

**AUTOMOTIVE FINCO CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2018**

This management's discussion and analysis of financial conditions and results of operations (MD&A) is intended to assist you in understanding and evaluating changes in Automotive Finco Corp. (AFCC, the Company) financial condition and operations for the three months ended March 31, 2018 and three months ended February 28, 2017. The Company changed its year-end to December 31<sup>st</sup> in 2017. As a result the three month comparative period discussed in this MD&A is the three months ended February 28, 2017. The MD&A should be read in conjunction with our audited financial statements for the ten months ended December 31, 2017 prepared in accordance with IFRS (as defined below), together with the accompanying notes. Additional information is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's reporting currency is Canadian dollars and all dollar amounts are in Canadian dollars. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our quarterly reports, annual financial statements, and related management discussion and analysis are available on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A has been prepared as of May 30, 2018.

**FORWARD-LOOKING STATEMENTS**

This MD&A contains "forward looking statements" or "forward looking information" within the meaning of applicable securities legislation. These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may contain forward looking information. Forward looking information is provided as of the date of this MD&A and we do not intend, and do not assume any obligation, to update this forward looking information, except as required by law.

Generally, forward looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. The forward looking information contained herein may include, but is not limited to, information with respect to: strategies, expectations, planned operations or future actions; future investment strategy, methodology, targets and timing; future growth plans; proposed debt and royalty transactions; estimated market drivers and demand; business prospects and strategy; anticipated trends and challenges in the Company's business and the markets in which it operates; the Company's financial position including future and expected revenue, expenses, cash flow, cash on hand and related measures; the Company's investment approach, objectives and strategy, including its focus on the automotive retail sector; the structuring of the Company's investments and its plans to manage its investments; the Company's plans with respect to its investment portfolio, including levels of growth and uses of the revenue and profit generated therefrom; and AFCC's expectations regarding the performance of the auto retail sector and the value of the market for debt based financing solutions therein. By identifying such information and statements in this manner, the Company is alerting the reader that such information and statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such information and statements.

These statements involve 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 its forward looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward looking information included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. These forward looking statements involve risks and uncertainties relating to, among other things, the lack of operating history, risks related to the lack of diversification of investments, risks related to the Company's reliance on an affiliate for funding opportunities, risks inherent to the auto industry, as well as those risks and uncertainties herein as further discussed in the section entitled "Risks and Uncertainties". Actual results may differ materially from those expressed or implied by such forward looking statements or forward looking information.

In connection with the forward looking information and forward looking statements contained in this MD&A, we have made certain assumptions regarding future events and operating performance as at the date of this MD&A. Key assumptions include, but are not limited to: that the Company will be able to successfully target and negotiate debt financing and other investments; that the businesses of the Company's borrowers and entities it has provided capital to investee companies will not experience material negative results; that more automotive dealerships will continue to require access to alternative sources of capital; that the Company will have the ability to raise required equity and/or debt financing on acceptable terms; that the value of the Canadian dollar will remain stable relative to other currencies; that the Company will maintain its listing of the Debentures (as defined herein) and Shares (as defined herein) on the TSXV (as defined herein); and that the Company will receive annual interest payments from the Investments. The Company has also assumed that access to the capital markets will remain relatively stable, and that the capital markets will perform with normal levels of volatility.

To the extent any forward looking statements constitute future oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including

investment decisions.

Although we have attempted to identify important factors that could cause actual actions, events or results to differ materially from those contained in forward looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as future actions and events and actual results could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward looking information.

## **INCORPORATION AND BUSINESS**

The Company was incorporated under the Canada Business Corporations Act on December 5, 1986. The head and registered office is located at 8 King Street East, Suite 1800, Toronto, Ontario, M5C 1B5, Canada. The Company's common shares (the Shares) trade on the TSX Venture Exchange (TSXV) under the symbol "AFCC". Prior to March 8, 2017, the Shares were listed and posted under the trading symbol "AUV". As of June 20, 2017 the Company became a reporting issuer in all provinces and territories of Canada.

