



FOUNTAIN ASSET CORP.
MANAGEMENT DISCUSSION & ANALYSIS
For the Year Ended December 31, 2018

The following discussion of performance, financial condition and future prospects should be read in conjunction with the audited consolidated financial statements of Fountain Asset Corp. (“Fountain Asset” or the “Company”) and notes thereto for the years ended December 31, 2018 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). This management discussion and analysis (“MD&A”) covers the last completed fiscal quarter and is dated as of April 25, 2019. All dollar amounts in this MD&A are reported in Canadian dollars, unless otherwise stated. Readers are encouraged to read Fountain Asset’s public information filings on SEDAR at www.sedar.com. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “FA”.

FORWARD-LOOKING STATEMENTS

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to possible events, conditions or results of operations of the Company, which are based on assumptions about future economic conditions and courses of action and which are inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “target”, “intend”, “could”, “might”, “should”, “believe”, and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to, statements with respect to the Company’s investment approach, objectives and strategy, including its focus on specific sectors; the structuring of its investments and its plans to manage its investments; the Company’s financial performance; and its expectations regarding the performance of certain sectors.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes that the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct. Some of the risks and other factors which could cause results to differ materially from those expressed in forward-looking information contained in this MD&A include, but are not limited to: the nature of the Company’s investments; the available opportunities and competition for its investments; the concentration of its investments in certain industries and sectors; the Company’s dependence on its manager and management team; risks affecting the Company’s investments; global political and economic conditions; investments by the Company in private issuers which have illiquid securities; management of the growth of the Company; exchange rate fluctuations; and other risks and factors discussed in this MD&A under “Risk Factors”.

Although the Company has attempted to identify important factors that could cause actual events or results to differ materially from those described in forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. Readers are cautioned that the foregoing list of risks and factors is not exhaustive. The forward-looking information contained in this MD&A is provided as at the date of this MD&A, based upon the opinions and estimates of management and information available to management as at the date of this MD&A, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law. Readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A.

NON-IFRS MEASURES

Throughout this MD&A, management uses terms which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other issuers; therefore, a description has been provided in the MD&A.

These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. Management believes that some non-IFRS measures are useful for investors to use to evaluate the performance of the Company without certain IFRS requirements. Specifically, management has included net asset value and adjusted net asset value as a non-IFRS measure. Net asset value is defined as total assets less total liabilities. Adjusted net asset value is defined as net asset value plus available tax loss pools available for future deductibility.

DESCRIPTION OF BUSINESS

Fountain Asset is a merchant bank which provides a range of merchant banking services to small and mid-size companies in North America in both the public and private markets. These services can include equity financing, asset-based lending, mergers and acquisitions advisory, operational management support and facilitating various debt and equity financing structures.

Fountain Asset takes a disciplined and systematic approach to investment and is guided by four core principles:

1. Deploying capital in private and public late stage, growth-oriented companies,
2. Creating shareholder value,
3. Generating profits through a combination of rising portfolio value and consistent income from debt transactions, and
4. Managing the overall risk framework of the Company.

Launched in 2003, Fountain Asset has invested in over 100+ companies providing bespoke capital solutions. The Company is not committed on any particular industry sector but rather is opportunistically focused on various industries such as oil and gas, gaming, manufacturing, retail, financial services, technology, cryptocurrency, marijuana and biotechnology. Fountain Asset invests in companies with proven products, market penetration and strong management teams that do not fit the investment criteria of the typical venture capital funds, traditional secured lenders or are too small for the private equity funds.

The Company's target investment profile includes:

- Private companies that have a reasonably demonstrated IPO plan so Fountain Asset can leverage "private to public value arbitrage".
- Early stage public companies that need to raise funds via PIPE or secondary deals.
- Selling shareholders that seek to divest significant stakes in companies that can be purchased at a discount.
- Companies with sustainable, growing revenues with existing, or near term, profitability.
- All investments are required to have a path to liquidity.

STATUS AS AN 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) Obtains 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.

2018 REVIEW AND RESULTS OF OPERATIONS

Selected Information:

For the years ended	December 31, 2018	December 31, 2017
Total revenue	\$13,241,357	\$5,042,629
Operating expenses	1,238,888	1,637,374
Annual incentive plan expense	2,585,394	-
Stock based compensation	546,490	209,970
Provision for income tax	286,326	-
Net income (loss)	8,584,259	3,195,285
Other comprehensive income	-	4,932,229
Net comprehensive income	\$8,584,259	\$8,127,514
Net income per share, basic and diluted	\$0.15	\$0.06

For the three months ended	December 31, 2018	December 31, 2017
Total revenue	\$2,291,539	\$3,603,872
Operating expenses	424,378	611,101
Annual incentive plan expense	450,110	-
Stock based compensation	385,167	121,000
Provision for income tax	11,019	-
Net income (loss)	1,020,865	2,871,771
Other comprehensive income	-	1,754,356
Net comprehensive income	\$1,020,865	\$4,626,127
Net income per share, basic and diluted	\$0.02	\$0.05

As at period ended	December 31, 2018	December 31, 2017
Total assets	\$36,916,214	\$23,418,889
Total liabilities	2,846,992	475,983
Net asset value	\$34,069,222	\$22,942,906
Shares outstanding diluted weighted average ⁽¹⁾	58,754,832	54,268,243
Net asset value per share	\$0.58	\$0.42
Adjusted net asset value ⁽²⁾	\$36,769,222	\$25,542,906
Adjusted net asset value per share	\$0.63	\$0.47

(1) Net comprehensive income (loss) per share has been calculated using the weighted average number of multiple and subordinate voting shares outstanding during each period. Diluted income 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 dilutive; and

(2) Adjusted net asset value as at December 31, 2018 reflects the net asset value plus \$2,700,000 of tax loss pools available (December 31, 2017 - \$2,600,000).

Revenue

For the year ended December 31, 2018, the Company had revenues of \$13,241,357 compared to revenues of \$5,042,629 for the prior year. Net realized gains on portfolio investments during the year ended December 31,

2018 were \$14,418,773 (2017 – \$2,537,796) primarily from the sale of Hexo Corp., Canopy Rivers Corp., Nuuvera Corp., Vogogo Inc., AdvantageWon Oil Corp., ONECLICK International LLC and Cool Holdings Inc., which in aggregate amounted to a 240% return on investment. Interest, dividend income, structuring fees and consulting fees were \$473,612 for the current year (2017 – \$1,109,343), and there were \$1,656,852 in net unrealized losses on portfolio investments (2017 – net unrealized gains of \$1,395,490). Net unrealized losses for the current year were predominately attributable to positions held Spectra7 Microsystems Inc. and Vogogo Inc.

