debentures may be converted, at the option of the holder, into common shares of the Company at a conversion price equal to the greater of: (i) 95% of the volume weighted average trading price of the common shares for the 30 trading day period ending three business days before the conversion date, and (ii) \$1.00 per common share, provided that, unless the conversion is being effected in connection with a redemption by the Company, no more than 25% of the aggregate principal amount of Debentures held by a holder may be converted in any 180-day period.

The Company may prepay the outstanding principal of the Debentures, and accrued but unpaid interest thereon, in cash, at any time after May 18, 2019, being two years after the closing of the first tranche of the Debenture Offering, by paying the Debenture holders 105% of the outstanding principal amount of the Debentures in year three, 103% of the outstanding principal amount of the Debentures in year four, and 101% of the outstanding principal amount of the Debentures in year five, plus any accrued but unpaid interest thereon.

The Company pledged all of the outstanding shares of the Subsidiary to Computershare, on behalf of the holders of the Debentures, as security for the Company's outstanding obligations under the Debentures. The holders of Debentures have no recourse to the Company other than with respect to such shares.

Effective on October 26, 2017, the Debentures commenced trading on the TSXV under the symbol "TCC.DB".

The Initial Investment

On April 25, 2016, the Company entered into a strategic alliance agreement with the Hillcore Group ("Hillcore"). Hillcore is a leading independent Canadian investment and advisory firm that invests predominantly in the life sciences, real estate, seniors living, financial, industrial and energy sectors.

Pursuant to the terms of the strategic alliance agreement, Hillcore has agreed to grant the Company an exclusive first right to: (i) review Hillcore's initial due diligence on potential business targets, and (ii) negotiate with Hillcore the participation by the Company in Hillcore's acquisition of business targets, primarily by way of special situation debt, which may include secondary, subordinated, mezzanine or non-traditional debt, asset backed securities and back-leveraged/holdco debt. The Company has also been granted certain back-in and tag along negotiation rights, as well as negotiation rights for capital market transactions with respect to projects for which the Company has provided financing. HCG5 Investment Limited Partnership, a limited partnership related to Hillcore, holds approximately 17.3% of the Company's issued and outstanding common shares.

On March 2, 2017, the Subsidiary entered into a loan agreement dated March 2, 2017, as amended (the "Loan Agreement"), with Waiward Investments Limited Partnership (the "Borrower"), a limited partnership related to Hillcore, pursuant to which the Subsidiary agreed to loan a minimum of \$5,000,000 and a maximum of \$20,000,000 (the "Initial Investment") to the Borrower. The Initial Investment is secured by the Borrower's indirect equity interest in Waiward Steel Limited Partnership ("Waiward Steel"), one of Canada's largest steel fabricators and erectors.

The net proceeds of the Debenture Offering were used to fund the Initial Investment, which was completed on May 18, 2017 in connection with the Change of Business.

Going forward, the Company intends to focus on the provision of special situation debt financing to Hillcore's pipeline of current and future private equity investments, as contemplated by the strategic alliance agreement between the Company and Hillcore.

On June 29, 2017, the Company announced that it had advanced the sum of \$1,500,000 from its treasury funds to 10164950 Canada Ltd., a company controlled by Hillcore, as an advance on a second investment transaction with Hillcore, the terms of which are currently being negotiated.

The Convertible Preferred Share Offering

On May 18, 2017, the Company also closed a private placement of non-voting convertible preferred shares, pursuant to which it raised gross proceeds of \$2,700,000 through the issuance of 6,750,000 preferred shares at a price of \$0.40 per share (the "Preferred Share Offering", and together with the Debenture Offering, the "Offerings"). The proceeds of the Preferred Share Offering were used for payment of the fees and expenses for the Offerings, the Initial Investment and the Change of Business, and for general working capital purposes. No commissions or finder's fees were paid in connection with the Preferred Share Offering.

The preferred shares are entitled to receive annual non-cumulative dividends at a fixed rate of 8% per annum. Holders of preferred shares may, commencing on May 18, 2018, convert their preferred shares into common shares on a one for one basis, subject to a semi-annual maximum conversion limit of such number of common shares as is equal to 25% of a particular holder's preferred shares. The preferred shares will automatically convert into common shares on a one for one basis on May 18, 2020.

Holders of Preferred Shares are not entitled to receive notice of, attend, or vote at, any general meeting of the shareholders of the Company. The preferred shares are not, and are not expected to be, listed for trading on the TSXV or on any other stock exchange or quotation system.