On February 23, 2017, shareholders approved a share consolidation and a change of business (the COB) to transition the Company from a "Mining Issuer" to an "Investment Issuer", with a specific focus on providing debt financing and making other investments, which are expected to include, in some instances, royalty like features, in connection with the financing of automotive dealerships, automotive dealer groups and/or other related businesses and assets on a global basis, with an initial focus in Canada. The COB was implemented on March 6, 2017.

In connection with the COB, the Company changed its name from "Augyva Mining Resources Inc." to "Automotive Finco Corp." and consolidated its Shares on a 1:15 basis (the Share Consolidation) pursuant to articles of amendment filed on March 3, 2017. As of December 31, 2017, 22,523,773 Shares (on a post-Share Consolidation basis) were issued and outstanding.

In October 2017, the Company changed its fiscal year end from February 28 to December 31.

## **HIGHLIGHTS**

The COB, announced on March 6, 2017 has transformed the Company's business which now generates revenue and earnings related to the auto retail sector.

In connection with the COB, the Company entered into a limited partnership agreement with Automotive Finance GP Inc., a corporation formed under the laws of Ontario, as general partner, and the Company, as initial limited partner, to create Automotive Finance Limited Partnership (the Partnership). The Company is the sole limited partner of the Partnership and makes its investments indirectly through the Partnership.

In order to meet the TSXV's initial listing requirements for an "Investment Issuer", the Company was required to complete two initial investments. On March 3, 2017, the Partnership entered into two financing agreements with DH Finance LP (the Initial Borrower) pursuant to which the Partnership loaned an aggregate of approximately \$33.3 million to the Initial Borrower (the Initial Investment). Subsequently, on May 29, 2017, the Partnership entered into financing agreements with each of WH Finance LP, GTAN Finance LP and OH Finance LP (the Subsequent Borrowers and, together with the Initial Borrower, the Borrowers) pursuant to which the Partnership loaned an aggregate of approximately \$43 million (the Subsequent Investments and, together with the Initial investment, the Investments). The Investments bear interest at 10.5% per annum, resulting in approximately \$8,015,000 of aggregate annual revenue to the Partnership.

In connection with the Initial Investment and the COB, the Company completed a non-brokered private placement for 65,000,000 Shares at a price of \$0.16 (on a pre-Share Consolidation basis) per Share for gross proceeds of \$10,400,000 and an arm's length brokered private placement of 108,084,376 subscription receipts at a price per subscription receipt of \$0.16 (on a pre-Share Consolidation basis) resulting in gross proceeds to the Company of \$17,293,500.

In connection with the Investments, in June, 2017, the Company completed offerings of (i) \$20,000,000 aggregate principal amount of 6.75% convertible senior unsecured debentures (the Debentures) of the Company maturing on June 30, 2022 at a price of \$1,000 per Debenture which were issued on a non-brokered private placement basis; and (ii) 3,705,000 Shares at a price of \$2.70 per Share and concurrent offering of \$10,615,000 in aggregate principal amount of Debentures, which were issued on a bought deal basis under a final prospectus filed on June 20, 2017.

In April 2017, the Company paid its first monthly dividend of \$0.014 per Share (\$0.168 per Share annually). The Company announced in June an increase in its annual dividend to \$0.205 per Share payable monthly (\$0.0171 per month) beginning with the July 2017 payment. This represents an increase of approximately 22% above its then current dividend per Share.

## ***Selected Quarterly Information***

In October 2017, the Company changed its fiscal year end from February 28 to December 31. Consequently, the comparative period discussed below is the three months ended February 28, 2017.