For the three months ended December 31, 2018, the Company had revenues of \$2,291,539 compared to \$3,603,872 for the same period in prior year. Net realized gains on portfolio investments during the three months ended December 31, 2018 were \$2,174,315 (three months ended December 31, 2017 – \$1,579,481) primarily from the sale of Hexo Corp., which in aggregate amounted to a 726% return on investment. Interest, dividend income, structuring fees and consulting fees were \$71,311 for the current period (three months ended December 31, 2017 – \$185,062), and there were \$45,913 in unrealized gains on portfolio investments (three months ended December 31, 2017 – \$1,839,329). Unrealized gains for the period were predominately attributable to positions held in Green Growth Brands Ltd., 3-Sixty Security Corp. and African Cannabis Corp.

Expenses

For the year ended December 31, 2018, the Company reported total expenses of \$4,370,772 compared to \$1,847,344 for the prior year. Included in reported total expenses for the current year was an annual incentive plan expense of \$2,585,394 (2017 - \$nil) and stock-based compensation of \$546,490 (2017 - \$209,970). The annual incentive plan expense was initiated during the three months ended September 30, 2018 by the Board of Directors. Under the annual incentive plan, key consultants and management of the Company are entitled to an annual incentive bonus based on the performance of the Company's investment portfolio. The bonus pool is based on certain performance metrics based on the Company's net realized capital gains, plus interest and dividends over certain hurdle rates, calculated on an annual basis and accrued quarterly. Commissions incurred on the trading activity during the year amounted to \$211,499 and have been separately disclosed on the income statement. Operating expenses of \$1,238,888 for the current year (2017 - \$1,637,374) were decreased from prior year as there were elevated salaries, consulting fees and general and administrative costs under previous management in the previous year. An income tax provision of \$286,326 was incurred as a result of property sales within the Company's consolidated subsidiary Newborn Realty Corporation.

For the three months ended December 31, 2018, the Company reported total expenses of \$1,259,655 compared to \$732,101 for the same period in prior year. Included in reported total expenses for the current period was an annual incentive plan expense of \$450,110 (three months ended December 31, 2017 - \$nil) and stock-based compensation of \$385,167 (three months ended December 31, 2017 - \$121,000). Commissions incurred on the trading activity during the period amounted to \$76,089 and have been separately disclosed on the income statement. Operating expenses of \$424,378 for the three months ended December 31, 2018 (three months ended December 31, 2017 - \$611,101) were decreased from prior period as there were elevated salaries, consulting fees and general and administrative costs under previous management in the previous year.

Net Assets

Total net assets rose by \$11,126,316 (or approximately 48%) as at December 31, 2018 (\$34,069,222) compared to December 31, 2017 (\$22,942,906). The increase in net assets was primarily attributable to net realized gains on portfolio investments of \$14,418,773 as well as a private placement financing of \$1,953,000 in February 2018, offset by unrealized losses on portfolio investments of \$1,656,852 as well as total reported expenses of \$4,370,772 as explained above. The Company continues to strive to strengthen its asset portfolio with private entities whose goal is to move to public exchanges. As at December 31, 2018, the Company's adjusted net assets were valued at \$36,769,222 or \$0.63 per share, compared to \$25,542,906 or \$0.47 per share as at December 31, 2017. Adjusted net assets reflects net asset value plus \$2,700,000, which is reflective of the Company's \$10.1 million of tax loss pools available (\$20.2 million of capital losses which are 50% tax recoverable) multiplied by the applicable corporate income tax rate of 26.5%.

The net proceeds from the February 2018 private placement were used to finance Fountain's merchant banking activities, including investing in public and private companies in the form of common equity, preferred shares and

convertible debentures. On February 22, 2018, the Company completed a non-brokered private placement financing of 4,500,000 subordinate voting shares. For this placement, the consideration comprised of \$1,337,400 in cash and \$615,600 in shares of another public company. 1,528,000 shares of the Company were issued in exchange for the 360,000 shares of the other public company. The value of the shares issued was based on the closing price of the public company shares received. Share issue costs of the transaction amounted to \$10,433.

SUMMARY OF QUARTERLY RESULTS

Net comprehensive income for the year ended December 31, 2018 included net realized gains on investments of \$14,418,773 and which amounted to an average crystalized return on investment of 95%. There was significant activity in the Company's portfolio during the year with several new investments, namely 3-Sixty Security Corp., African Cannabis Corp., Canopy Rivers Corp., Green Growth Brands Ltd., Hexo Corp., and SLANG Worldwide Inc.

For the quarters ended	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Total revenue (losses)	\$ 2,291,539	\$ 7,765,171	\$ 4,574,884	\$ (1,390,237)
Operating expenses	\$ 424,378	\$ 334,620	\$ 253,532	\$ 226,358
Annual incentive plan	\$ 450,110	\$ 2,135,284	\$ -	\$ -
Stock based compensation	\$ 385,167	\$ 31,240	\$ 130,083	\$ -
Provision for income tax	\$ 11,019	\$ 275,307	\$ -	\$ -
Net income (loss)	\$ 1,020,865	\$ 4,988,720	\$ 4,191,269	\$ (1,616,595)
Other comprehensive income (loss)	\$ -	\$ -	\$ -	\$ -
Net comprehensive income (loss)	\$ 1,020,865	\$ 4,988,720	\$ 4,191,269	\$ (1,616,595)
Net income (loss) per share, weighted avg, fully diluted	\$ 0.02	\$ 0.08	\$ 0.07	\$ (0.03)

For the quarters ended	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Total revenue	\$ 3,603,872	\$ 879,641	\$ (439,471)	\$ 998,587
Operating expenses, not including write-offs	\$ 533,451	\$ 400,231	\$ 333,644	\$ 292,398
Stock based compensation	\$ 121,000	\$ -	\$ 88,970	\$ -
Investment write-offs and impairments	\$ 77,650	\$ -	\$ -	\$ -
Net income (loss)	\$ 2,871,771	\$ 479,410	\$ (862,085)	\$ 706,189
Other comprehensive income (loss)	\$ 1,754,356	\$ (91,580)	\$ 946,797	\$ 2,322,656
Net comprehensive income (loss)	\$ 4,626,127	\$ 387,830	\$ 84,712	\$ 3,028,845
Net income (loss) per share, weighted avg, fully diluted	\$ 0.05	\$ 0.01	\$ (0.02)	\$ 0.01

Net comprehensive income (loss) per share has been calculated using the weighted average number of multiple and subordinate voting shares outstanding during each period. Diluted income 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 dilutive.

