Fountain Asset Corp.

Consolidated Financial Statements

December 31, 2016 & 2015

(Expressed in Canadian dollars)

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards. These consolidated financial statements contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors reviews the results of the annual audit and the consolidated financial statements prior to submitting the consolidated financial statements to the Board for approval.

The Company's auditors, Collins Barrow Toronto LLP, are appointed by the shareholders to conduct an audit and their report follows.

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

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

Toronto, Ontario
May 1, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Fountain Asset Corp.

We have audited the accompanying consolidated financial statements of Fountain Asset Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of changes in equity, comprehensive income and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fountain Asset Corp. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Collins Barrow Toronto LLP

Licensed Public Accountants
Chartered Professional Accountants
May 1, 2017
Toronto, Ontario

(expressed in Canadian Dollars)

	December 31 2016	December 31 2015 [note 21]
Assets		
Cash	$ 377,721	$ 657,205
Short term investments [note 4]	40,000	40,000
Accounts receivable and sundry assets	358,398	287,726
Loans and convertible debentures - amortized cost [note 7]	527,012	1,193,600
Loans and convertible debentures - fair value through profit or loss [note 7]	4,301,500	2,313,412
Investments - Fair value through profit or loss [note 5]	7,145,598	6,332,057
Investments - Available for sale [note 6]	2,765,792	866,666
Investment property	-	100,000
Assets held for sale [note 5]	-	1,150,502
	$ 15,516,021	$ 12,941,168
Liabilities		
Accounts payable and accrued liabilities	$ 154,091	$ 151,935
Due to brokers [note 10]	17,146	95,498
Syndicated loans [note 7]	764,362	-
	$ 935,599	$ 247,433
Shareholders' Equity		
Share capital [note 11]	$ 27,107,741	$ 27,107,741
Contributed surplus	5,321,816	5,273,980
Accumulated other comprehensive income	1,383,012	166,667
Deficit	(19,232,147)	(20,264,998)
	$ 14,580,422	$ 12,283,390
Non-controlling interest	-	410,345
Total Equity	$ 14,580,422	$ 12,693,735
	$ 15,516,021	$ 12,941,168

Contingencies and subsequent events (notes 18 and 19)

On Behalf of the Board

“Jason Ewart”
Director

“Alec Regis”
Director

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

Fountain Asset Corp.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2016 and 2015
(expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Accumulated other comprehensive income	Non-controlling interest	Total
Balance, January 1, 2016	**$ 27,107,741**	**$ 5,273,980**	**$ (20,264,998)**	**$ 166,667**	**$ 410,345**	**$ 12,693,735**
Net income (loss)	-	-	1,032,851	-	-	1,032,851
Net income (loss) attributable to non-controlling interest	-	-	-	-	(185,548)	(185,548)
Adjustments to AFS investments, net of tax	-	-	-	1,216,345	-	1,216,345
Stock based compensation [note 11]	-	47,836	-	-	-	47,836
Deconsolidation of subsidiaries [note 3]	-	-	-	-	(224,797)	(224,797)
Balance, December 31, 2016	**$ 27,107,741**	**$ 5,321,816**	**$ (19,232,147)**	**$ 1,383,012**	**$ -**	**$ 14,580,422**

	Share Capital	Contributed Surplus	Deficit	Accumulated other comprehensive income	Non-controlling interest	Total
Balance, January 1, 2015	**$ 22,151,644**	**$ 5,054,678**	**$ (15,480,618)**	**$ -**	**$ 335,085**	**$ 12,060,789**
Net income (loss)	-	-	(4,787,132)	-	-	(4,787,132)
Net income (loss) attributable to non controlling interest	-	-	-	-	75,260	75,260
Share issuance [note 11]	5,418,460	-	-	-	-	5,418,460
Stock based compensation [note 11]	-	219,302	-	-	-	219,302
Share issuance costs [note 11]	(462,363)	-	-	-	-	(462,364)
Adjustments to AFS investments, net of tax	-	-	-	166,667	-	166,667
Reclassification adjustment for gains recognized in net income	-	-	2,752	-	-	2,752
Balance, December 31, 2015	**$ 27,107,741**	**$ 5,273,980**	**$ (20,264,998)**	**$ 166,667**	**$ 410,345**	**$ 12,693,735**

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

Fountain Asset Corp.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015
(expressed in Canadian Dollars)

	2016	2015
Revenue		[note 21]
Structuring fees, consulting fees and bonuses	$ 395,836	$ 277,057
Interest and dividend income	1,020,972	703,456
Realized gains (losses) investments	(86,003)	635,148
Unrealized gains (losses) investments	72,452	(3,954,251)
Deconsolidation gains (losses) [note 3]	587,093	-
	$ 1,990,350	$ (2,338,590)
Expenses		
Salaries and consulting fees [note 15]	$ 559,237	$ 748,985
Filing and listing fees	21,052	51,892
Audit and legal fees	120,007	143,469
General and administrative	440,698	229,795
Foreign exchange loss (gain)	(29,706)	(52,210)
Stock based compensation expense [note 11]	47,836	219,302
Bad debt, loan provisions and permanent impairments	(16,077)	1,032,050
	$ 1,143,047	$ 2,373,282
Income (loss) before income tax	$ 847,303	$ (4,711,873)
Income taxes provision [note 16]	-	-
Net income (loss)	$ 847,303	$ (4,711,873)
Other comprehensive income		
Unrealized gains on AFS investments, net of tax	1,216,345	166,667
Net comprehensive income	$ 2,063,648	$ (4,545,206)
Net income (loss) attributable to:		
Parent company	$ 1,032,851	$ (4,787,133)
Non-controlling interest	(185,548)	75,260
	$ 847,303	$ (4,711,873)
Net comprehensive income (loss) attributable to:		
Parent company	$ 2,249,196	$ (4,620,466)
Non-controlling interest	(185,548)	75,260
	$ 2,063,648	$ (4,545,206)
Net income (loss) per share - basic and diluted	$ 0.02	$ (0.09)
Weighted average number of shares outstanding – basic [note 13]	54,154,463	54,128,573
Weighted average number of shares outstanding – diluted [note 13]	54,206,814	54,457,382

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

Fountain Asset Corp.
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(expressed in Canadian Dollars)