Operating results for each quarter/period for the last two fiscal years are presented in the table below. During the periods ended on and prior to February 28, 2017, the Company reported interest income from interest earned on the term deposits in "Other Income". During the period ended May 31, 2017, the Company reported interest income on the term deposits of \$17,311 in "Operating Expenses". During the first two periods of 2017, Partnership expenses were recorded as a reduction from Partnership

revenue. During the first two periods of 2017, “Partnership expenses” were recorded as a reduction from “Partnership revenue”. Beginning October 1, 2017, Partnership expenses are included in “Other operating expenses”.

Prior to the quarter ended May 31, 2017, the table below reflects operations prior to completing the COB. As the COB was completed mid-way through the quarter ended May 31, 2017, the results for that quarter reflect the cost of implementing the COB and, as described below, only in part reflect the operations following the implementation of the COB.

	Three Months Ended March 31, 2018 \$	Three Months Ended December 31, 2017 \$	Four Months Ended September 30, 2017 \$	Three Months Ended May 31, 2017 \$	Three Months Ended February 28, 2017 \$	Three Months Ended November 30, 2016 \$	Three Months Ended August 31, 2016 \$	Three Months Ended May 31, 2016 \$
Interest revenue from Partnership’s loan investments	2,003,750	2,003,750	2,320,156	863,014	–	–	–	–
Other operating expenses (revenue)	895,581	317,974	2,649,098	1,454,814	1,244,373	478,495	337,520	360,740
Other income (expenses)	–	–	–	–	15,674	38,790	38,877	63,121
Net income (loss) before income taxes	1,108,169	1,685,776	(328,942)	(591,800)	(1,228,699)	(439,705)	(298,643)	(297,619)
Deferred income tax	(295,337)	(526,200)	–	–	2,149,300	–	–	–
Net income (loss)	812,832	1,159,576	(328,942)	(591,800)	920,601	(439,705)	(298,643)	(297,619)
Basic income (loss) per share	0.04	0.01	(0.02)	(0.03)	0.14	(0.05)	(0.15)	(0.05)
Diluted income (loss) per share	0.04	(0.03)	(0.02) <sup>(1)</sup>	(0.03) <sup>(1)</sup>	0.12	(0.05) <sup>(1)</sup>	(0.15) <sup>(1)</sup>	(0.05) <sup>(1)</sup>
Total assets	80,093,381	79,670,000	82,459,404	43,233,214	33,814,939	14,409,964	14,667,980	14,803,620
Shareholders’ equity	51,302,158	51,641,780	48,698,160	41,403,312	31,282,004	13,484,722	13,918,695	14,189,961

- (1) In calculating the diluted loss per share, potentially dilutive shares/units such as options, warrants, RSUs and debentures have not been included as they would have the effect of decreasing the loss per share and they would, therefore be anti-dilutive.

The following table summarizes selected key financial data.

	March 31, 2018	December 31, 2017	February 28, 2017
Cash	\$ 2,420,509	\$ 1,693,972	\$30,508,410
Partnership’s loan investments	76,333,333	76,333,333	–
Exploration and evaluation assets	1	1	1
Receivable from a project partner	700,000	700,000	700,000
Deferred tax assets	557,000	852,337	2,438,071
Total assets	80,093,381	79,670,000	33,814,939
Debentures, net of unamortized issuance costs	26,310,183	26,122,146	–
Debentures, equity portion	2,938,709	2,938,709	–
Capital stock	61,111,925	61,111,925	39,274,788
Warrants	1,720,971	1,720,971	1,890,856

The table below summarizes EBITDA and “Adjusted EBITDA” since the COB as well as “Distributable Cash Flow”. EBITDA and Adjusted EBITDA are not measures defined under the IFRS applicable within Canada (being the Generally Accepted Accounting Practices (GAAP) applicable to the Company) and do not have any standardized meaning under GAAP; therefore EBITDA and Adjusted EBITDA may not be comparable to similar measures presented by other issuers. EBITDA is calculated by adding net income, plus interest expense, plus taxes, plus depreciation and amortization. Adjusted EBITDA is calculated by adding EBITDA plus non-recurring expenses and non-cash share based remuneration.