During the third quarter of fiscal 2018, the Board of Directors approved an annual incentive plan. Under the plan, key consultants and management of the Company are entitled to an annual incentive bonus based on the performance of the Company's investment portfolio. The bonus pool is calculated on an annual basis and is accrued quarterly. Income taxes payable of \$275,307 were incurred during the third quarter of 2018 as a result of property sales within the Company's consolidated subsidiary Newborn Realty Corporation. Moving forward over the next year, it is expected that monthly operating expenses will be approximately \$75,000.

ISSUERS WITH U.S. CANNABIS-RELATED ACTIVITIES

The Company's overall investment strategy is to focus on creating shareholder value by offering various debt and/or equity financing solutions to small and mid-sized companies in North America in both the public and private markets, across many industries such as oil and gas, mining, manufacturing, retail, financial services, technology, cryptocurrency, marijuana, and biotechnology. As a result, the Company may from time to time invest in companies that carry on, directly or indirectly, marijuana/cannabis businesses or related businesses in the United States.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities (the "**Staff Notice**"), which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. marijuana industry; (ii) disclosure that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk; (iii) related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice.

At this time, the Company's involvement in the U.S. cannabis industry is limited. The Company can be considered to have "indirect" involvement in cannabis activities under the Staff Notice through its investments in Liberty Health Sciences Inc. ("**Liberty**"), Captor Capital Corp. ("**Captor**"), CannCure Investments Inc. ("**CannCure**"), Green Growth Brands Ltd. ("**Green Growth**") and SOL Global Investments Corp. ("**SOL Global**"), each of which is, directly or indirectly, a cultivator and/or seller of marijuana in the United States. The Company also has investments in seven other entities that have businesses, directly or indirectly, involved in the U.S. cannabis industry (Liberty, Captor, CannCure, Green Growth, SOL Global and these seven businesses are referred to herein as the "**Investees**"). The Company does not operate, nor control any subsidiary that is directly engaged, in the cultivation or distribution of marijuana in accordance with a U.S. state license. The Company is subject to the requirements of the Staff Notice and accordingly provides the following disclosures:

Compliance with Applicable State Laws in the United States

The Company has not obtained legal advice regarding compliance with applicable state regulatory frameworks and exposure and implication arising from U.S. federal laws as they relate to the cannabis industry. For each of the Investees involved in the U.S. cannabis industry listed in the summary of investments set out below, to the best of the Company's knowledge, the Company is not aware of any non-compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state for any of such Investees' business and the Company is not aware of: (i) any non-compliance by these Investees with respect to marijuana-related activities or (ii) any notices of violation with respect to any Investees' marijuana-related activities by its respective regulatory authorities. This belief is based primarily on the public disclosure provided by the Investees as the Company does not generally have access to material non-public information from such Investees, particularly where the Investees are publicly traded companies. Seven of the twelve Investees (Liberty, Tidal Royalty Corp. ("**Tidal**"), Ignite International Brands, Ltd. (formerly ALQ Gold Corp. and Green Axis Capital Corp.) ("**Ignite**"), Captor, High Tide Inc. ("**High Tide**"), Green Growth and SOL Global) are publicly traded companies in Canada and an eighth Investee (CannCure) was acquired by SOL Global on April 8, 2019. Disclosure on the U.S. laws, risks and uncertainties applicable to these Investees may be found in each Investee's disclosure documents which are publicly available on SEDAR at www.sedar.com. Shareholders are encouraged to review such disclosure.

Nature of Investments with U.S. Cannabis-Related Activities

Liberty Health Sciences Inc. (Florida, Massachusetts and Ohio)

The Company holds no shares and 222,250 warrants of Liberty as at December 31, 2018. The Company acquired 360,000 shares of Liberty on February 22, 2018 at a subscription price of \$615,600 and 222,250 shares and 222,250 warrants of Liberty on May 9, 2018 at an aggregate subscription price of \$200,025. The Company sold all of the 582,250 shares of Liberty it held prior to December 31, 2018. The Company's investment in Liberty is non-material and represents 0.20% of the Company's total investment portfolio as at December 31, 2018. It is believed that Liberty is a cultivator and seller of medical marijuana in the States of Florida, Massachusetts and Ohio. Liberty is listed on the CSE.

The net realized loss on the disposal of the Liberty shares in the year ended December 31, 2018 was \$296,651. The net changes in unrealized gains on the Company's investment in Liberty as at December 31, 2018 was \$9,980.

Fire Cannabis Inc. (doing business as SLANG Worldwide) (Colorado)

The Company holds less than 1% of the issued and outstanding shares of Fire Cannabis Inc. (doing business as SLANG Worldwide) (“Slang”) as at December 31, 2018, which were acquired at an aggregate price of \$367,081. The Company also holds warrants of Slang which were acquired for an aggregate price of 32,669. The Company’s investment in Slang is non-material and represents 2.69% of the Company’s total investment portfolio as at December 31, 2018. It is believed that Slang currently has real estate in the State of Colorado which is leased to a cultivator and has entered into letters of intents with third parties to acquire and develop cannabis brands.

Tidal Royalty Corp. (Massachusetts, California and Nevada)

The Company holds 2,457,000 shares of Tidal, which represents less than 1% of the issued and outstanding shares of Tidal as at December 31, 2018. The Company acquired 2,500,000 shares and 1,000,000 warrants at an aggregate price of under \$545,000. The Company sold 43,000 of the shares of Tidal it held prior to December 31, 2018. The Company’s investment in Tidal is non-material and represents 1.35% of the Company’s total investment portfolio as at December 31, 2018. Tidal is a CSE-listed royalty company. It is believed that Tidal has strategic investments in the U.S. legal cannabis industry in the States of Oregon, Massachusetts, California and Nevada. Tidal has publicly disclosed that it has entered into a binding letter of intent to acquire all the outstanding shares of MichiCann Medical Inc. (d/b/a Red White & Bloom) which, when completed, will constitute a “fundamental change” of Tidal as defined in CSE policies.

