KNIGHTSWOOD FINANCIAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Nine-month period ended September 30, 2016

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This Management's Discussion and Analysis ("MD&A") was prepared as of November 3, 2016 unless otherwise indicated. This MD&A reviews the operating results, financial position and liquidity of Knightswood Financial Corp. (the "Company"). All amounts are stated in Canadian dollars. This MD&A should be read in conjunction with the condensed interim financial statements for the nine-month period ended September 30, 2016 and the audited financial statements and the notes hereto for the year ended December 31, 2015. Additional information of the Company is available on the Company's website at www.knightswood.ca or on SEDAR at www.sedar.com.

This MD&A may contain forward-looking information that is based on the Company's expectations, estimates and projections regarding its business and the economic environment in which it operates. Forward-looking information speaks only as of the date it is provided, is not a guarantee of future performance and involves risks and uncertainties that are difficult to control or predict. Readers should refer to the "Cautionary Note Regarding Forward Looking Information and Business Risks" in this MD&A.

Description of Business, Overall Performance and Outlook

The Company operates as a merchant bank providing the private companies in which it invests (the "Investee Companies") the ability to issue debt instruments that are eligible for registered plans as defined in the *Income Tax Act* (Canada). The Company earns a fee from the Investee Companies which are independently managed and operated by their respective management companies. The fee, which is the Company's sole source of revenue, commences when an Investee Company has a first closing on its debenture offering and ceases when all the outstanding debentures are redeemed. The Company develops its business by acquiring newly incorporated private companies which intend to raise funds in the equity market. Generally, the Company pays a nominal amount for all or a majority of the voting shares of these private companies which have no assets and liabilities when acquired. Although the Company owns either all or a majority of voting rights in the Investee Companies, the accounts of the Company and the Investee Companies are not consolidated as the Company does not meet the definition of control under IFRS.

During the nine-month period ended September 30, 2016, the Company acquired 60% of the issued and outstanding shares of a company for $600 and 90% of the issued and outstanding shares of a start-up company for $90. Also during the period, the Company dissolved an Investee Company which had never commenced operations since incorporation and disposed of an Investee Company which redeemed all its bonds and ceased operations in 2015. No gain or loss was recorded from these dispositions. At the date of this report, the Company has 21 Investee Companies of which 13 are actively operating and from which the Company earns an administration fee. Most of the Investee Companies acquired in 2015 are still raising funds and not in full operations yet and hence the Company has not realized any significant income from them since these Investee Companies were acquired. The Company expects these Investee Companies to be in full operations by the end of 2016.

Results of Operations

Three-month periods ending September 30, 2016 and 2015

The following table highlights the financial results of the Company for the third quarter ending September 30, 2016, compared with the same quarter in 2015:

For the three months ended September 30	2016	2015	Change from 2015
Revenues	$ 73,000	$ 74,000	$ (1,000)
Total expenses	53,000	60,000	(7,000)
General	32,000	32,000	-
Operating	21,000	28,000	(7,000)
Income before tax	21,000	14,000	7,000
Net income	15,000	11,000	4,000
Earnings per share, basic & diluted	-	-	-

For the third quarter ended September 30, 2016, the Company reported net income of $15,000, an increase of $4,000 from $11,000 in the same quarter of 2015. The increase in income was mainly due to a decrease in operating expenses in the third quarter of 2016. The table below compares the composition of expenses for the three-month periods ended September 30, 2016 and 2015:

For the three months ended September 30	2016	2015	Change from 2015
General and administrative			
Administration fee	$ 9,000	$ 9,000	$ -
Directors' fee	8,000	6,000	2,000
Management fee	15,000	17,000	(2,000)
	32,000	32,000	-
Operating			
Audit and legal fees	4,000	6,000	(2,000)
Bad debt	-	15,000	(15,000)
Business development	8,000	-	8,000
Office and miscellaneous	1,000	-	1,000
Rent	6,000	6,000	-
Transfer agent and filing fee	2,000	1,000	1,000
	21,000	28,000	(7,000)
	$ 53,000	$ 60,000	$ (7,000)

In the third quarter of 2015, the Company wrote off $15,000 of receivables from an Investee Company, which had not paid the administrative fee since March 2014. At September 30, 2016, the Company concluded that no further write-off of receivables was required as none of them was 90 days past due. The business development expense in 2016 relates to a contingent fee paid to finders for all income earned from new businesses brought in by the finders.

Nine-month periods ending September 30, 2016 and 2015

For the nine-month period ended September 30, 2016, the Company reported net income of $105,000, an increase of $70,000 when compared to net income of $35,000 for the same period in 2015. The increase in net income was primarily due to a realized gain of $81,000 from the sale of an available-for-sale investment for $100,000 (See "Transactions with Related Parties"), partially offset by a decrease of $28,000 in revenues and $15,000 in expenses.