Management of the Company believes that EBITDA and Adjusted EBITDA provides a more consistent basis to compare the performance of the Company between the periods as it is calculated on a basis which excludes the impact of certain non-cash items as well as how the operations have been financed and, in the case of Adjusted EBITDA, non-recurring or one-time expenses. Management of the Company utilizes EBITDA and Adjusted EBITDA to measure and set objectives for the Company and believes EBITDA and Adjusted EBITDA are measures widely used by securities analysts, investors and others to evaluate the financial performance of the Company and other companies. Readers are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows.

	Three Months Ended March 31, 2018
Net Income	\$ 812,830
Add: Interest Expense	704,665
Add: Depreciation and Amortization	–
Add: Cash Taxes	–
<b>EBITDA</b>	<b>1,517,495</b>
Add: Non Cash Share Based Remuneration	3,010
Add: Non Cash Deferred Taxes	295,337
<b>Adjusted EBITDA</b>	<b>1,815,842</b>
Less: Interest Paid or Payable	(516,628)
<b>Distributable Cash Flow</b>	<b>\$1,299,214</b>
Dividends Paid	\$1,155,469
<b>Payout Ratio (Dividends Paid/Distributable Cash Flow)</b>	<b>88.94%</b>

The Company's financial position, financial performance and cash flows do not appear to be affected by seasonality.

### **Results for the three months ended March 31, 2018 and three months ended February 28, 2017**

During the three months ended March 31, 2018, the Company recorded interest revenue in the amount of \$2,003,750 from its Investments through the Partnership. The Partnership expenses were \$107,800 which included compensation of the Chief Executive Officer (the CEO), Chief Financial Officer (the CFO), and other general & administrative expenses. During the quarter ended February 28, 2017, revenue resulted from interest earned on the term deposits.

Operating expenses during the current period were \$895,581. Operating expenses during the quarter ended February 28, 2017 were \$1,244,373. Costs were higher during the prior period as the Board was considering prospective transactions and non-cash share-based remuneration was significantly higher during the prior period.

During the current period, the Company recorded interest expense in the amount of \$704,665 of which \$188,037 is related to accretion of the Debentures.

Consulting fees paid to the CFO are recorded in Partnership expenses during the current period and were included in professional fees during the quarter ended February 28, 2017. Salary expense during the current period was \$Nil compared to \$42,555 during the three months ended February 28, 2017. Salary paid to the CEO is recorded in Partnership expenses during the current period and was included in salary expense during the previous period.

Transaction expenses during the current period were \$Nil compared to \$570,379 during the prior period. Transaction expenses include legal and professional fees related to the COB.

General and administrative expenses during the current period were \$29,322 compared to \$29,933. General and administrative expenses primarily include transfer agent and shareholder relations expense, insurance expense and office expense.

Cash flows from operating activities during the current period provided a source of cash of \$1,882,006, consisting primarily of operating income adjusted by non-cash share-based remuneration, accretion of convertible debentures and deferred income tax. Changes in working capital provided a source of cash of \$582,790, primarily resulting from an increase in accounts payable and accruals.

Cash flows used by operating activities during the three months ended February 28, 2017 were \$264,453, consisting of the operating loss and primarily reduced by non-cash share-based remuneration and adjusted for deferred income taxes and interest income which is reported under investing activities. Changes in working capital provided a source of cash of \$1,060,313, primarily resulting from an increase in accounts payable and accruals.

Cash flows from financing activities during the current period utilized cash of \$1,155,469. The Company paid dividends during the period in the amount of \$1,155,469.

Cash flows from financing activities during the prior period provided a source of cash of \$16,582,176, resulting from receipt of

private placement funds net of the issuance costs and from the exercise of warrants.