The net realized gain on the disposal of the Tidal shares in the year ended December 31, 2018 was \$27,724. The net changes in unrealized losses on the Company’s investment in Tidal as at December 31, 2018 was \$37,577 (unrealized loss of \$135,067 on the shares, unrealized gain of \$97,490 relating to the warrants).

Ignite International Brands, Ltd. (Nevada)

The Company holds less than 1% of the issued and outstanding shares of Ignite as at December 31, 2018, which were acquired, together with warrants, at an aggregate price of \$190,000. The Company’s investment in ALQ is non-material and represents 0.57% of the Company’s total investment portfolio as at December 31, 2018. Ignite is a CSE-listed company that is currently halted from trading. Ignite has publicly disclosed that it is pursuing a business combination with Ignite International, Inc., a Wyoming corporation which owns and operates the Ignite brand among other ventures, which will result in a change of business of Ignite from an investment company focused in the cannabis sector to a vertically-integrated cannabis company. Ignite has also publicly disclosed that it currently holds an investment in Tahoe Hydro Co., a cultivator in Nevada, and has an investment in and a trademark & copyright license agreement with Ignite International, Inc.

Captor Capital Corp. (Washington and California)

The Company holds no shares and 25,000 warrants of Captor as at December 31, 2018. The Company acquired 1,000,000 shares and 500,000 warrants at an aggregate price of \$200,100. On October 3, 2018, Captor completed a reverse split on the basis of 1 share/warrant for every 20 shares/warrants held. The Company sold all of the shares of Captor it held prior to December 31, 2018. The Company’s investment in Captor is non-material and represents less than 0.01% of the Company’s total investment portfolio as at December 31, 2018. It is believed that Captor is a cannabis focused investment and merchant bank company with investments in three dispensaries and a producer of cannabis extracts in the State of California, and operates two cultivation operations in the State of Washington through its wholly-owned subsidiary. Captor is listed on the CSE.

The net realized loss on the disposal of the Captor shares in the year ended December 31, 2018 was \$87,318. The net changes in unrealized losses on the Company’s investment in Captor as at December 31, 2018 was \$34,827.

Cultivate Capital Corp. (Oregon)

The Company holds less than 1% of the issued and outstanding shares of Cultivate Capital Corp. (“Cultivate”) as at December 31, 2018, which were acquired at an aggregate price of \$100,000. The Company’s investment in Cultivate is non-material and represents less than 0.27% of the Company’s total investment portfolio as at

December 31, 2018. It is believed that Cultivate is a private, independent cannabis industry finance company operating in the State of Oregon.

Wolverine Partners (Michigan)

The Company holds less than 1% of the issued and outstanding shares of Wolverine Partners (“**Wolverine**”) as at December 31, 2018, which were acquired at an aggregate price of \$502,000. The Company’s investment in Wolverine is non-material and represents less than 1.36% of the Company’s total investment portfolio as at December 31, 2018. It is believed that Wolverine is a vertically integrated licensee producer in Michigan.

Blacklist Holdings Inc. (Washington, Oregon, California)

The Company holds less than 1% of the issued and outstanding shares of Blacklist Holdings Inc. (“**Blacklist**”) as at December 31, 2018, which were acquired at an aggregate price of \$100,000. The Company’s investment in Blacklist is non-material and represents 0.33% of the Company’s total investment portfolio as at December 31, 2018. It is believed that Blacklist owns the IONIC brand and is a manufacturer and distributor of vape pens and cannabis cartridges in the State of Washington State and is currently entering the States of California and Oregon.

The net changes in unrealized gains on the Company’s investment in Blacklist as at December 31, 2018 was \$21,621.

CannCure Investments Inc. (Florida)

The Company holds less than 1% of the issued and outstanding shares of CannCure as at December 31, 2018, which were acquired at an aggregate price of \$392,820. The Company’s investment in CannCure is non-material and represents 1.1% of the Company’s total investment portfolio as at December 31, 2018. It is believed that CannCure indirectly owns 100% of 3 Boys Farms, a Florida-based limited liability company with a Florida state license to cultivate, process and dispense medical marijuana. It is also believed that on April 8, 2019, SOL Global acquired all of the outstanding common shares of CannCure pursuant to an amended and restated share purchase agreement between SOL Global, CannCure and the shareholders of CannCure.

The net changes in unrealized gains on the Company’s investment in CannCure as at December 31, 2018 was \$16,440.

Green Growth Brands Ltd. (Nevada and Massachusetts)

The Company holds 1,453,251 shares of Green Growth, which represents less than 1% of the issued and outstanding shares of Green Growth as at December 31, 2018. The Company acquired 1,453,251 shares and 347,222 warrants of Green Growth at an aggregate price of \$1,380,397, in part through the conversion of convertible debt held by the Company in the amount of \$1,000,000. The Company’s investment in Green Growth represents 21.42% of the Company’s total investment portfolio as at December 31, 2018. It is believed that Green Growth is in the business of cultivating, processing and retailing cannabis and cannabidoil infused consumer products in the States of Nevada and Massachusetts. Green Growth is listed on the CSE.

The net changes in unrealized gains on the Company’s investment in Green Growth as at December 31, 2018 was \$6,526,213.

High Tide Inc.

The Company holds 2,491,896 common shares, which represents approximately 1.27% of the issued and outstanding common shares of High Tide as at December 31, 2018. The Company acquired 2,491,896 common shares and 999,948 warrants of High Tide at an aggregate price of \$1,171,735. The Company’s investment in High Tide is non-material and represents 2.67% of the Company’s total investment portfolio as at December 31, 2018. It is believed that High Tide is a vertically-integrated Canadian-headquartered cannabis industry corporation that sells cannabis and smoking accessories internationally, including smoking accessories in the U.S., through its subsidiaries. High Tide is listed on the CSE.

The net changes in unrealized losses on the Company's investment in High Tide as at December 31, 2018 was \$59,642 (unrealized loss of \$187,436 on the shares, unrealized gain of \$127,794 relating to the warrants).