The following table highlights the financial results of the Company for the nine months ended September 30, 2016, compared with the same period in 2015:

For the nine months ended September 30	2016	2015	Change from 2015
Revenues	$ 181,000	$ 209,000	$ (28,000)
Total expenses	150,000	165,000	(15,000)
General and administrative	96,000	104,000	(8,000)
Operating	54,000	61,000	(7,000)
Gain from sale of investment	81,000	-	81,000
Income before tax	113,000	47,000	66,000
Net income	105,000	35,000	70,000
Earnings per share, basic & diluted	0.03	0.01	0.02

For the nine months ended September 30, 2016, the Company earned fees from 14 Investee Companies and reported fee income of $181,000. This compares to revenues of $209,000 from 18 Investee Companies in the same period of 2015. As the Company's only source of revenue is administrative fee from the Investee Companies, the administrative fee income ceases when an Investee Company no longer has any debentures outstanding. Since 2014, a number of the Investee Companies have ceased operations after redeeming all their debentures. Although there were revenues from the new Investee Companies acquired in the last two years, the fee income was not significant as most of them are still raising funds and not in full operations.

Total expenses in the current period were $150,000, a decrease of $15,000 from $165,000 in the same period of 2015. The tables below compare the composition of the expenses for the nine months ended September 30, 2016 and 2015:

For the nine months ended September 30	**2016**	**2015**	**Change from 2015**
General and administrative			
Administration fee	$ 28,000	$ 31,000	$ (3,000)
Directors' fee	23,000	26,000	(3,000)
Management fee	45,000	47,000	(2,000)
	96,000	104,000	(8,000)
Operating			
Audit and legal fees	12,000	15,000	(3,000)
Bad debt	-	15,000	(15,000)
Business development	10,000	-	10,000
Marketing and travel	2,000	-	2,000
Office and miscellaneous	3,000	3,000	-
Rent	17,000	18,000	(1,000)
Transfer agent and filing fee	10,000	10,000	-
	54,000	61,000	(7,000)
	$ 150,000	$ 165,000	$ (15,000)

Within total expenses, general and administrative expenses decreased by $8,000 due to a reduction in director's fee and administration fees when the directors and Trilogy Bancorp Ltd. agreed to reduce their monthly fee beginning May 2015, from $750 to $500 and from $6,000 to $5,000, respectively. Operating expenses decreased by $7,000 due to a provision for uncollectable administrative fee not required in 2016, partially offset by a newly introduced business development fee paid to finders who bring new businesses to the Company.

Summary of Quarterly Results

	Total Revenues	**Net income (loss)**	**Earnings per share Basic & Diluted**
September 30, 2016	$ 73,000	$ 15,000	$ 0.005
June 30, 2016	56,000	7,000	-
March 31, 2016	52,000	83,000	0.027
December 31, 2015	48,000	(2,000)	-
September 30, 2015	74,000	11,000	0.004
June 30, 2015	71,000	17,000	0.006
March 31, 2015	64,000	7,000	0.002
December 31, 2014	65,000	20,000	0.006

The increase in net income for the quarter ending March 31, 2016 was primarily due to a realized gain of $81,000 from a disposition of investment.

Transactions with Related Parties

Trilogy Bancorp Ltd. ("Trilogy")

Trilogy, a private company owned and controlled by Hugh Cartwright, Maurice Levesque and Stephen McCoach, who are directors of the Company, and their families, provides administrative services and office space to the Company on for an agreed-upon amount on a month to month basis. Effective May 2015, Trilogy agreed to reduce the monthly fee to $5,000 from $6,000. For the six months ended June 30, 2016, the Company was charged a total of $30,000 for administrative services and rent. No amount was outstanding to Trilogy at September 30, 2016. Amounts owing to Trilogy are unsecured, non-interest bearing and due on demand.

Investee Companies

The agreement with each of the Investee Companies into which the Company entered provides that the Investee Company pays to the Company a fee based on the outstanding debenture balance of the Investee Company at the end of a period. For the nine months ended September 30, 2016, the Company reported administration fee income of $181,000. At September 30 2016, of the $67,000 outstanding from the Investee Companies, $17,000 owing from an Investee Company was considered impaired and an allowance had been provided.

Compensation of key management personnel

The Company's key management personnel include members of the Board of Directors, executive officers and the President. Other than the payments disclosed below, there were no other forms of compensation paid to key management personnel during the nine-month period ended September 30, 2016.

Elcyc Holdings Ltd. ("Elcyc"), a company owned and controlled by Maurice Levesque, President and director of the Company, provides management consulting services to the Company on a month to month basis. For the nine months ended September 30, 2016, the Company incurred $22,000 in management fees. No amounts were outstanding to Elcyc at September 30, 2016.

Canterra Capital Corp. ("Canterra"), a company owned and controlled by Stephen McCoach, a director of the Company, provides management consulting services to the Company on a month to month basis. For the nine months ended September 30, 2016, the Company incurred $22,000 in management fees. No amounts were outstanding to Canterra at September 30, 2016.