Cash flows from investing activities during the current period were \$Nil. During the quarter ended February 28, 2017, cash flows from financing activities provided a source of cash of \$103,841 from interest earned on the term deposits.

The COB, announced on March 6, 2017 has transformed the Company's business which now generates revenue and earnings related to the auto retail sector.

### **FUTURE PROSPECTS**

The Company is focused on continuing to grow its business through continued growth in the Partnership's loan portfolio as well as the pursuit of other investments.

### **PARTNERSHIP'S LOAN INVESTMENTS**

After giving effect to the Investments, the Company, through the Partnership, currently has a loan portfolio consisting of four loans as follows:

<b>DH Finance LP</b>									
<i>About the Initial Borrower</i>	The Initial Borrower invested in three large dealerships in the eastern portion of the Durham region of Ontario and the surrounding area. These dealerships have an operating history of over 30 years in this market and focus on imported automobiles.								
<i>Loan to the Initial Borrower</i>	<table> <tr> <td><u>Origination Date:</u></td> <td>March 6, 2017</td> </tr> <tr> <td><u>Loan Amount:</u></td> <td>\$33,333,333</td> </tr> <tr> <td><u>Annual Interest Payments:</u></td> <td>\$3,500,000</td> </tr> <tr> <td><u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u></td> <td>1.7x</td> </tr> </table>	<u>Origination Date:</u>	March 6, 2017	<u>Loan Amount:</u>	\$33,333,333	<u>Annual Interest Payments:</u>	\$3,500,000	<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	1.7x
<u>Origination Date:</u>	March 6, 2017								
<u>Loan Amount:</u>	\$33,333,333								
<u>Annual Interest Payments:</u>	\$3,500,000								
<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	1.7x								
<b>GTAN Finance LP</b>									
<i>About GTAN Finance LP</i>	GTAN Finance LP invested in a high volume dealership in the Simcoe County region of Ontario. This dealership has an operating history of over 40 years with a focus on imported automobiles.								
<i>Loan To GTAN Finance LP</i>	<table> <tr> <td><u>Origination Date:</u></td> <td>June 29, 2017</td> </tr> <tr> <td><u>Loan Amount:</u></td> <td>\$9,600,000</td> </tr> <tr> <td><u>Annual Interest Payments:</u></td> <td>\$1,008,000</td> </tr> <tr> <td><u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u></td> <td>3.8x</td> </tr> </table>	<u>Origination Date:</u>	June 29, 2017	<u>Loan Amount:</u>	\$9,600,000	<u>Annual Interest Payments:</u>	\$1,008,000	<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	3.8x
<u>Origination Date:</u>	June 29, 2017								
<u>Loan Amount:</u>	\$9,600,000								
<u>Annual Interest Payments:</u>	\$1,008,000								
<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	3.8x								
<b>OH Finance LP</b>									
<i>About OH Finance LP</i>	OH Finance LP invested in five large dealerships in Eastern Ontario. These dealerships have a long operating history with oldest operating in its local market for over 30 years. The dealerships operate across 4 different brands.								
<i>Loan To OH Finance LP</i>	<table> <tr> <td><u>Origination Date:</u></td> <td>June 29, 2017</td> </tr> <tr> <td><u>Loan Amount:</u></td> <td>\$9,600,000</td> </tr> <tr> <td><u>Annual Interest Payments:</u></td> <td>\$1,008,000</td> </tr> <tr> <td><u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u></td> <td>4.8x</td> </tr> </table>	<u>Origination Date:</u>	June 29, 2017	<u>Loan Amount:</u>	\$9,600,000	<u>Annual Interest Payments:</u>	\$1,008,000	<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	4.8x
<u>Origination Date:</u>	June 29, 2017								
<u>Loan Amount:</u>	\$9,600,000								
<u>Annual Interest Payments:</u>	\$1,008,000								
<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	4.8x								
<b>WH Finance LP</b>									
<i>About WH Finance LP</i>	WH Finance LP invested in a high volume dealership in the Province of Alberta. This dealership has an operating history of over 30 years with a focus on domestic automobiles.								
<i>Loan To WH Finance LP</i>	<table> <tr> <td><u>Origination Date:</u></td> <td>June 29, 2017</td> </tr> <tr> <td><u>Loan Amount:</u></td> <td>\$23,800,000</td> </tr> <tr> <td><u>Annual Interest Payments:</u></td> <td>\$2,499,000</td> </tr> <tr> <td><u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u></td> <td>2.3x</td> </tr> </table>	<u>Origination Date:</u>	June 29, 2017	<u>Loan Amount:</u>	\$23,800,000	<u>Annual Interest Payments:</u>	\$2,499,000	<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	2.3x
<u>Origination Date:</u>	June 29, 2017								
<u>Loan Amount:</u>	\$23,800,000								
<u>Annual Interest Payments:</u>	\$2,499,000								
<u>Interest Coverage Ratio Last Twelve Months – March 2018<sup>(1)</sup></u>	2.3x								