		2016		2015
				[note 3]
Operating activities				
Net income (loss)	$	847,303	$	(4,711,873)
Realized (gain)loss on sale of portfolio investments		86,003		(635,148)
Unrealized (gain)loss on sale of portfolio investments		(72,452)		3,954,251
Bad debts, loan provisions and permanent impairments		-		1,032,051
Investments received for services		(49,338)		-
Deconsolidation (gain)loss		(587,093)		-
Unrealized foreign exchange loss(gain)		(288,973)		(52,210)
Stock compensation expense		47,836		219,302
Loss on syndication of loan		51,436		-
Acquired loans and convertible debentures		(1,635,000)		(2,412,000)
Repayments of loans and convertible debentures		682,128		892,153
Purchase of investments		(33,353)		(3,971,158)
Purchase of private investments		(1,647,850)		-
Proceeds from sale of investments		1,448,697		1,815,025
Proceeds from sale of investment properties		481,004		29,000
Proceeds from loan syndication		712,926		-
	$	43,274	$	(3,840,607)
Net changes in non-cash working capital balances [note 22]		(244,406)		(396,215)
Cash flow from operating activities	**$**	**(201,132)**	**$**	**(4,236,822)**
Proceeds from shares issued	$	-	$	5,418,460
Share issue costs		-		(462,363)
Paid to brokers		(78,352)		(228,860)
Cash flow used in financing activities	**$**	**(78,352)**	**$**	**4,727,237**
Increase (decrease) in cash	$	(279,484)	$	490,415
Cash, beginning of year		657,205		166,790
Cash, end of year	**$**	**377,721**	**$**	**657,205**

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

Fountain Asset Corp.
Schedule of investments
As at December 31, 2016
(expressed in Canadian Dollars)

Investment	Classification	Market	Instrument	Average cost	Carrying/Fair value
Advantagewon Oil Corp.	Loans and convertible debt - amortized cost	Private	Convertible Debt	527,012	
				$ 527,012	$ 527,012
1616 Media Limited *	Loans and convertible debt - FVTPL	Private	Convertible Debt	$ 32,500	
Auto repair finance company	Loans and convertible debt - FVTPL	Subsidiary	Term Debt	3,235,000	
MariCann Inc. *	Loans and convertible debt - FVTPL	Private	Convertible Debt	100,000	
WeedMD RX Inc. *	Loans and convertible debt - FVTPL	Private	Convertible Debt	50,000	
Xylitol Canada Inc. *	Loans and convertible debt - FVTPL	Public	Convertible Debt	885,000	
				$ 4,302,500	$ 4,301,500
Auto repair finance company	Investments - FVTPL	Subsidiary	Equity	600,000	
Foothills Development Inc.	Investments - FVTPL	Subsidiary	Equity	1,085,872	
MBMI Resources	Investments - FVTPL	Public	Equity	20,510	
Poydras Gaming Finance Corp.	Investments - FVTPL	Public	Equity	2,803,375	
Smart Employee Benefits Inc	Investments - FVTPL	Public	Equity	820,000	
Smart Employee Benefits Inc	Investments - FVTPL	Public	Options	-	
Smart Employee Benefits Inc	Investments - FVTPL	Public	Warrants	-	
Solace Health Inc.	Investments - FVTPL	Private	Equity	200,100	
Somersby Park 2010 Ltd Partnership	Investments - FVTPL	Subsidiary	Equity	772,079	
Spectra7 Microsystems Inc.	Investments - FVTPL	Public	Equity	1,104,137	
The Hydropothecary Corporation	Investments - FVTPL	Private	Warrants	-	
The Intertain Group Limited	Investments - FVTPL	Public	Equity	43,088	
Xylitol Canada Inc.	Investments - FVTPL	Public	Equity	25,343	
Xylitol Canada Inc.	Investments - FVTPL	Public	Options	49,338	
Xylitol Canada Inc.	Investments - FVTPL	Public	Warrants	-	
				$ 7,523,842	$ 7,145,598
Advantagewon Oil Corp.	Investments - AFS	Private	Equity	100,000	
Attorneys Title Guaranty Fund Inc.	Investments - AFS	Private	Equity	413,000	
The Hydropothecary Corporation	Investments - AFS	Private	Equity	1,082,781	
				$ 1,595,781	$ 2,765,792
				$ 13,949,135	**$ 14,739,902**

69% of investments are equity and 31% are non-equity

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

Significant purchases, sales and changes in valuation include the following:

1616 Media Limited

- 1616 Media Limited is a mobile publishing platform for private peer to peer connections called "EMU's"
- In November 2016, the Company participated in a US$500,000 8% Convertible Secured Note at a price of US$1,000 per note, by purchasing 25 notes.
- There is no change in value in this investment.

Auto repair finance company (Auto Co.)

- Auto Co. offers consumers financing for auto repairs across Canada.
- In December 2013, the Company completed a 15% secured credit facility for up to $2,000,000 to Auto Co., of which $600,000 was convertible to 50% ownership of Auto Co. In June, the credit facility was extended to $4,000,000. The Company currently has $3,235,000 outstanding in the facility, net of the $600,000 conversion which was exercised on December 9, 2016. During 2016 $764,362 of the debt was syndicated to related and non-related parties at similar terms and conditions, except for the conversion rights.
- There is no change in value in the debt.
- The equity value decreased to $nil, as annual earnings remain negative, resulting in an unrealized loss of $600,000.

AdvantageWon Oil Corp. (AOC)

- AOC is a junior oil company operating in Texas, U.S.A.
- On June 10, 2014, the Company completed a 24% secured credit facility in the amount of up to $1,000,000 to AOC. As at December 31, 2016, the amount drawn on the credit facility was $527,012. Throughout the loan period Fountain was issued a total of 21,281,478 shares, 5,000,000 of which were purchased for $0.02 per share, the remainder of which were issued as bonus shares. The maturity date was extended to 2018.
- There is no change in the value of in the debt.
- The equity value was increased to $0.05 per share which is the weighted average cash raise price throughout 2016, resulting in an unrealized gain of $964,074.

Attorneys Title Guaranty Fund Inc. (ATGF)

- ATGF is a title insurance services company based in in the United States.
- The Company currently values the common shares at $200,000. A director and officer of the Company, is on the board of directors of ATGF.
- There is no change in the value of the equity.

Foothills Development Inc.

- Foothills is a real estate holding company based in the United States.
- It is a 100% owned by the Company. Foothills holds a 25% interest in Fletcher Business Park LLC through its 51.0% ownership in Robith LLC. Fletcher Business Park LLC operates a commercial building with 896,814 square feet in North Carolina.
- A recent market appraisal was completed for the underlying rental property.
- There is no change in value of the equity since meeting the criteria of an investment entity.

MariCann Inc.

- MariCann Inc. a licensed producer of medicinal marijuana based in Langton, Ontario
- On December 19, 2016, the Company purchased 100 units at a price of $1,000 per unit, with each unit consisting of 1 debenture and 500 warrants.
- There is no change in value in the convertible debt.

Poydras Gaming Finance Corp. (Poydras)

- Poydras is a publicly traded company that finances slot machines across 25 casinos primarily in Oklahoma and Texas in the U.S.A.
- The Company currently holds 3,672,142 shares.
- This investment is valued using the closing price on the Toronto Stock Exchange Venture.

Smart Employee Benefits Inc. (SEB)

- SEB is a publicly traded company engaged in providing software-enabled services in the areas of employee benefits transaction processing across Canada.
- The Company currently holds 1,640,000 shares as well as options and warrants.
- This equity is valued using the closing price on the Toronto Stock Exchange Venture.
- This options and warrants are valued using Black Scholes.