The Change of Business

The Offerings and the Initial Investment were part of the Change of Business, pursuant to which the Company became a Tier 2 Investment Issuer on the TSXV. Following the issuance of the TSXV's final bulletin with respect to the Change of Business, the trading symbol for the common shares on the TSXV changed to "TCC.V".

In connection with the closing of the Change of Business, the Company undertook to the TSXV to complete a second investment prior to May 26, 2018.

Investment Policy Disclosures

The Company has adopted an Investment Policy to govern its investment activities. The Investment Policy sets out, among other things, the Company's investment objectives and strategy, which is to provide special situation debt financing to established companies with a solid track record of earnings and demonstrated potential for future growth, the ability to generate shareholder equity by taking and, where prudent, exercising equity purchase rights in portfolio companies, participating in potential going-public transactions or other liquidity events in portfolio companies, and seeking to preserve capital and limit downside risk through securely structuring its investments. A copy of the Investment Policy is attached as Schedule "C" to the Filing Statement

The following key ratios and other summary disclosures with respect to the Initial Investment are made in accordance with the Company's Investment Policy.

	12 months ended 9/30/2017	12 months ended 3/31/2017 (Pro Forma) ⁽¹⁾	12 months ended 3/31/2017
Debt Service Ratio	(0.29)	1.27	1.52
Fixed Charge Coverage Ratio	0.04	1.46	1.54
Net Debt to EBITDA Ratio	61.09	0.72	0.23

⁽¹⁾ Assumes the Initial Investment in the amount of \$7,740,000 was funded in 2017.

As can be seen from the above ratios Waiward Steel has experienced dramatically lowered earnings in the most two recent quarters due to the downturn in the industries which it services and costs associated with winding down certain business operations. However, due to the Management Fee pledge, together with the cash reserved in the Borrower for interest payments and the underlying value of Waiward Steel interest pledged, management of the Company can confirm the sufficiency of the Borrower's cash flow to service the Loan. Management of the Company can also confirm the adequacy of the security package provided by the Borrower in connection therewith, and believes that the Borrower's cash flow and pledged collateral are sufficient and adequate to service the Loan. Management of the Company has reviewed the Waiward Steel order book for the current year and anticipates the above ratios to come back into formula over the next three quarters. Waiward Steel is not in default under its senior debt facility.

Trailing 12 month increase (decrease) in	12 months ended 9/30/2017	12 months ended 3/31/2017
Revenue	(44%)	(11%)
Net Income	(123%)	(29%)

Other than as stated above, the Company is not aware of any material changes or facts in the business or affairs of the Borrower that would have a material adverse impact on the Borrower's cash flow or pledged collateral.

RESULTS OF OPERATIONS

These results of operations should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and six months ended September 30, 2017, which are being filed concurrently with this MD&A. The financial data for the three and six months ended September 30, 2017 and September 30, 2016 have been prepared in accordance with IFRS. All figures are stated in Canadian dollars.

Six Months Ended September 30, 2017 and 2016

	For the six months ended September 30, 2017	For the six months ended September 30, 2016
Revenues		
Interest income	\$ 327,711	\$ -
Expenses		
Consulting	85,000	-
General and administrative	55,100	42,080
Interest	262,531	-
Investor relations	20,650	-
Professional fees	18,913	43,789
Transfer agent and filing fees	34,233	11,318
	<u>476,728</u>	<u>97,187</u>
Net and comprehensive (loss)	<u>\$ (149,017)</u>	<u>\$ (97,187)</u>

The Company has generated limited revenue to date and until the most recent three month period ended September 30, 2017, reported net losses since inception. The net loss was \$149,017 for the six months ended September 30, 2017 (September 30, 2016 – \$97,187). The completion of the Offerings resulted in the Company incurring higher than normal expenses, which were partly offset by interest income.

Revenues of \$327,711 were derived from interest earned on the Initial Investment during the six months ended September 30, 2017 (September 30, 2016 - \$nil).

Consulting fees of \$85,000 were incurred for the six months ended September 30, 2017 (September 30, 2016 - \$nil), related to consulting fees paid in connection with development of the Company's strategic plans.

General and administrative expenses were \$55,100 for the six months ended September 30, 2017 (September 30, 2016 - \$42,080). The increased expenses related to ongoing due diligence being undertaken by management in connection with identifying a second investment. Management expects to continue to expend considerable time negotiating additional investments and securing financing.

Interest expense was \$262,531 for the six months ended September 30, 2017 (September 30, 2016 - \$Nil). The increase in interest expense was related to interest payable on the Debentures.

Professional fees of \$18,913 were incurred in the six months ended September 30, 2017 (September 30, 2016 - \$43,789). These professional fees related to audit and legal expenses in connection with the Offerings and the Change of Business.