SOL Global Investments Corp. (Illinois, Maryland, Michigan, Nevada, Ohio, Florida, Puerto Rico)

The Company holds 150,000 shares of SOL Global, which represents less than 1% of the issued and outstanding shares of SOL Global as at December 31, 2018. The Company acquired 189,000 shares at an aggregate price of \$922,706. The Company sold 39,000 of the shares of SOL Global it held prior to December 31, 2018. The Company's investment in SOL Global is non-material and represents 1% of the Company's total investment portfolio as at December 31, 2018. It is believed that SOL Global is an international investment company with a focus on, but not limited to, cannabis and cannabis related companies in legal U.S. states, the hemp and CBD marketplaces and the emerging European cannabis and hemp marketplaces. SOL Global is listed on the CSE.

The net realized loss on the disposal of the SOL Global shares in the year ended December 31, 2018 was \$140,238. The net changes in unrealized losses on the Company's investment in SOL Global as at December 31, 2018 was \$362,341.

As at December 31, 2018, the Company held the following investments in the cannabis sector in the U.S.:

Investee	Investment relationship	Jurisdiction	Industry involvement	Investment type	Cost (\$)	Fair value (\$)	Company's ownership %
Liberty	Publicly-listed	Florida Massachusetts Arizona Ohio	Indirect ¹	Warrants	\$64,539	\$74,519	Nil
Slang	Private	Colorado	N/A	Shares	\$367,081	\$805,701	Under 1%
				Warrants	\$32,669	\$186,550	
Tidal	Publicly-listed	Massachusetts California Nevada	N/A	Shares	\$520,659	\$385,462	Under 1%
				Warrants	\$15,361	\$112,851	
Ignite	Publicly-listed	Nevada	N/A	Shares	\$176,447	\$209,000	Under 1%
				Warrants	\$13,553	\$4,110	
Captor	Publicly-listed	Washington California	Indirect ¹	Warrants	\$36,268	\$1,441	Under 1%
Cultivate	Private	Oregon	N/A	Shares	\$100,000	\$100,000	Under 1%
Wolverine	Private	Michigan	N/A	Shares	\$502,500	\$502,500	Under 1%
Blacklist	Private	Washington Oregon California	N/A	Shares	\$100,000	\$121,621	Under 1%
CannCure	Private	Florida	Indirect ¹	Shares	\$392,820	\$406,260	Under 1%
Green Growth	Private	Nevada	Indirect ¹	Shares	\$1,203,400	\$6,757,617	Under 1%
				Warrants	\$176,997	\$1,148,993	
High Tide	Private	N/A	N/A	Shares	\$1,171,735	\$984,299	Under 1.3%
				Warrants	\$0	\$127,794	

SOL Global	Public	Illinois Maryland Michigan Nevada Ohio Florida Puerto Rico	Indirect ¹	Shares	\$699,841	\$337,500	Under 1%
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¹ Under the Staff Notice, this refers to a non-controlling interest in an entity that is a cultivator or distributor of cannabis.

As at December 31, 2017, the Company did not hold any investments in the cannabis sector in the U.S.

United States Federal Overview

It is believed that in the United States, thirty-three (33) states, Washington D.C. and Puerto Rico have legalized medical marijuana, and ten states and Washington D.C. have legalized “adult use” or “recreational” marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the Controlled Substances Act of 1970 (the “CSA”). Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis related practices or activities including, without limitation, the manufacture, importation, possession, use, or distribution of cannabis, remain illegal under United States federal law.

Although federally illegal, the U.S. federal government’s approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice (the “DOJ”) issued a memorandum known as the “Cole Memorandum” to all U.S. Attorneys’ offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses.

However, on January 4, 2018, the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state-regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ’s guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum’s guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the “Sessions Memorandum.” The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was “unnecessary” due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney’s Manual (the “USAM”). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government’s limited resources, and include “law enforcement priorities set by the Attorney General,” the “seriousness” of the alleged crimes, the “deterrent effect of criminal prosecution,” and “the cumulative impact of particular crimes on the community.”

While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a “dangerous drug and that marijuana activity is a serious crime,” it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses.

Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the United States has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational

marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Department of the Treasury issued a memorandum in February of 2014 (the “**FinCEN Memorandum**”) outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a “suspicious activity report” (“**SAR**”) as required by federal money laundering laws. These marijuana related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution’s belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated.

On the same day the FinCEN Memorandum was published, the DOJ issued a memorandum (the “**2014 Cole Memorandum**”) directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memorandum has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

However, Attorney General Sessions’ revocation of the Cole Memorandum and the 2014 Cole Memorandum has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum can act as a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact.

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company’s existing investments in the Investees with operations or investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company’s ability to invest in the United States or any other jurisdiction.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public’s perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis.

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Investees and therefore the Company.

U.S. Enforcement Proceedings

Although the Cole Memorandum and 2014 Cole Memorandum have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and

2017 Consolidated Appropriations Acts (formerly referred to as the “Rohrabacher-Farr Amendment” and, currently, the “**Leahy Amendment**”) to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana license holders and patients operating in compliance with state and local law. The Leahy Amendment is still in effect as of today’s date and will remain in effect until September 30, 2019. The Leahy Amendment does not cover activities under state recreational marijuana laws.

State Level Overview

An overview of regulatory conditions for the marijuana industry in the states in which Liberty, Captor, Green Growth and SOL Global have an operating presence can be found in the following documents, which are publicly available on SEDAR at www.sedar.com:

1. The management’s discussion and analysis of Liberty for the three and nine month period ended November 30, 2018, dated January 25, 2019. Specifically, shareholders are directed to the disclosure on pages 11 to 26 as well as the risk factors outlined on pages 26 to 32.
2. The listing statement of Captor dated July 31, 2018. Specifically, shareholders are directed to the disclosure and risk factors outlined on pages 16 to 25.
3. With respect to Green Growth, the listing statement of Xanthic Biopharma Inc. dated November 9, 2018. Specifically, shareholders are directed to the disclosure on pages 24 to 30 as well as the risk factors outlined on pages 77 to 84.
4. The management’s discussion and analysis of SOL Global for the three and nine month periods ended December 31, 2018, dated February 28, 2019 (the “**SOL Global MD&A**”), and the listing statement of SOL Global dated August 13, 2018 (the “**SOL Global Listing Statement**”). Specifically, shareholders are directed to the disclosure on page 20 of the SOL Global MD&A and pages 16 to 19 of the SOL Global Listing Statement, as well as the risk factors outlined on pages 59 to 72 of the SOL Global Listing Statement.