Solace Health Inc. (Solace)

- Solace is in the medical marijuana industry with a focus on research and the advancement of cannabis for pharmaceutical purposes.
- In December 2016, the Company subscribed for 449,438 shares in Solace at a price of $0.45 per share for a total of $200,100.
- There is no change in value in the equity.

Somersby Park 2010 Limited Partnership (Somersby)

- Somersby is a real estate holding company based in the United States.
- The Company owns 64.7% of the equity of Somersby which owns 39 vacant lots in a fully serviced mountain community in Henderson county, North Carolina.
- The underlying lots have been valued based on sales of similar lots in the past 18 months. There is no change in value of the equity since meeting the criteria of an investment entity.

Spectra7 Microsystems Inc. (Spectra 7)

- Spectra7 is a publicly traded company that delivers bandwidth, speed and resolution to enable industrial design for consumer electronics manufacturers in virtual reality, augmented reality, wearable computing, data centers and ultra-high definition displays.
- The Company currently holds 2,793,704 shares of Spectra7.
- This investment is valued using the closing price on the Toronto Stock Exchange.

The Hydropothecary Corporation (Hydropothecary)

- Hydropothecary is a Quebec based licensed ACMPR (Access to Cannabis for Medical Purposes Regulations) that is able to cultivate and sell marijuana products.
- In May 2014, the Company purchased 166,666 common shares of the Hydropothecary for $3.00 per share, a total price of $500,000. Through additional purchases and conversions, the Company now owns a total of 333,716 shares.
- The Company also owns additional 95,184 warrants at a strike price of $4.50.
- All prices and numbers listed above are prior to a 1:6 consolidation which occurred March 15, 2017.
- The equity value was increased to $4.50 per share as per the most recent equity raise, resulting in an unrealized gain of $252,271.
- The warrants are revalued using Black Scholes resulting in unrealized gains of $176,300.

The Intertain Group Limited (Intertain)

- Intertain is a publicly traded company that offers online gaming.
- The Company currently holds 10,000 shares of Intertain.
- This investment is valued using the closing price on the Toronto Stock Exchange.

WeedMD RX Inc.

- WeedMD RX Inc. is a licensed producer of medical marijuana operating in Aylmer, Ontario.
- In December 2016, the Company purchased 50 units of convertible debt at a price of $1,000 per unit convertible at a strike price of $0.75.
- There was an unrealized loss of $1,000 during the year.

Xylitol Canada Inc. (Xylitol)

- Xylitol is a consumer packaged goods business focused on an assortment of natural-sweetener-based products.
- The Company purchased a total of $885,000 in convertible debt maturing in 2020 yielding 15% convertible at $0.10 per share. The conversion price will ratchet down to the equity raise price if that level is lower than the current $0.10 conversion price.
- As part of the convertible debt purchase, the Company received 8,885,000 warrants at a strike price of $0.08.
- The Company also purchased 1,000,000 shares at $0.025.
- As part of a fiscal advisory agreement signed in April 2016 the Company received 3,100,000 options at a strike price of $0.08.
- In return for assisting in the raise of funds for Xylitol, the Company received 238,500 warrants at a strike price of $0.08.
- All prices and numbers listed above are prior to a 5:1 consolidation, which occurred March 6, 2017.
- The equity is valued using the closing price on the Toronto Stock Exchange Venture.
- There is no change in the value of the convertible debt.
- The options and warrants are valued using Black Scholes.

1. Nature of Business

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

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

2. Summary of Significant Accounting Policies

Statement of Compliance

These consolidated financial statements, are prepared, in accordance with International Financial Reporting Standards ("IFRS") and IFRS interpretations as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Company's Board of Directors on May 1, 2017.

Basis of Presentation

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

Status as Investment Entity

The following are the criteria within IFRS 10, Consolidated Financial Statements, which the Company used to evaluate and determine that it meets the definition of an Investment Entity,

a) Obtain funds from one or more investors for the purpose of providing those investor(s) with investment management services.

b) Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.

c) Measures and evaluates the performance of substantially all its investments on a fair value basis.

The Company has evaluated the above criteria and determined that it meets the definition of an Investment Entity, and thus measures its investments at fair value.

As a result of meeting the definition of an Investment Entity all subsidiaries which otherwise would have been consolidated are carried at fair value. All other financial instruments previously designated as AFS and loans and receivables cannot be redesignated to fair value through profit or loss.

This is the first financial statement in which the Company is reporting as an Investment Entity. The results of this change are disclosed in Note 3.

2. Summary of Significant Accounting Policies, continued

Use of Estimates and Judgements

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

- Determination of investment entity status – Management exercises judgement in applying criteria in IFRS10.
- Impairment of assets and provision for loans, notes and convertible debentures receivable losses – Management exercises judgement to determine whether indicators of impairment exist, and if so, management must estimate the timing and amount of future cash flows from amounts receivable.
- Valuation of deferred income tax assets – The valuation of deferred income tax assets requires judgement on their recoverability. Such judgements are made based on management's estimate on the timing and amount of the Company's future taxable earnings.
- Valuation methodology of level 2 and level 3 investments. Refer to note 9 for more details.

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

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e. the date that the Company commits to purchase or sale of the asset. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

All new investments held by the Company are designated as FVTPL upon initial recognition. Certain legacy loans and receivables continue to be recorded at amortized cost or classified as AFS. The Company includes equities, loans and receivables, and other interest-bearing investments in this category. These financial assets and liabilities are designated upon initial recognition on the basis that they are part of a group of financial instruments that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Company.

Financial Assets

Financial assets are classified into one of following categories: FVTPL, loans and receivables and available for sale.

All financial instruments are measured at fair value except for loans and receivables which are measured at amortized cost, using the effective interest method where applicable. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: FVTPL financial assets are measured at fair value and changes in fair value are recognized in net income; available for sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

2. Summary of Significant Accounting Policies, continued

Financial Assets, continued

a) Cash, Short-Term Investments, Derivatives and Conversion Feature of Convertible Debt:

Cash, short-term investments and conversion feature of convertible debt are classified as FVTPL. Cash and cash equivalents consist of cash on hand and short-term investments with remaining maturities of less than three months.

b) Loans and Receivables:

Accounts receivable, and certain debt portion of convertible debentures are designated as loans and receivables which are measured at amortized cost, subject to impairment reviews.

c) Convertible Debenture Receivable

When the Company holds debentures that are convertible into the issuer's equity shares at the Company's option, the equity conversion feature represents an embedded option written by the issuer on its equity shares. The convertible debenture is classified as FVTPL and recorded at fair value. For legacy convertible debentures, the embedded derivative is classified as FVTPL, with the debenture being classified as loans and receivables.

d) Investments in Publicly Traded Companies

Investments in publicly traded companies have been designated as FVTPL and are recorded in the statements of financial position at fair value. Fair value is determined directly by reference to quoted market closing prices in active markets. In instances where securities are subject to restrictions on sale or transfer, the securities are recorded at amounts discounted from market value to a maximum of 20%. In determining the discount for such investments, the Company considers the nature and length of the restriction.