The Company pays a monthly fee to the directors for services provided. For the six months ended June 30, 2016, the Company incurred $15,000 in directors' fees. No amounts were outstanding to the directors at June 30, 2016.

Imperial Ginseng Products Ltd. ("Imperial Ginseng")

In March 2016, the Company sold all its 8.75% interest in Ponderosa Ginseng Farms Corp. ("Ponderosa") to Imperial Ginseng, an entity related to the Company by certain directors in common, for $100,000. Imperial Ginseng was a shareholder of Ponderosa prior to this transaction. The Company reported a gain of $81,000 from this disposition.

Liquidity and Capital Resources

The Company manages its liquidity by closely monitoring its operating expenses and actual cash flows on a regular basis. At September 30, 2016, the Company had working capital of $717,000 as compared to $594,000 at December 31, 2015. Despite a decline in revenues in 2015 and 2016, management of the Company expects the Investee Companies acquired in 2014 and 2015 to be in full operations by the end of 2016. Management does not foresee the Company will be running into working capital deficiency in the next two years with its current cash position.

The Company's capital resources consist of shareholders' equity. At the date of this report, the Company did not have any commitments for capital expenditures. None of the Company's resources is committed to the Investee Companies.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance, liquidity or capital resources of the Company.

Critical Accounting Estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

Areas requiring estimates and judgements are as follows:

<u>Determination of control of the Investee Companies</u>

The financial statements of the Company and the Investee Companies are not consolidated as the Company, based on its interpretation of the definition of control under IFRS 10, has determined that it does not have control over the Investee Companies. From a legal perspective, the Company controls all the Investee Companies as it owns either all or a majority of the voting rights in the Investee Companies. Under IFRS 10, Knightswood has neither the rights to the returns of the Investee Companies nor the ability to use power to affect returns of the Investee Companies.

<u>Measurement of deferred tax assets and liabilities</u>

The Company is required to make significant judgment when determining the provision for current income taxes, including estimates for uncollectible receivables, liabilities and contingencies. The provision for tax liability is the Company's best estimate based on its current understanding of the tax law. The Company believes it has adequately provided for the probable outcome; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

No deferred tax assets in relation to the unused capital loss of approximately $1 million are recognized as the Company believes that the probability of future capital gains is remote based on its current business operations.

Changes in Accounting Policies including Initial Adoption

<u>Future changes in accounting standards</u>

IFRS 15, *Revenue from Contracts with Customers,* is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 provides a framework for how revenue is recognized in a contract and how to account for contract modifications. The standard discusses the amount of revenue to recognize as function of the consideration expected to be entitled in exchange for the transfer of goods and services. At this time, the Company cannot reasonably determine the impact of adopting the future accounting standards to its financial reporting.

IASB issued IFRS 9, *Financial Instruments,* which is effective for entities with accounting periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* by using a single model approach to determine whether a financial asset is measured at amortized cost or fair value. The Company intends to adopt IFRS 9 in its financial year beginning on July 1, 2018. At this time, the Company cannot reasonably determine the impact of adopting the future accounting standards to its financial reporting.

Financial Instruments and Risk Management

The Company's financial instruments include cash and cash equivalents, receivables, and trade and other payables. Cash and cash equivalents are exposed to credit risk and the Company reduces its credit risk by placing these instruments with institutions of high credit worthiness. Receivables relate to outstanding fees owing from the Investee Companies and the Company mitigates the credit risk by entering into agreements with the Investee Companies and reviewing its exposure to credit risk on a regular basis. The Company is exposed to liquidity risk with respect to its trade and other payables and the Company manages liquidity risk by maintaining sufficient cash balances for settlement of financial liabilities on their due dates.

Outstanding Share and Option Data

At the date of this report, 3,011,667 common shares were issued and outstanding.

Cautionary Note Regarding Forward Looking Information and Business Risks

This MD&A contains certain forward-looking statements and forward-looking information within the meaning of aapplicable securities laws. All statements other than statements of historical fact are forward-looking statements. The use of any of the words such as "plans", "anticipates", "intends", "expects", "estimates", "believes", "projects", "assumes", "forecasts" and similar expressions and such words that certain actions or results "may", "could", "would", "should", "might" or "will" be taken or occur are intended to identify forward-looking information. Forward-looking statements involve risks, uncertainties and other factors beyond the Company's ability to predict or control which may cause actual results and performance to differ materially from those anticipated. There can be no assurance that any forward-looking statement will materialize. Accordingly, readers should not place undue reliance on forward-looking statements.

Although management believes that the expectations represented in such forward-looking statements are reasonable, there is no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, performance or achievements.

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may impact the financial performance of the Company when further information becomes available.

The forward-looking information contained in this MD&A is made as of the date hereof 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, unless so required by applicable securities laws.