Although the Company has no knowledge that would indicate that any of the above noted disclosure is untrue, incomplete or otherwise misleading, neither the Company nor any of its directors or officers assumes any responsibility for any failure by Liberty, Captor, Green Growth or SOL Global to ensure the significance or accuracy of such disclosure.

TSXV Requirements

On October 16, 2017, the TSXV issued a bulletin noting that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the TSXV’s listing requirements (the “**Requirements**”). These business activities may include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSXV reminded issuers that, among other things, should the TSXV find that a listed issuer is engaging in activities contrary to the Requirements, the TSXV has the discretion to initiate a delisting review. In order to comply with the Requirements, the Company may be required to reorganize, restructure or divest its investment in Liberty.

LIQUIDITY AND CAPITAL RESOURCES

In managements' opinion, the Company has sufficient resources to meet its current cash flow requirements based on the following:

	December 31, 2018		December 31, 2017	
Cash	\$	1,414,192	\$	1,298,522
Short term investments		40,000		40,000
Accounts receivable and sundry assets		649,926		428,898
Investments in public companies		18,274,755		14,966,129
Loans and convertible debentures due within one year		2,170,653		408,591
Total liquid assets	\$	22,549,526	\$	17,142,140
Accounts payable and accrued liabilities	\$	261,598	\$	145,983
Accrued annual incentive plan		2,585,394		-
Income taxes payable		-		-
Syndicated loans		-		330,000
Total short term liabilities	\$	2,846,992	\$	475,983

As of December 31, 2018, Fountain had working capital of \$19,702,534, which increased from \$16,666,157 at December 31, 2017. The primary reason for the increase in working capital for the year is due to the net realized gains on portfolio investments of \$14,418,773 offset by the annual incentive plan expense of \$2,585,394, unrealized losses on portfolio investments of \$1,656,852 and operating cash expenses of \$1,238,888 (expenses of \$4,370,772 less annual incentive plan expense of \$2,585,394 and stock based compensation of \$549,490). This accounts for the primary variance of the increase of working capital during the year. On average, Fountain anticipates working capital requirements of approximately on average of \$0.1 million per month to cover operating expenses on a go-forward basis before considering any one-time costs and not including the annual incentive plan expense.

Fountain frequently invests in small market capitalization (or junior) companies. Due to the somewhat limited size of the public float of such companies and/or any substantial decline in the price of the securities thereof, which can persist for a significant period of time, the liquidity of such securities could be impaired from time to time.

In managements' opinion, the Company has sufficient resources to meet its current cash flow requirements. The Company's accounts payable and accrued liabilities all have contractual maturities of less than 30 days and are subject to normal trade terms.

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.

The Company's primary use of cash is to make investments and to pay for operating expenses. The Company believes that it will be able to generate sufficient capital to support the Company's operations in the long-term. Nonetheless, the Company may procure debt or equity financing from time to time to fund its operations.

Management is not aware of any significant commitments or expected fluctuations with respect to its capital resources at the date of its year-end consolidated financial statements.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed and explained in note 13 to the audited consolidated financial statements for the year ended December 31, 2018, which accompanies this MD&A.

Related party transactions occur during the normal course of Company operations and have been recorded at the exchange amounts established and agreed to by the related parties.

Related party	Interest and Consulting Income		Amounts Receivable		Investment	
	For the years ended Dec. 31,		December 31,		December 31,	
	2018	2017	2018	2017	2018	2017
Cool Holdings Inc.	-	-	-	-	1,415,738	-
Liberty Health Sciences Inc.	-	-	-	-	74,519	-
Molecular Science Corp.	-	-	-	-	562,500	250,000
Somersby Park 2010 Limited Partnership	-	266,522	522,189	316,505	1,649,351	810,784
Sweet Natural Trading Co. Ltd.	132,386	29,640	105,303	39,110	1,101,147	1,161,126

During the year ended December 31, 2018, the Company paid financial consulting fees of \$40,000 (2017 - \$nil) to 2245448 Ontario Inc., a company controlled by Michael Leskovec, the Chief Financial Officer of the Company. At December 31, 2018, the balance owed was \$nil (December 31, 2017 - \$nil).

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 held a position with an investee company.

Investment	Ownership	Officer/Director	
		Name	Position held
Cannbiorex Pharmaceutical Corp. ^(a)	<10%	Roger Daher	Director
Cool Holdings Inc.	<10%	Michael Galloro	Director
Foothills Developments Inc.	100%	Andrew Parks	Officer
Liberty Health Sciences Inc. ^(b)	<10%	Michael Galloro	Director
Molecular Science Corp. ^(c)	<10%	Cesare Fazari	Director
Newborn Realty Corporation	100%	Andrew Parks	Officer
Somersby Park 2010 Limited Partnership	73%	Andrew Parks	Officer
Sweet Natural Trading Co. ^(a)	<10%	Roger Daher	Director

(a) During 2018, Roger Daher, a director of the Company, became a director of Cannbiorex Pharmaceuticals Corp. and resigned from his position with Sweet Natural Trading Co.;

(b) During 2018, Michael Galloro, a director of the Company, resigned from his position with Liberty Health Sciences Inc.; and

(c) During 2018, Cesare Fazari, a director of the Company, resigned from his position with Molecular Science Corp.

COMPENSATION OF KEY MANAGEMENT

The remuneration of directors and other key management personnel of the Company for the three and twelve months ended December 31, 2018 and 2017 was as follows:

	Three months ended		Years ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Salaries	\$ 78,250	\$ 393,839	\$ 325,333	\$ 675,339
Annual incentive plan expense	\$ 450,110	\$ -	2,585,394	-
Stock based compensation expense	\$ 385,167	\$ 121,000	546,490	209,970
	\$ 913,527	\$ 514,839	\$ 3,457,217	\$ 885,309

Key consultants and management of the Company are entitled to an annual incentive bonus based on the performance of the Company's investment portfolio. The bonus pool will be equivalent to 20% of the net realized capital gains plus interest and dividends over a hurdle rate of 8% per annum. For the purposes of the annual incentive bonus pool calculation, opening net asset value will be used as the base for the hurdle rate and will include any equity and debt capital raised on a pro-rated basis over the period in which the calculation is being made. As at December 31, 2018, \$2,585,394 was accrued for the 2018 annual incentive plan (December 31, 2017 - \$nil).