Included in investments is the fair value of the Company's investments in share purchase warrants and options of other corporations which are designated at FVTPL. Where the value of these warrants and options is not publicly quoted in active markets, the Company employs the Black-Scholes pricing model to determine fair value.

e) Investments in Private Companies

Privately-held investments have been designated as fair value through profit or loss (other than those that had previously been classified as available for sale, prior to the Company's change to an investment entity) and are recorded in the statements of financial position at fair value. Fair value is measured using one or more of the valuation indicators described below. These are included in level 2 or 3 of the financial hierarchy. The determinations of fair value of the Company's privately-held investments are subject to certain limitations.

1. Summary of Significant Accounting Policies

Financial Liabilities

Financial liabilities are classified into one of two categories: FVTPL or other financial liabilities.

Accounts payable and accrued liabilities and due to brokers are classified as other financial liabilities which are measured at amortized cost. Syndicated debt is designated as FVTPL, as the Company's investment portfolio is evaluated on a fair value basis.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or derived from such prices. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgement, the degree of which is dependent on a variety of factors. The various valuation techniques utilized by management are described in note 9.

The fair value measurements underlying the carrying value of investments and marketable securities are classified within a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy has the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. The type of investments and marketable securities included in this category are publicly traded equities, debt and securities sold short;

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. The type of investments included in this category include less liquid and restricted equity securities and certain over-the counter derivatives; and

Level 3 Inputs for the asset or liability that are not based on observable market data. Investments classified within this category consist of private equity and debt securities.

Impairments

Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that have occurred after the initial recognition of the loan, the estimated future cash flows of the loan have been affected. Objective evidence of impairment of a loan could include: significant financial difficulty of the borrower, breach of contract, such as a default or delinquency in interest or principal payments; or it becomes probable that the borrower will enter bankruptcy or other financial reorganization. At a minimum of each reporting period, management assesses whether there are indicators that loan loss provisions are required for each loan in the Company's loan portfolio based on economic and market trends, the impairment status of loans, market value of the asset, and appraisals, if any, of the security underlying loans receivable. If these factors indicate that the carrying value of loans may not be recoverable, or the repayment of contractual amounts due may be delayed, management compares the carrying value of the affected loans with the discounted present value of their estimated future cash flows using the original effective interest rate.

To the extent that discounted estimated future cash flows are less than the loan carrying value, a specific loan loss provision is recorded. Any subsequent recognition of interest income on a loan for which a

2. Summary of Significant Accounting Policies

Financial Liabilities, continued

specific loan loss provision exists is calculated at the discount rate used in determining the impairment, which may differ from the contracted loan interest rate.

Should the cash flow assumptions used to determine the original loan loss provision change, the loan loss provision may be reversed. A loan loss provision is reversed only to the extent that the revised carrying value of the loan does not exceed its amortized cost that would have been recorded had no loan loss provision been recognized.

Provisions

The Company recognizes provisions when a legal or constructive obligation exists as a result of past events, when it is probable that there will be an outflow of economic benefits from the entity, and a reliable estimate of the amount of the obligation can be made. When a provision is expected to settle beyond the immediate term, the provision is measured at the present value of future cash flows, discounted at prevailing market interest rates. With the passage of time, additional expenses are recorded as the provision accretes.

Investments in Associates and Subsidiaries

The Company has determined that it meets the definition of an "investment entity" and as a result, associates and subsidiaries are measured at FVTPL, and are therefore not consolidated.

Refer to Note 8 for specific disclosures related to investments in associates and subsidiaries.

Revenue Recognition

Interest income is recorded on an accrual basis using the effective interest rate method. Under the effective interest rate method, the interest rate realized is not necessarily the same as the stated loan interest rate. When a loan is classified as impaired, the original expected timing and amount of future cash flows may be revised to reflect new circumstances. These revised cash flows are discounted using the original effective interest rate to determine the impaired carrying value of the loan. Interest income is thereafter recognized on this impaired carrying value using the original effective interest rate. Additional changes to the amount or timing of future cash flows could result in further loan losses, or the reversal of prior loan losses, which would also impact the amount of subsequent interest income recognized. Interest and fees collected in advance are recorded as deferred revenue and recognized in income. Loan commitment, origination, structuring fees and bonuses are recorded as income over the life of the loan.

Purchases and sales of investments are recognized on the settlement date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the statement of comprehensive loss.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed to recognize the full realized gain or loss in the period of disposition. All transaction costs associated with the acquisition and disposition of investments are expensed to the statement of comprehensive loss as incurred.

2. Summary of Significant Accounting Policies

Revenue Recognition, continued

Dividend income is recorded on the ex-dividend date and when the right to receive the dividend has been established. Other income and income from securities lending are recorded on an accrual basis.

Management and consulting fees are recognized over the period in which the services are provided.

Foreign Currency Translation

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in net comprehensive loss of the period. Financial assets measured at fair value are translated at exchange rate in effect at fair value measurement date.

Income Taxes

Income tax expense comprises current and deferred components. Tax is recognized in net income, except to the extent it relates to items recognized in OCI or directly in equity. In that case tax is recognized directly in OCI or equity. Current income tax expense is the expected tax payable for the current year's taxable income based on rates enacted or substantively enacted at the period end and any adjustments to previous estimates.

Deferred Income Taxes

Deferred income taxes are calculated using the asset and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in expected future tax rates is recognized in net (loss) income in the period that includes the date of substantive enactment of the revised tax rates. Deferred tax assets are recognized to the extent that it is probable that they will be realized.

Stock-Based Compensation Plan

The Company grants stock options to employees, officers and directors. The board of directors grant such options with lives up to 5 years, with vesting periods determined at its discretion and at exercise prices equal to or greater than the Company's closing common share price on the date preceding that of the grant date.

The Company determines the fair value of options granted using the Black-Scholes option pricing model. The fair value of options granted incorporates an assumption for expected option forfeitures and is determined on the grant date. The fair value of options on each vesting date is recognized as stock-based compensation expense over the vesting period.

(expressed in Canadian Dollars)

2. Summary of Significant Accounting Policies, continued

Earnings (loss) per Share

Basic earnings (loss) per share are calculated using the weighted average number of multiple and subordinate voting shares outstanding during the period.

Diluted earnings per share is calculated by dividing net earnings available to shareholders for the period by the diluted weighted average number of multiple and subordinate shares outstanding during the period. The diluted weighted average number of shares includes the potential dilution from shares issuable through stock options, if dilutive. This assumes that the proceeds from any shares issued on the exercise of stock options are used by the Company to repurchase and cancel shares at the average market price of the Company's

share price for the period. As such, where the strike price of stock options exceeds the average market price of the Company's shares for the reporting period, the inclusion of these shares under the treasury stock method would be anti-dilutive, so these shares are excluded from the calculation of the weighted average number of diluted shares outstanding.