Transfer agent and filing fees were \$34,233 for the six months ended September 30, 2017 (September 30, 2016 - \$11,318). These fees were higher in the current period due to filings related to the Change of Business and the Debenture Offering.

Three Months Ended September 30, 2017 and 2016

	For the three months ended September 30, 2017	For the three months ended September 30, 2016
Revenues		
Interest income	\$ 257,475	\$ -
Expenses		
Consulting	10,000	-
General and administrative	(8,585)	11,552
Interest	199,219	-
Investor relations	20,950	-
Professional fees	7,985	3,000
Transfer agent and filing fees	15,263	6,531
	<u>244,839</u>	<u>21,083</u>
Net and comprehensive income (loss)	<u>\$ 12,636</u>	<u>\$ (21,083)</u>

The Company had net income of \$12,636 for the three months ended September 30, 2017 (September 30, 2016 – (\$21,083)). The Company's income increased due to the revenue derived from interest on the Initial Investment, which exceeded the Company's expenses in the current quarter.

Revenues were \$257,475 for the three months ended September 30, 2017 (September 30, 2016 - \$nil). Revenues were derived from interest earned on the Initial Investment during the three months ended September 30, 2017.

Consulting fees were \$10,000 for the three months ended September 30, 2017 (September 30, 2016 - \$nil), related to consulting fees paid in connection with the development of the Company's strategic plans.

General and administrative expenses were (\$8,585) compared to \$11,552 for the three months ended September 30, 2016. The decreased expenses were due to the reclassification of some of costs in the current quarter. Management expects to continue to expend considerable time negotiating additional investments and securing financing.

Interest expense was \$199,219 for the three months ended September 30, 2017 (September 30, 2016 - \$nil). The increase in interest expense was related to interest payable on the Debentures.

Professional fees were \$7,985 (September 30, 2016 - \$3,000). These professional fees related to audit and legal expenses in connection with the Offerings and the Change of Business.

Transfer agent and filing fees were \$15,263 (September 30, 2016 - \$6,531). Fees were higher in the current quarter due to filings related to the Change of Business and the Debenture Offering.

Dividend Report & Policy

The Company has not paid any dividends to date. The Company intends to retain its future earnings, if any, for use in its business and does not expect to pay dividends on its shares in the foreseeable future.

Summary of Quarterly Results

The following is a summary of the Company's financial results for the eight most recently completed quarters. The financial data has, except as referred to in the footnotes to this summary, been prepared in accordance with IFRS and all figures are stated in Canadian dollars.

For the quarter ended:	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Total Revenues	257,475	70,236	-	-
Net and comprehensive income (loss) for the period	12,636	(161,653)	(96,333)	(3,978)
Loss per share, basic and diluted	0.00	(0.01)	(0.01)	(0.00)

For the quarter ended:	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Total Revenues	-	-	-	-
Net and comprehensive income (loss) for the period	(21,083)	(76,103)	6,932 ¹	(9,700)
Income (loss) per share, basic and diluted	(0.00)	(0.01)	0.00	(0.02)

(1) The Company's loss for the period includes non-cash items of a gain from the settlement of a creditor debt of \$21,332, settlement of debt with a director of \$12,500 and foreign exchange gains of \$11,000.

Financial Condition, Liquidity and Capital Resources

The Company had total assets of \$10,310,519 as at September 30, 2017 (March 31, 2017 – \$457,980). The primary assets of the Company as of such date consisted cash of \$793,474 (March 31, 2017 – \$188,651), GST receivables of \$19,570 (March 31, 2017 – \$13,076), interest receivable of \$191,933 (March 31, 2017 - \$nil), and an advance of \$1,500,000 (March 31, 2017 - \$nil). Accounts payable as at September 30, 2017 were \$235,076 (March 31, 2017 - \$154,010). The Company had working capital of \$769,901 as at September 30, 2017 (March 31, 2017 – \$303,970).

At September 30, 2017, the Company had not yet achieved profitable operations, and had accumulated a deficit of \$4,299,723 (March 31, 2017 – \$4,150,706).

As further described above, during the six months ended September 30, 2017, the Company closed the Debenture Offering, pursuant to which it issued an aggregate of 7,740 Debentures for aggregate gross proceeds of \$7,740,000, and the Preferred Share Offering, pursuant to which it issued 6,750,000 preferred shares for aggregate gross proceeds of \$2,700,000. Together, the Offerings raised aggregate gross proceeds of \$10,440,000.