CRITICAL ACCOUNTING ESTIMATES

The preparation of the audited 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 audited 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 judgment in applying criteria in IFRS 10.
- Valuation of deferred income tax assets – The valuation of deferred income tax assets requires judgment on their recoverability. Such judgments 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.

CHANGES IN ACCOUNTING POLICIES

The following pronouncements issued by the IASB and interpretations published by IFRIC:

- IFRS 15 - Revenue from Contracts with Customers – The IASB issued IFRS 15 Revenue from Contracts with Customers and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contract with customers. IFRS 15 excludes from its scope revenue related to financial instruments. As a result, the adoption of IFRS 15 did not have a material impact on the condensed interim consolidated financial statements; and
- IFRS 9 - Financial Instruments - The IASB issued IFRS 9 in October 2010 and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for the application of IFRS 9 is January 1, 2018.

As a result of adoption of IFRS 9, the Company's Investments – Available for Sale have been classified as financial assets measured at FVTPL as it better aligns with management and users information needs as the company is assessed based on the performance of all of its investments and thus measurement through net income is more appropriate. The application of IFRS 9 has decreased the deficit at January 1, 2018 by \$6,315,241 and reduced accumulated other comprehensive income by the same amount. There is no other change in the recognition, measurement or classification of its remaining financial assets and liabilities as a result of adopting this standard nor is there any impact on its credit risk assessments as a result of adopting this standard, given the nature of its debt investments.

Below is a summary of the Company's classification and measurements of financial assets and liabilities transitioning from IAS 39 to IFRS 9:

	IFRS 9		IAS 39	
	Classification	Measurement	Classification	Measurement
Cash	FVTPL	Fair Value	FVTPL	Fair Value
Amounts receivable and sundry asset	Loans and receivables	Amortized cost	Loans and receivables	Amortized cost
Loans and convertible debentures – amortized cost	FVTPL	Fair Value	Loans and receivables	Amortized cost
Loans and convertible debentures – FVTPL	FVTPL	Fair Value	FVTPL	Fair Value
Investments – FVTPL	FVTPL	Fair Value	FVTPL	Fair Value
Investments – available for sale	FVTPL	Fair Value	Available for sale	Fair Value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	Other liabilities	Amortized cost
Syndicated loans	Other liabilities	Fair Value	Other liabilities	Amortized cost

FUTURE ACCOUNTING CHANGES

The following pronouncements issued by the IASB and interpretations published by IFRIC became effective January 1, 2018. The Company is currently assessing the impact of the adoption of these new standards.

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.

MANAGEMENT OF FINANCIAL RISK 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.

The investment operations of the Company's business involve the purchase and sale of securities and, accordingly, the majority of the Company's assets are currently comprised of financial instruments. The use of financial instruments can expose the Company to several risks, including liquidity, market and interest risks. A discussion of the Company's use of financial instruments and their associated risks is provided below. There has been no change to the Company's risk management policies or processes during the period.

Liquidity Risk

Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company, or if the value of the Company's investments declines, resulting in losses upon disposition. The Company generates cash flow primarily from its operational activities and the proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The Company has sufficient investments which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. 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.

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, 2018 from a change in closing price of the Company's publicly listed investments, not including share purchase warrants and options (refer to note 9 for sensitivity of warrant and option inputs), of \$15,194,558 with all other variables held constant as at December 31, 2018:

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%	\$ 759,728	\$ (759,728)
10%	\$ 1,519,456	\$ (1,519,456)

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.

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, 2018, if interest rates were higher by 1% per annum, the potential effect to the Company would be an increase in net income of approximately \$43,200 (December 31, 2017 – \$15,000).

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, 2018, gross accounts receivable of \$255,579 and \$332,726 of loans and convertible debentures were past due and not impaired (December 31, 2017 \$51,379).

	December 31, 2018		December 31, 2017	
Amounts receivable, excluding HST	\$	627,493	\$	407,530
Loans and convertible debentures		4,860,335		3,442,493
Total Credit Exposure	\$	5,487,828	\$	3,850,023

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 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. For the year ended December 31, 2018 management estimates that if the United States dollar had strengthened or weakened by 10% against the Canadian dollar, assuming all other variables remained constant, net income for the year would have increased or decreased by approximately \$646,195 (December 31, 2017 - \$191,503).

Concentration Risk

Included in Investments - FVTPL is one investment which comprises 27% of the balance (2017 - nil). For the year ended December 31, 2017, another investment was included in Investments - AFS and comprised 80% of the balance (2018 - nil).

OUTSTANDING SHARE DATA

Shares issued and outstanding:	December 31, 2018		December 31, 2017	
	No. of shares	Amount	No. of shares	Amount
Multiple voting shares	88,360	\$161,122	304,662	\$555,543
Subordinate voting shares	58,906,102	29,153,357	53,974,800	26,577,198
	58,994,462	\$29,314,479	54,279,462	\$27,132,741

Multi-Voting Shares

Common shares outstanding – December 31, 2017	304,662
MVS converted to SVS shares on a 1:1 basis	(216,302)
Common shares outstanding – December 31, 2018 and April 25, 2019	88,360

Subordinate Voting Shares

Common shares outstanding – December 31, 2017	53,974,800
Issuance of common shares on private placement	4,500,000
MVS converted to SVS shares on a 1:1 basis	216,302
Issuance of common shares on exercise of stock options	215,000
Common shares outstanding – December 31, 2018 and April 25, 2019	58,906,102

During the year 216,302 (\$394,421) MVS shares were converted on a 1 for 1 basis to SVS shares.

On February 22, 2018, the Company completed a non-brokered private placement financing of 4,500,000 subordinate voting shares. For this placement, the consideration comprised of \$1,337,400 in cash and \$615,600 in shares of another public company. 1,528,000 shares of the Company were issued in exchange for the 360,000 shares of the other public company. The value of the shares issued was based on the closing price of the public company shares received. Share issue costs of the transaction amounted to \$10,433. Also, during the year ended December 31, 2018, the Company issued 215,000 subordinate voting shares to a director who exercised his stock options for gross proceeds of \$53,000.