In years that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

3. Change to investment entity

The Company's change to an investment entity during the year is accounted for prospectively and requires the Company to deconsolidate subsidiaries. This resulted in the recording of gains of $587,093 through the deconsolidation of its 51% ownership of Robith LLC and its 64.7% ownership of Somersby Park 2010 Limited Partnership. At the same time the fair values of these investments were adjusted and the change of values were recorded as gain on deconsolidation through the statement of comprehensive income.

Assets and liabilities derecognized	$	362,296
Non-controlling interest-prior year		410,345
Non-controlling interest current year		(185,548)
Gain on deconsolidation	$	587,093

As a result of the Company meeting the definition of an investment entity, all investing activities related to the Company's investment portfolio have been reclassified as operating activities within the statements of cash flows. This more accurately reflects the operations of the Company.

4. Short term investments

The Company has outstanding $40,000 (December 31, 2015 - $40,000) in a short-term guaranteed investment certificate with its financial institution. These investments are held as security on its credit card line with a Schedule A Canadian bank.

(expressed in Canadian Dollars)

5. Investments – FVTPL

The following chart lists the investments carried at FVTPL. See pages 7 – 10 for further details and note 9 for fair value measurement techniques and evaluations.

Investments	Market	Instrument	Financial instrument hierarchy	Fair Value 2016	Fair Value 2015
Auto finance repair company [note 15]	Subsidiary	Equity	Level 3	$ -	$ -
Foothills Development Inc. (3) [note 15]	Subsidiary	Equity	Level 3	1,582,051	1,085,872
MBMI Resources	Public	Equity	Level 1	193	-
Poydras Gaming Finance Corp	Public	Equity	Level 1	2,276,728	1,663,064
Smart Employee Benefits Inc	Public	Equity	Level 1	311,600	609,550
Smart Employee Benefits Inc	Public	Options	Level 3	52,459	111,632
Smart Employee Benefits Inc	Public	Warrants	Level 3	28,350	-
Solace Health Inc.	Private	Equity	Level 3	200,100	-
Somersby Park 2010 Ltd Partnership (1) (3)[note 15]	Subsidiary	Equity	Level 3	1,137,486	-
Spectra7 Microsystems Inc.	Public	Equity	level 1	1,061,608	1,272,466
The Hydropothecary Corporation [note 15]	Private (2)	Warrants	Level 3	176,300	-
The Intertain Group Limited	Public	Equity	Level 1	93,800	647,400
Xylitol Canada Inc.	Public	Equity	Level 1	25,000	-
Xylitol Canada Inc.	Public	Options	Level 3	49,338	-
Xylitol Canada Inc.	Public	Warrants	Level 3	150,585	-
3 TL Tech	Public	Equity	Level 1	-	222,550
Analytixinsight Inc.	Public	Equity	Level 1	-	149,220
Bison Gold	Public	Equity	Level 1	-	560
Greenspace Brands Inc.	Public	Equity	Level 1	-	362,600
Imperus Technology Corp	Public	Equity	Level 1	-	207,143
Totals				$ 7,145,598	$ 6,332,057

(1) in 2015 this investment was classified as Held For Sale.
(2) On March 22, 2017 The Hydropothecary Corporation began trading on the TSX Venture Exchange.
(3) Balances in 2015 were at cost as subsidiaries were consolidated.

6. Investments – Available for sale

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

Investment	Entity type	Instrument	Financial instrument hierarchy	Fair Value 2016	Fair Value 2015	
Advantagewon Oil Corp. [note 15]	Private	Equity	Level 3	$1,064,074	$ -	
Attorneys Title Guaranty Fund Inc. [note 15]	Private	Equity	Level 3	200,000	200,000	(2)
The Hydropothecary Corporation [note 15]	Private (1)	Equity	Level 3	1,501,718	666,666	
Totals				**$2,765,792**	**$ 866,666**	

(1) On March 22, 2017 The Hydropothecary Corporation began trading on the TSX venture exchange.
(2) In 2015 this investment was carried at cost less impairment.

(expressed in Canadian Dollars)

7. Loans and convertible debentures

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

Loans and convertible debentures at Amortized Cost	Instrument	Interest Rate	Term	Financial instrument hierarchy	Carrying Value 2016	Carrying Value 2015
Valued at Amortized Cost						
Advantagewon Oil Corp. [note 15]	Convertible debt	24%	> 1 year	Level 3	$ 527,012	$ 707,012
The Hydropothecary Corporation [note 15]	Convertible debt	18%	> 1 year	Level 3	-	386,588
Promissory Note - A Griffis	Term debt	12%	n/a	Level 3	-	100,000
Totals					$ 527,012	$ 1,193,600

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

Loans and convertible debentures at FVTPL	Instrument	Interest Rate	Term	Financial instrument hierarchy	Fair Value 2016	Fair Value 2015	
1616 Media Limited	Convertible debt	8%	< 1 year	Level 3	$ 32,500	$ -	
Auto repair finance company [note 15]	Term debt	15%	Prom. notes ending 6-33 months	Level 3	3,235,000	2,200,000	(1)
MariCann Inc.	Convertible debt	10%	< 1 year	Level 3	100,000	-	
The Hydropothecary Corporation [note 15]	Convertible debt	18%	> 1 year	Level 3	-	113,412	
WeedMD RX Inc.	Convertible debt	10%	< 1 year	Level 3	49,000	-	
Xylitol Canada Inc.	Convertible debt	15%	> 1 year	Level 3	885,000	-	
Totals					$ 4,301,500	$ 2,313,412	

(1) Loan was carried at amortized cost in 2015 and reclassified to FVTPL once the company met the criteria to be an Investment Entity

See Schedule of Investments on pages 7 - 10 for further details.

As at December 31, 2016 any interest due was collected or collectible. Management has determined that none of the convertible debt is impaired.

On December 23, 2013, the Company completed a 15% secured credit facility for up to $2,000,000 to the Auto repair finance company. On June 16, 2016, this facility was increased to $4,000,000. The terms of the deal included a conversion of $600,000 of debt for equity at the full discretion of the Company once $1,000,000 was advanced. This conversion was exercised on December 9, 2016. The credit facility is used to expand company's lending program. The Company has a general security agreement executed with the borrower. As at December 31,2016 the loan balance was $3,235,000 (2015 - $2,200,000).

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

Past Due, Renewals, Impairments and Provisions

Loans are considered past due when the loan is outstanding past the scheduled maturity date. This may arise in the normal course of business as a result of various factors including refinancing delays. As at December 31, 2016, there was $nil (2015 - $807,012) loans considered past due and not impaired.