**Notes:**

- (1) Defined as Last Twelve Months ending March 2018 EBITDA/annual interest payment owing to the Partnership. Note that the Last Twelve Months ending March 2018 EBITDA amount reflects de minimis onetime adjustments relating to non-recurring expenses and

year-end audit expenses.

The portfolio of loans is made to entities that are related to ten dealerships in Ontario and Alberta. These dealerships sold an aggregate of over 10,000 vehicles in 2017. The Company understands that a portion of the proceeds of the Investments had been used to repay the existing indebtedness of the dealerships in which the Borrowers are investing such that, following the repayment of such existing indebtedness, the only indebtedness relating to the Borrowers shall be through the Investments. Each of the Borrowers are limited partnerships, of which AA Finance Co LP is the sole limited partner, and the current CEO of the Company is the sole shareholder and director of their common general partner.

The Borrowers are all compliant with the applicable terms of their respective loan agreements as at March 31, 2018. The Investments are unsecured obligations of the Borrowers and therefore, in all cases, will be subordinated to any secured obligations of the applicable Borrower. To the extent a Borrower were to default on its obligation under the Investments, the applicable loan agreement provides that the Partnership can accelerate repayment with all amounts owing and due immediately with the Partnership able, without notice to the applicable Borrower, to take such actions as may be necessary to enforce payment, subject to applicable laws and to any other indebtedness of the applicable Borrower which may take priority. Such actions include issuing a demand letter to the applicable Borrower, applying to court for one or more judgments, orders, or awards, including for the payment of money, obtaining a writ of execution, the appointment of a receiver or petitioning the applicable Borrower into bankruptcy or commencing other insolvency proceedings. These rights can, subject to the terms of the applicable loan or related agreement or court order, as the case may be, apply against the assets of a Borrower provided that, under applicable Canadian law or as may be provided in a loan or related agreement or under a court order, any right in such asset will rank behind a secured party of the applicable Borrower.

“Interest Coverage” is not defined by IFRS and it does not have any standardized meaning under GAAP. Therefore, such measures may not be comparable to similar measures presented by other issuers. Interest Coverage is defined as Earnings before interest (excluding floor plan interest), taxes, depreciation and amortization divided by annual interest payments owing to the Partnership.

### **LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2018, the Company had cash on hand of \$2,420,509. Working capital at March 31, 2018 was an aggregated \$722,007. Management believes that working capital on hand and the interest revenue generated from the Partnership’s loan investments will be sufficient to fund the Company’s activities for the next 12 months.

The Company’s capital requirements now relate to growth and other related investments. These have historically been funded by the issuance of shares, issuance of debt and going forward, may also be met by internally generated cash flow.

#### ***Financing activity, options and warrants***

The Company maintains a stock option plan (the Option Plan) whereby the Board may, from time to time, grant options to acquire Shares to the Company’s employees, officers, directors and consultants.