During the year ended December 31, 2018, 2,125,000 stock options were granted, 215,000 were exercised and 875,000 expired unexercised. The following stock options remained outstanding at December 31, 2018:

Grant date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining life (Years)
June 5, 2014	230,000	230,000	\$0.40	0.4
January 23, 2017	350,000	233,333	\$0.30	3.1
November 8, 2017	1,100,000	733,332	\$0.3625	3.9
June 4, 2018	1,250,000	416,667	\$0.455	4.4
August 31, 2018	300,000	100,000	\$0.455	4.7
November 29, 2018	575,000	191,667	\$0.505	4.9
	3,805,000	1,904,999	\$0.43	4.0

OTHER INFORMATION

Internal Control Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Financial Officer, internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There has been no change in internal control procedures during the year ended December 31, 2018 that would materially affect, or reasonably likely to materially affect, the internal control over financial reporting.

Limitations of Controls and Procedures

The Chief Executive Officer and Chief Financial Officer believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

RISK FACTORS

Risks related to the U.S. regulatory environment

The Company has made investments in entities operating in a highly regulated industry which is rapidly evolving. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

Certain Investees incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of an Investee and may negatively affect the performance of the Company's investment portfolio.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of Investees and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce an Investee's earnings and could make future capital investments or its operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

The Company is expected to have a portion of its revenues derived from its investments in Investees that are engaged, either directly or indirectly, in the cannabis industry in certain states of the U.S., which industry is illegal under U.S. federal law. Fountain Asset is indirectly involved in marijuana-related activities in the U.S. through its investment in Liberty, which is engaged in the cultivation or distribution of marijuana in the U.S. The enforcement of relevant laws is a significant risk.

Over half of the states in the U.S. have enacted legislation to regulate the sale and use of medical marijuana without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical marijuana with strict limits on the levels of THC. Other U.S. states had also legalized cannabis for adult use. Notwithstanding the permissive regulatory environment of medical or adult-use marijuana at the state level, marijuana continues to be categorized as a Schedule 1 controlled substance under the CSA. As such, marijuana-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution, are illegal under U.S. federal law. Strict compliance with state laws with respect to marijuana will not absolve the Investees of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against them. Any such proceedings brought against the Investees may adversely affect the Company’s financial performance.

Because of the conflicting views between state legislatures and the federal government of the U.S. regarding marijuana, investments in marijuana businesses in the U.S. are subject to inconsistent legislation, regulation, and enforcement. Unless and until the U.S. Congress amends the CSA with respect to marijuana or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which may adversely affect certain current and future investments of the Company in the U.S. As a result of the tension between state and federal law, there are a number of risks associated with the Company’s existing and future investments in the U.S.

Regulatory changes and compliance

The activities of the Investees are in many cases subject to regulation by governmental authorities. The Company cannot predict the time required for certain of its Investees to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on these Investees’ business and results of operations, which may negatively affect the performance of the Company’s investment portfolio.

Certain Investees’ operations may be subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Investees’ operations. Changes to such laws, regulations and guidelines due to matters beyond the control of the Investees may cause adverse effects to the Company’s operations.

Local, state and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require certain Investees to incur substantial costs associated with bringing the operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt certain Investees’ operations and result in a material adverse effect on financial performance. It is beyond the Company’s scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company’s investment portfolio.

U.S. federal laws on marijuana industry

Marijuana is illegal under US federal laws and enforcement of relevant laws is a significant risk. Therefore, the business operations of certain Investees are dependent on U.S. state laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of marijuana, which would negatively impact the return on the Company’s investment portfolio.

The concepts of “medical marijuana” and “retail marijuana” do not exist under U.S. federal law. The CSA classifies “marijuana” as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under U.S. federal law. Strict compliance with state laws with respect to marijuana will neither absolve Investees of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against Investees.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture.

There are risks associated with removal of U.S. federal budget rider protections

The U.S. Congress has passed the Leahy Amendment each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The Leahy Amendment will continue in effect until September 30, 2018, the last day of fiscal year 2018.

American courts have construed the Leahy Amendment to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital CSA violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state’s recreational cannabis laws.

Local regulation could change and negatively impact on the Investees’ operations

Most U.S. states that permit marijuana for adult-use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use marijuana businesses in their jurisdictions. If local municipalities where Investees have established facilities decide to prohibit marijuana businesses from operating, such Investees could be forced to relocate operations at great cost to them, and such Investees may have to cease operations in such state entirely if alternative facilities cannot be secured.

Ability to access public and private capital

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. However, there can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. Given that marijuana is illegal under U.S. federal law, there is neither a broad nor deep pool of institutional capital that is available to cannabis licence holders and other participants in the U.S. cannabis sector. However, the Company does not anticipate that this will affect its ability to access capital given its limited involvement in the U.S. cannabis industry.

Dependence on key personnel

The Company is dependent upon the personal efforts, performance and commitment of its senior officers and directors, who are responsible for the development of the Company’s business. Investors will be relying upon the business judgment, expertise and integrity of the Company’s senior officers and directors. To the extent that the services of any of the senior officers or directors would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the

Company. The Company's future success will also depend in large part upon its ability to attract and retain highly skilled personnel. There can be no assurance that the Company will be successful in attracting and retaining such personnel.

Possible volatility of stock price

The market price of the Subordinate Voting Shares could be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Company's results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of the subordinate voting shares.

Competition

The Company operates in an increasingly competitive environment. Both large and small competitors compete with the Company. Some of these competitors may have longer operating histories, greater name recognition and greater financial and marketing resources than the Company. The Company believes that its ability to compete effectively is dependent upon the quality of its product and client service. There can be no assurance that the Company will be able to compete effectively and retain its existing clients or attract and retain new clients. The Company's current and potential competitors may develop and market new products or services that render the Company's existing and future products and services less marketable or competitive.

Maintenance of client relationships

The ability of the Company to attract and maintain clients requires that it provide a competitive offering of products and services that meet the needs and expectations of its clients. The Company's ability to satisfy the needs or demands of its clients may be adversely affected by factors such as the inability or failure to identify changing client needs or expectations or the inability to adapt in a timely and cost-effective manner to innovative products and services offered by competitors.

Strategic relationships

The Company anticipates that, from time to time, it will enter into strategic relationships to syndicate certain bridge loans or similar assets where appropriate, as part of its strategy to diversify and manage risks associated with its fixed income portfolio. Syndication will afford the Company the opportunity to participate in much larger transactions. There can be no assurance that the Company will be able to enter into such relationships in the future, and its inability to do so may adversely affect its ability to continue to service its existing and prospective clients.