At December 31, 2016, the total estimated fair value of the collateral of impaired loans, net of specific allowances is $nil (December 31, 2015 - $nil). Management estimates the fair value of the collateral taking into account a number of factors including the market value of securities held, real estate appraisals and management's knowledge of the collateral, credit, financial and real estate markets. In assessing the adequacy of the specific loan loss provision, management takes into account likely realizable values, legal costs and incorporates a time value and credit risk component into estimated future cash flows. Additional

(expressed in Canadian Dollars)

7. Loans and convertible debentures, continued

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

Write-downs

The Company has recorded specific loan loss write-downs (net of recoveries) of $nil for the year ended December 31, 2016 ($608,357 for the year ended December 31, 2015).

Loans renewed or renegotiated during the period

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

During the year $527,012 in loans were renegotiated and are considered to be in good standing.

8. Subsidiaries and associates

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

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

Foothills Development Inc. (Foothills) owns 100% of Newborn Realty Corporation which owned real estate in United States. The sole property was written down to $0 at December 31, 2015. The property was later sold in 2016 for net proceeds of $148,882 USD ($191,358 CAD).

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

Somersby Park 2010 Limited Partnership (Somersby) owns vacant real estate in the United States. In 2016, there were 3 individual lot sales.

In 2016, the Company converted $600,000 of debt to a 50% equity position in the Auto repair finance company. The equity value was decreased to $0 as the company continues to incur annual losses but generating positive cash flow. The Company also holds term debt of $3,235,000, which through various promissory notes is due within 6 to 33 months. Interest is received monthly.

(expressed in Canadian Dollars)

9. Fair Value Measurements

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

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

As at December 31, 2015	Level 1	Level 2	Level 3
Cash	$ 697,205	$ -	$ -
Investments - FVTPL	5,246,184	-	-
Investments - AFS	-	666,667	-
Loans and convertible debt - FVTPL	-	113,411	-
	$ 5,943,389	**$ 780,078**	**$ -**

Note: in prior year investment in Foothills Deveopment Inc. , ATGF, and the term loan with Auto Co. were not carried at FV and therefore have not been included in the Levels Hierarchy. See notes 6 and 7 for more details.

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

Fair value estimation

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

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

Listed securities

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

Unlisted securities

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

9. Fair Value Measurements, continued

For unlisted equity instruments:

- Investments are valued at cost for a limited period after the date of acquisition, if the purchase price remains representative of the fair value at the reporting date; otherwise, investments are valued using one of the other methodologies detailed below.

- Investments in which there has been a recent or in-progress funding round involving significant financing from external investors are valued at the price of the recent funding, whereby the various shareholder categories rights are taken into account in the valuation. The price is adjusted, where appropriate, if an external investor is motivated by strategic considerations.

- Investments in which there has been a recent private secondary market trade of meaningful volume and the transaction is undertaken by a sophisticated, arm's-length investor are valued at the price of the recent trade and are adjusted, as appropriate, if the purchaser is motivated by strategic considerations.

- Investments in established companies for which there has not been any recent independent funding or secondary private market transaction are valued by using revenue or earnings multiples. When valued on a multiple basis, the maintainable revenue or earnings of a portfolio company are multiplied by an appropriate multiple. The multiple is derived from the market capitalization of a peer group. Companies are selected for the peer group that are comparable with the portfolio company to be valued as to their business model and size. If the portfolio company to be valued differs in certain aspects compared with features of companies in the peer group, discounts or premiums are applied to the relevant multiple or resulting valuation.

- Investments in early-stage companies not generating sustainable revenue or earnings and for which there has not been any recent independent funding are valued using alternative methodologies. The Company considers investee company performance relative to plan, going concern risk, continued funding availability, comparable peer group valuations, exit market conditions and general sector conditions and calibrates its valuation of each investment as appropriate.

- For public company warrants, options and conversion features on debt (i.e., the underlying security of which is traded on a recognized stock exchange), valuation models such as Black-Scholes are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility. To the extent that the market inputs are insufficient or unreliable, the warrants are valued at their intrinsic value, which is equal to the higher of the closing price of the underlying security less the exercise price of the warrant, or nil. For private company warrants, the underlying security is not traded on a recognized stock exchange, therefore fair value is determined consistent with other investments that do not have an active market, as described above.

- Loans, debentures and promissory notes issued by investees are generally valued at the price at which the instrument was issued. The Company regularly considers whether any indications of deterioration in the value of the underlying business exist, which suggest that the debt instrument will not be fully recovered. The Company may employ discounted cash flow analysis, market comparable analysis of listed debt instruments with similar credit quality or liquidation value analysis to determine the fair value of the debt instrument.

(expressed in Canadian Dollars)

9. Fair Value Measurements, continued

For unlisted equity instruments, continued

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

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

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

	2016	2015
Opening balance	$ -	$ -
Transfers in	4,748,007	-
Transfers in from Level 2	666,667	
Purchases	4,185,380	-
Conversion of debt	(600,000)	-
Investments received for services	49,338	-
Gain on deconsolidation	587,093	-
Dispositions	(103,932)	-
Unrealized gains/losses - net income	(304,937)	-
Unrealized gains/losses - other comprehensive income	1,216,345	-
Closing balance	$ 10,443,961	$ -

During the year ended December 31, 2016 there were no transfers between levels 1 and 2.
During the year ended December 31, 2015 there were no transfers between levels 1, 2 or 3.

(expressed in Canadian Dollars)

9. Fair Value Measurements, continued

The table below presents the valuation techniques and the nature of significant inputs used to determine the fair values of the Level 3 investments as at December 31, 2016:

Investment	Fair Value	Instrument	Valuation method	Inputs	Range	Fair Value Range Lower	Fair Value Range Upper	Footnote
1616 Media Limited	$ 32,500	Convertible Debt	Transaction price	Recent purchase price	+/- 10%	$ 29,250	$ 35,750	4
Auto repair finance company	3,235,000	Term debt	Transaction price	Recent purchase price	+/- 10%	2,911,500	3,558,500	4
Advantagewon Oil Corp.	1,064,074	Equity	Transaction price	Third party transactions	+/- 10%	957,667	1,170,481	2
Attorneys Title Guaranty Fund Inc.	200,000	Equity	Earnings multiple	5x net earnings multiple	3x / 7x	133,760	312,106	5
Foothills Development Inc.	1,582,051	Equity	Appraisal value	Market sales and capitalization rates	+/- 10%	1,423,846	1,597,872	3
MariCann Inc.	100,000	Convertible Debt	Transaction price	Purchase price/Third party transactions	+/- 10%	90,000	110,000	4
Smart Employee Benefits Inc	52,459	Options	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	33,595	57,289	1
Smart Employee Benefits Inc	28,350	Warrants	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	15,418	33,126	1
Solace Health Inc.	200,100	Equity	Transaction price	Purchase price/Third party transactions	+/- 10%	180,090	220,110	4
Somersby Park 2010 Ltd Partnership	1,137,486	Equity	Market prices	Recent sales	+/- 10%	1,023,737	1,251,234	3
The Hydropothecary Corporation	1,501,718	Equity	Transaction price	Purchase price/Third party transactions	+/- 10%	1,351,546	1,651,890	2
The Hydropothecary Corporation	176,300	Warrants	Black Scholes model	Equity raise price, peer volatility, risk free rate	+/- 10%	158,670	193,930	2
WeedMD RX Inc.	49,000	Convertible Debt	Transaction price	Purchase price/Third party transactions	+/- 10%	44,100	53,900	4
Xylitol Canada Inc.	49,338	Options	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	46,682	51,842	1
Xylitol Canada Inc.	150,585	Warrants	Black Scholes model	Market prices, volatility, risk free rate	+/- 10% volatility	142,915	157,774	1
Xylitol Canada Inc.	885,000	Convertible Debt	Transaction price	Recent purchase price	+/- 10%	796,500	973,500	2
	$ 10,443,961							