The Company's condensed consolidated interim financial statements for the three and six months ended September 30, 2017 were prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operations for the foreseeable future and will be able to realize its assets and

discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months from loans from related parties and or the private placement of common shares.

As at September 30, 2017, the Company did not have any contractual obligations.

Classification of financial instruments

Financial assets included in the Company's statement of financial position for the three and six months ended September 30, 2017 are as follows:

	September 30, 2017	March 31, 2017
Held for trading:		
Cash	\$ 793,474	\$ 188,651
Loans and receivables:		
Advance	1,500,000	-
Interest receivable	191,933	-
Loans	7,740,000	-
	\$ 10,225,407	\$ 188,651

Financial liabilities included in the Company's statement of financial position for the three and six months ended September 30, 2017 are as follows:

	September 30, 2017	March 31, 2017
Non-derivative financial liabilities:		
Accounts payable	\$ 235,076	\$ 154,010
Debentures	7,220,490	-
	\$ 7,455,566	\$ 154,010

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Financial instruments classified as level 1 – quoted prices in active markets - include cash.

OFF BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements to which the Company is committed.

TRANSACTIONS WITH RELATED PARTIES

The following amounts were due to related parties as at the dates indicated, and were included in accounts payable and accrued liabilities as at such dates:

	September 30, 2017	March 31, 2017
Directors and officers of the Company	\$ 12,348	\$ 9,105

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

Key management personnel compensation

	Six months ended	
	September 30, 2017	September 30, 2016
Chief Financial Officer	\$ 3,000	\$ 3,000

CRITICAL ACCOUNTING ESTIMATES

As disclosed in the Company's annual audited financial statements for the years ended March 31, 2017 and 2016 (as are available on the Company's profile on SEDAR (www.sedar.com)), the Company has no critical accounting estimates.

CRITICAL ACCOUNTING POLICIES

There are no accounting policies that the Company has adopted, other than what was disclosed in the Company's annual audited financial statements for the year ended March 31, 2017.

RISK FACTORS

The business of the Company is subject to risks and hazards, some of which are beyond the Company's control. Shareholders must rely on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company. The following is a summary of some risks and uncertainties that management believes to be material to the Company's business. Additional risk factors are included in the Filing Statement, which is available under the Company's SEDAR profile at www.sedar.com.

Risk of Payment Defaults Under Investment Agreements

While the Company intends to structure its investments, including the Initial Investment, in such a way as to minimize the risk of default, there is no guarantee that investee companies will not default on their

payment obligations because of business failure or obligations to other lenders, investors or stakeholders. Further, there is no assurance that, in the event of a default by an investee company, the Company will be able to recover all or any of its investment. Such failure could have an adverse impact on the Company's financial condition and results of operations, including impairing the Company's ability to pay amounts owing under the Debentures or to pay dividends on the preferred shares. In addition, in the event investments in investee companies are structured on a subordinated or unsecured basis, the Company's rights, including payment rights, will be subordinate to the rights of secured lenders of investee companies and other parties holding security interests against investee companies. As such, upon a default by an investee company, there may be no funds left to permit the Company to recover its investment.

Dependence on the Performance of Investee Companies

The Company is, and will be, dependent on the operations, assets and financial health of the investee companies in which it makes investments. The Company's ability to meet its operating expenses in the long term will be largely dependent on the interest and other payments received from investee companies, which are expected to be the sole source of cash flow for the Company. While the Company intends to focus on special situation debt financing to Hillcore's pipeline of current and future private equity investments, payments to the Company from investee companies may be based on a percentage of such companies' top line revenues, in which case negative financial performance of an investee company will likely have a negative impact on the Company's cash flow. In addition, if the financing position of an investee company declines such that it is unable to make interest payments to the Company, the Company's financial condition and cash flow will be adversely affected.

The Company has conducted, and will conduct, due diligence on each of its investee companies prior to entering into agreements with them. In addition, the Company plans to monitor investee company performance through observer rights at board meetings of investee companies, negotiating rights to appoint one or more directors to the boards of investee companies, and receiving and reviewing regular financial reports from the investee companies. Nonetheless, there is a risk that there may be some liabilities or other matters that are not identified through the Company's due diligence or ongoing monitoring that may have an adverse effect on an investee company's business and, as a result, on the Company.

Lack of Control Over Investee Company Management

The Company does not expect to have a high degree of influence over any of its investee companies or their operations, including the Borrower. Payments received by the Company from investee companies may therefore depend upon several factors that may be outside of the Company's control.