The Company’s Option Plan permits the Company’s Board to grant to directors, officers, consultants and employees of the Company share options to purchase from the Company a designated number of authorized but unissued Shares up to but not exceeding 10% of the issued and outstanding Shares. Options issued pursuant to the Option Plan have a term of 5 years after the grant date and each option entitles the holder to subscribe to an equivalent number of Shares.

As at March 31, 2018, 203,333 options were outstanding of which 156,667 were exercisable at \$1.725 and 20,000 were exercisable at \$1.95 and 2,481,161 warrants were exercisable for an equivalent number of Shares at an exercise price of \$2.10.

#### ***Capital stock***

The Company’s capital stock consists of an unlimited number of Shares. At March 31, 2018, 22,523,773 Shares were issued and outstanding, of which 2,744,653 Shares were escrowed.

The capital stock is as follows:

	<u>Number of Shares</u>
Balance, March 31, 2018 and December 31, 2017	<u>22,523,773</u>

### **OFF BALANCE SHEET ARRANGEMENTS**

The Company does not have any off-balance sheet arrangements.

### **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The Duncan Lake Iron Property (as described herein) is subject to certain agreements and royalties. See Note 7 of our financial statements for the year ended February 28, 2017.

The Company has agreed to commit \$100 million as an obligated financing to the Partnership under the terms of an alliance agreement dated March 3, 2017 between the Partnership and AA Finance Co LP, with approximately \$24 million remaining to be

committed following the Investments.

### **RELATED PARTY TRANSACTIONS**

The Company's related parties include key management and other related parties, as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

#### ***Transactions with key personnel***

The Company considers key personnel to be those having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key personnel are the members of the Board of Directors, the CEO and the CFO. Remuneration of key personnel includes the following expenses:

	Three months ended March 31 2018	Three months ended February 28 2017
Other professional and contract expense	\$ –	\$ 18,750
Salary expense	–	42,555
Professional fees	87,500	–
Directors' fees	8,395	8,395
Share-based remuneration	3,010	519,483
Total remuneration	<u>\$ 98,905</u>	<u>\$ 589,183</u>

As at March 31, 2018, the Company had accounts payable of \$2,481,040 (\$1,906,069 as at December 31, 2017). At March 31, 2018 and December 31, 2017, \$4,810 was to a company owned by key personnel and \$1,428,561 was to key personnel as share-based remuneration.

#### ***Transactions with related companies***

On March 3, 2017, the Company completed a private placement with an entity controlled by a shareholder exercising significant influence of 4,333,333 common shares at a price of \$2.40 per common share.

During the period, the partnership incurred partnership expenses of \$107,800 (\$Nil – three months ended February 28, 2017) with an entity controlled by a shareholder exercising significant influence.

During the period, the Company incurred rent expense of \$7,500 which is payable to a related company. An officer of the Company is a director of the related company.

The Company has agreed to commit \$100 million as an obligated financing under the terms of an alliance agreement dated March 3, 2017 between the Partnership and a group of entities controlled by a shareholder exercising significant influence, with approximately \$24 million remaining to be committed as of March 31, 2018; any financing request will be subject to the Partnership having obtained the necessary funding. If any loan were to be advanced under the agreement, it would include the same terms as the loans described in note 6. The commitment period ends in September 2018.

### **MINING PROPERTIES**

In addition to our investments in the automotive retail sector, we hold a 35% registered interest in the Duncan Lake Iron Property which is located at the western portion of the La Grande Greenstone Belt and contains iron ore deposits of the Algoma type, hosted by a volcano-sedimentary sequence. We do not consider this interest to be material to our business.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

Certain pronouncements have been issued by the IASB or IFRIC (IFRS Interpretations Committee) that will be effective for the current and future accounting periods. Many of these are not applicable to the Company and so are not listed below. The following is a brief summary of IFRS 9 which replaces IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets which include a logical model for classification and measurement of financial assets, a single, forward-looking "expected credit loss" impairment model. This applies to the Partnership's Loan Investments. The Company has adopted the new standard as of January 1, 2018.