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

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

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

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

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

(expressed in Canadian Dollars)

10. Due to Brokers

As at December 31, 2016, the amounts due to brokers totalled $17,146 (2015 - $95,498). Due to brokers consists of margin borrowings collateralized by the Company's investments held at brokers. In the normal course of business, the Company uses the margin borrowings to finance some of its investment activities. Interest is charged on the outstanding balance.

11. Share Capital

Authorized:
Unlimited multiple voting shares ("MVS")
Unlimited subordinate voting shares ("SVS")
Unlimited preferred shares

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

Shares issued and outstanding:

	December 31, 2016		December 31, 2015	
	No. of shares	Amount	No. of shares	Amount
Multiple voting shares	1,035,719	$1,888,523	1,035,719	$1,888,523
Subordinate voting shares	53,118,743	25,219,218	53,118,743	25,219,218
	54,154,462	$27,107,741	54,154,462	$27,107,741

On March 12, 2015, the Company issued 11,994,355 subordinate voting shares at a price of $0.45 per share for gross proceeds of $5,397,460. Associated share issuance costs totaled $462,363.

On June 3, 2015, the Company issued 105,000 subordinate voting shares to a director who exercised his stock options for gross proceeds of $21,000.

(expressed in Canadian Dollars)

11. Share Capital, continued

Stock options outstanding

	December 31, 2016		December 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the year	2,138,333	$ 0.40	973,333	$ 0.29
Options granted during the year	-	-	1,270,000	0.47
Options cancelled during the year	(273,333)	0.25	-	-
Options exercised during the year	-	-	(105,000)	0.20
Options forfeited during the year	(400,000)	0.47	-	-
Balance, end of the year	1,465,000	$ 0.41	2,138,333	$ 0.40

	Options Outstanding December 31, 2016		Options Excercisable December 31, 2016	
Exercise Price	Number of Options	Weighted Average Life (years)	Number of Options	Weighted Average Life (years)
$0.20	240,000	1.41	240,000	1.41
$0.40	355,000	2.07	355,000	2.07
$0.47	870,000	4.33	480,000	3.34
	1,465,000	2.7	1,075,000	2.5

	Options Outstanding December 31, 2015		Options Excercisable December 31, 2015	
Exercise Price	Number of Options	Weighted Average Life (years)	Number of Options	Weighted Average Life (years)
$0.20	443,333	2.41	443,333	2.41
$0.40	425,000	2.96	425,000	2.96
$0.47	1,270,000	4.33	350,000	4.33
	2,138,333	3.7	1,218,333	3.2

On April 29, 2015, the Company granted 1,210,000 options to certain employees and management and on August 25, 2015 the Company granted a further 60,000 options to certain employees. The exercise price of all the options is $0.47. The options are subject to a four month hold period, options vest over 4 years and have a five-year term. The fair value assigned was estimated using the Black Scholes option pricing model with the following weighted average assumptions: share price $0.47, dividend yield 0%, expected volatility based on historical volatility 93%, a risk-free interest rate of 0.96%, and an expected maturity of five years. The stock-based compensation related to these vested options for 2016 is $47,836 (2015 - $219,302).

On June 3, 2015, a director exercised 105,000 options for gross proceeds of $21,000. The market price for the Company shares was $0.42 on June 3, 2015.

(expressed in Canadian Dollars)

12. Stock-Based Compensation Plan

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

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

13. Net Income (loss) per Share

Net income (loss) per share has been calculated using the weighted average number of multiple and subordinate voting shares outstanding during the period. Diluted income (loss) per share is calculated in a similar manner, except that the weighted average number of multiple and subordinate voting shares outstanding is increased to include potentially issuable subordinate voting shares from the assumed exercise of stock options, if materially dilutive. The potential effect of the exercise of stock options does not impact the presentation of the basic net income (loss) per share for the years ended December 31, 2016 and 2015.

14. Compensation of Key management

The remuneration of directors and other key management personnel of the Company for the years ended December 31 was as follows:

	2016	2015
Salaries	$ 341,250	$ 535,080
Options	40,677	219,302
	$ 381,927	$ 754,382

(expressed in Canadian Dollars)

15. Related Party Transactions

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

	Income		Accounts Receivable		Accounts Payable		Investment	
Related party	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Foothills Developments Inc	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Newborn Realty Corporation (1)	-	-	-	-	-	2,978,529	-	-
Newborn Ranch LLC (1)	-	-	-	673,123	-	-	-	-
Somersby Park 2010 Limited Partnership	-	-	161,893	204,507	-	-	1,137,486	772,079
Robith, LLC	175,500	165,000	343,037	345,985	-	-	1,582,051	1,085,872
Auto repair finance company	511,204	246,683	98,116	28,932	-	-	3,235,000	2,200,000
AdvantageWon Oil Corp.	152,128	188,905	26,243	106,090	-	-	1,591,086	707,012
Attorney Title Guaranty Fund	-	-	-	-	-	-	200,000	200,000
The Hydropothecary Corporation	105,900	75,382	-	22,782	-	-	1,678,019	1,166,667

(1) These balances were written off during 2016

An employee of the Company is related to a member of the management team. This employee is responsible for bookkeeping and administrative functions and received salary of $12,000 (2015 - $nil).

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

The Company often receives the right to nominate a member to the Board of Directors of companies to which it provides an investment. The nominees may be of the Company, and accordingly, the investee company may become related to the Company. The table below identifies where an employee, officer or director of the Company hold a position with an investee company.