Volatility of Share Price

Securities markets throughout the world are cyclical and, over time, tend to undergo high levels of price and volume volatility. A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Company's common shares will trade from time to time cannot be predicted. The market price of the common shares is subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements the Company makes, general economic conditions, and other factors. Increased levels of volatility and resulting market turmoil may adversely impact the price of the common

shares. If the Company is (as it is expected to be) required to access capital markets to carry out its business objectives, the state of domestic and international capital markets and other financial systems could affect its access to, and cost of, capital. Such capital may not be available on terms acceptable to the Company or at all, and this could have a material adverse impact on its business, financial condition, results of operations or prospects.

Financing Risks

The Company has no history of earnings or material revenue. In addition, the Company's business model is dependent on making investments in additional investee companies, and the Company anticipates having to raise additional capital to fund these investments. While the Company may generate additional working capital through equity or debt offerings, or through the receipt of interest or other payments from investee companies, there is no assurance that such funds will be sufficient to facilitate the development of the Company's business as envisioned or, in the case of equity financings, that such funds will be available on terms acceptable to the Company or at all. If available, future equity financing may result in substantial dilution to the Company's shareholders.

Limited Number of Investments

While the Company's intention is to negotiate and fund additional investments in companies in different industry sectors, it could take many years to create a diversified portfolio of investee companies and there is no guarantee the Company will ever achieve sufficient diversification. The Company may have a significant portion of its assets dedicated to a single business sector or industry for an extended period of time. In the event that any such business or industry is unsuccessful or experiences a downturn, this could have a material adverse effect on the Company's business, results of operations and financial condition.

Ability to Negotiate Additional Investments

A key element of the Company's growth strategy is expected to involve negotiating and finding investments in other operating companies. Achieving the benefits of future investments will depend in part on successfully identifying and capturing such opportunities in a timely and efficient manner and in structuring such arrangements to ensure a stable and growing stream of revenues. The Company's ability to identify investee companies and negotiate and fund additional investments in such a manner is not guaranteed.

Risks Facing Investee Companies

As previously noted, the Company's financial condition and results of operations will be affected by the performance of the companies in which it invests. Each investee company will also be subject to risks which will affect their respective financial condition. Given that, other than with respect to the Initial Investment, the Company does not currently know the exact nature of the businesses in which it may make investments, it is impossible to predict exactly what risks investee companies will face. Nonetheless, typical risks which investee companies might be expected to face include the following:

- Investee companies may need to raise capital through equity or debt financing. Failure to obtain such equity or debt, or the terms of such equity or debt that may be available, may impair the ability of investee companies to finance their future operations and capital needs. Flexibility to respond to changing business and economic conditions may therefore be limited.

- The success of investee companies may depend on the talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on an investee company.
- Investee companies may require additional working capital to carry out their business activities and to expand their businesses. If such working capital is not available, the financial performance and development of the businesses of the investee companies may be adversely affected.
- Damage to the reputation of investee companies' brands could negatively impact consumer opinion of those companies or their related products and services, which could have an adverse effect on their businesses.
- Investee companies may face intense competition, including competition from companies with greater financial and other resources, and more extensive development, manufacturing, marketing and other capabilities. There can be no assurance that investee companies will be able to successfully compete against their competitors or that such competition will not have a material adverse effect on their businesses.
- Investee companies may experience reduced revenues through the loss of a customer representing a high percentage of their revenues.
- Investee companies may experience reduced revenues due to an inability to meet regulatory requirements, or may experience losses of revenues due to unforeseeable changes in regulations imposed by various levels of government.
- Investee companies may rely on government or other subsidy programs for revenue or profit generation. Changes to, or elimination of, such programs may have an adverse effect on such companies.
- Investee companies may experience negative financial results based on foreign exchange losses.

Reliance on Key Personnel

The success of the Company is dependent on the abilities, experience, efforts and industry knowledge of its senior management and other key personnel. The long-term loss of the services of any key personnel for any reason could have a material adverse effect on the business, financial condition, results of operations or future prospects of the Company. In addition, the growth plans of the Company may require additional personnel, increase demands on management, and produce risks in both productivity and retention levels. The Company may not be able to attract and retain additional qualified management and personnel as needed in the future. There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on its business, financial condition, results of operations and future prospects.

DISCLOSURE OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of preferred shares without par value.

As of the date of this MD&A, the following securities of the Company were outstanding:

Common Shares – 11,535,885

Preferred shares – 6,750,000

Incentive Stock Options – Nil

Warrants – Nil

Debentures – 7,740, having an aggregate principal amount of \$7,740,000

OTHER INFORMATION AND BOARD APPROVAL

Additional information about the Company is available on SEDAR at www.sedar.com. This MD&A has been reviewed and approved by the Board of Directors of the Company.