Under the historical IAS 39 measurement, cash, receivable from a project partner and partnership's loan investments were classified as 'Loans and receivables'. Under IFRS 9, these are classified as 'Amortized cost'. For financial liabilities, the classification under IFRS 9 is consistent with IAS 39. The application of IFRS 9 has no impact on the classification and measurement of the Company's financial liabilities.

Our financial performance and disclosure are not materially affected by the application of the standard. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as was the case under IAS 39. The new guidance does not have a significant impact on the measurement of the Company's financial instruments for the following reasons: The credit risk of the loans is considered low.

## **FINANCIAL INSTRUMENTS**

The Company is exposed to various risks relating to financial instruments. The main types of risks are credit risk and liquidity risk.

The Company does not actively engage in the trading of financial assets for speculative purposes. No changes were made in the objectives, policies and processes related to financial instruments risk management during the reporting periods.

### ***Credit risk***

Credit risk is the risk that another party to a financial instrument fails to discharge an obligation and, thus, leads the Company to incur a financial loss.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

	March 31 2018	December 31 2017
Cash	\$ 2,420,509	\$ 1,693,972
Receivable from a project partner	700,000	700,000
Partnership's loan investments	76,333,333	76,333,333
Carrying amounts	<u>\$79,453,842</u>	<u>\$78,727,305</u>

The Company continuously monitors defaults of counterparties. Management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high external credit ratings.

### ***Liquidity risk***

Liquidity risk is the risk that an entity will encounter difficulty meeting obligations associated with financial liabilities that are settled by cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources such as private and public investments for a sufficient amount.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities:

	March 31 2018	December 31 2017
<b><u>Less than 12 months</u></b>		
Accounts payable and accruals	\$ 535,850	\$ 462,998
Interest payable on debentures	2,066,513	2,066,513
	<u>\$ 2,602,363</u>	<u>\$ 2,529,511</u>
	March 31 2018	December 31 2017
<b><u>Between 12 and 60 months</u></b>		
Debentures	\$ 30,615,000	\$ 30,615,000
Interest payable on debentures	7,232,794	7,232,794
	<u>\$ 37,847,794</u>	<u>\$ 37,847,794</u>

The Company considers expected cash flows from Cash and Partnership's Loan Investments in assessing and managing liquidity risk. The Company's existing cash exceeds the current cash outflow requirements.

## **RISKS AND UNCERTAINTIES**

Below are a number of important risks which management believes could affect our business since the COB:

- risks related to the lack of diversification of investments;
- profitability risks;
- automotive industry regulatory risks;
- dependence upon the Partnership and its Investments;
- risks relating to the unsecured nature of the loans to the Borrowers and the ability of the Borrowers to repay the loans and to cover interest payments when due;
- risks relating to the ability of the Company to fund the interest payable on the Debentures and repayment of the Debentures when due;
- risks relating to the ability of the Company to continue to pay dividends;
- risks relating to the Company's reliance on AA Finance Co LP for funding opportunities and that third parties may not be able to provide funding opportunities;
- risks relating to the Company's reliance on the Partnership to act as its administrator;
- credit risks;
- collection risks;
- no guaranteed return or dividends for shareholders;
- risks of competition;
- risk of fluctuations in the value of the Company and the Shares;
- sensitivity to macro-economic conditions including those affecting the automotive industry;
- risks relating to additional funding requirements;
- risk of dilution from possible future offerings; and
- the dependence on key management and directors.

## **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

This MD&A was prepared as of May 30, 2018. The Company regularly discloses additional information through the filing of press releases, material change reports, financial statements, quarterly and annual reports on SEDAR: [www.sedar.com](http://www.sedar.com).

This report was approved on May 30, 2018.