Investment	Ownership	Postion held
Foothills Developments Inc	100%	Director & Officer
Newborn Realty Corporation	100%	Director & Officer
Newborn Ranch LLC	100%	Director & Officer
Somersby Park 2010 Limited Partnership	64.7%	Director & Officer
Robith, LLC	51%	Director & Officer
Auto repair finance company	50%	Director
AdvantageWon Oil Corp.	19%	Director
Attorney Title Guaranty Fund	16.10%	Director
The Hydropothecary Corporation	<10%	Director

16. Income Taxes

a) The following table reconciles the expected income tax recovery (provision) at the Canadian federal and provincial statutory rate of 26.5% (2015 – 26.5%) to the amounts recognized in the statement of comprehensive income for the years ending December 31:

	2016	2015
Net income (loss) before recovery of income taxes	$ 847,303	$ (4,711,873)
Basic tax amount at 26.5% (2015 – 26.5%)	224,535	(1,248,646)
Permanent differences	(182,894)	620,808
Tax rate changes and other adjustments	555,573	141,468
Temporary differences not recognized	(597,214)	486,370
Income tax provision	$ -	$ -
Current income tax provision	$ -	$ -

(expressed in Canadian Dollars)

16. Income Taxes, continued

b) Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and carrying values of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following items:

Deferred income tax	2016	2015
Non-capital loss carry forwards – Canada	$ 5,587,000	$ 4,904,000
Non-capital loss carry forwards – U.S.	-	2,122,500
Capital losses - Canada	23,248,000	22,592,200
Investments	(2,616,000)	3,279,200
Share issue costs	138,000	595,900
	$ 26,357,000	$ 33,493,800

The non-capital losses expire as noted in the table below. The capital losses carry forward indefinitely. The other deductible temporary differences do not expire under the current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

c) The Company's non-capital Canadian tax losses expire as follows:

2028	$ 589,000
2029	864,000
2030	312,000
2031	820,000
2032	556,000
2033	873,000
2034	1,111,000
2035	399,000
2036	63,000
	$ 5,587,000

17. Risk Management and Sensitivity Analysis

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

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

(expressed in Canadian Dollars)

17. Risk Management and Sensitivity Analysis, continued

Capital Management

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

Credit Risk

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

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

As at December 31, 2016, gross accounts receivable of $237,229 were past due and not impaired (December 31, 2015 - $279,405). Gross accounts receivable of $nil were past due and considered impaired (December 31, 2015 - $47,305).

The maximum exposure to credit risk is:

	December 31,2016	December 31,2015
Accounts receivable, excluding HST	$ 347,217	$ 239,748
Loans and convertible debentures	4,828,512	3,507,012
Total Credit Exposure	$ 5,175,729	$ 3,746,760

A significant amount of the Company's credit exposure lies with Auto repair finance company. The debt at December 31, 2016 is $3,235,000. This accounts for 21% of the Company's total investments. The Company holds a general security agreement with Auto repair finance company and ranks first among other investors. The loan portfolio of Auto repair finance company is secured by the Retail Storage and Liens Act of Ontario which gives the lien holder first right over any other form of lien. The Company closely monitors LTV (loan to value) coverage as well as loan default rates. The credit risk of the debt is linked to the credit risk of the underlying auto repair loans. Management continuously evaluates and monitors the credit worthiness of such auto repair loans.

(expressed in Canadian Dollars)

17. Risk Management and Sensitivity Analysis, continued

Market Risk

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

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

The following table shows the estimated sensitivity on the statement of comprehensive income for the year ended December 31, 2016 from a change in closing price of the Company's publicly-listed investments of $4,049,661 with all other variables held constant as at December 31, 2016:

Percentage of Change in Closing Prices	Change in comprehensive income from % increase in closing price	Change in comprehensive income from % decrease in closing price
5%	$ 202,483	$ (202,483)
10%	404,966	(404,966)

Interest rate risk

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

As at December 31, 2016, the Company holds the following fixed-rate debt instruments:

(a) $1,593,512 (December 31, 2015 – $1,207,012) in convertible debentures with a weighted average interest rate of 17.37% (December 31, 2015 – 21.51%) and a weighted average term to maturity of approximately 2.33 years (December 31, 2015 – 1.08 years);

(b) $nil (December 31, 2015 – $100,000) in term debt with an interest rate of 2%. As of December 31, 2015, the debt was overdue and was repaid during the year ended December 31, 2016; and

17. Risk Management and Sensitivity Analysis, continued

Interest rate risk, continued

(c) $3,235,000 (December 31, 2015 – $2,200,000) in in term debt which was issued in several tranches with an interest rate of 15% (December 31, 2015 – 15%) that are due 3 years from the date of each advance. As at December 31, 2016 the traches mature within 6-33 months of year end [December 31, 2015 – 12-21 months]. As at December 31, 2015 $600,000 of the debt was convertible into equity. This option was exercised during the year ended December 31, 2016.

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

As at December 31, 2016, if interest rates were higher by 1% per annum, the potential effect to the Company would be a decrease in net income of approximately $48,000 (December 31, 2015 – $35,000). If interest rates were lower by 1% per annum, the potential effect would be an increase in net income of approximately $48,000 (December 31, 2015 – $35,000).

Liquidity Risk

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

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

The Company's accounts payable, accrued liabilities and due to broker, all have contractual maturities of less than 30 days and are subject to normal trade terms. The syndicated loans carry similar terms and conditions and have various terms ranging from 9 to 30 months.

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

Currency Risk

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

17. Risk Management and Sensitivity Analysis, continued

Currency risk, continued

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

The Company has cash and cash equivalents, certain receivables, convertible debentures and investments in companies denominated in a foreign currency. Sensitivity to a plus or minus 10 percent change in existing rates would increase or decrease the Company's net income by $289,000 (2015 - $243,000).

18. Contingencies

Contingent liabilities

The Company is the parent company of the general partner of GC Global Capital Lending Partners Limited Partnership and Somersby Park 2010 General Partner Inc. The General Partner has unlimited liability for the liabilities and obligations of the partnerships in excess of the contributions of the limited partners. As at December 31, 2016 and December 31, 2015 there were no outstanding liabilities or obligations for which the Company was contingently liable.

19. Subsequent Events

In April 2017, the Company amended the outstanding convertible loan with Advantagewon Oil Corp. to extend the term to April 30, 2018. Terms and conditions of the loan remain the same and the Company received a fee for the amendment.

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

In the first quarter of 2017, the Company advanced the Auto repair finance company a further $250,000 in 30 day promissory notes. These notes are not tied to the current debt facility but are intended to bridge the investee while they finalize the additional financing currently in progress, with a non-related third party.

20. New and Revised Standards and Interpretations

New standards and interpretations not yet adopted

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

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

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

(expressed in Canadian Dollars)

20. New and Revised Standards and Interpretations, continued

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

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

IFRS 16, Leases supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal

Form of a Lease. The effective date for IFRS 16 is January 1, 2019. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than those subject to the two exceptions listed below, will be recorded in the Statement of Financial Position with a "right of use" asset and a corresponding lease liability. This will impact the timing and classification related expenses, as lease costs will now be reflected in the depreciation of the right of use asset and interest on the lease liability. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases.

21. Prior year comparatives

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

22. Supplementary Cash Flow Information

Net change in non-cash working capital balances	**2016**	**2015**
Accounts receivable, interest, and dividends receivable	$ (241,062)	$ (152,953)
Prepaids	(5,500)	(2,880)
Accounts payable and accrued liabilities	2,156	(240,382)
	$ (244,406)	$ (396,215)
Interest received	$ 835,621	$ 531,565
Interest paid	78,957	29,412
	$ 914,578	$ 560,977