KNIGHTSWOOD FINANCIAL CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended December 31, 2016 and 2015

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This Management's Discussion and Analysis ("MD&A") was prepared as of April 11, 2017 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 audited financial statements and the notes hereto for the year ended December 31, 2016. 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 is a publicly traded investment and merchant banking company. To date, the Company's investments have been in private companies (the "Investee Companies") so as to provide those companies with the ability to issue debt instruments that are eligible for registered plans as defined in the *Income Tax Act* (Canada) ("Deferred Plans"). The Company receives its revenues from fees charged to the Investee Companies. This income commences when an Investee Company has a first closing on its debt offering and ceases when all the outstanding debt securities are redeemed, which typically does not occur for many years. The Investee Companies use the capital raised at their own discretion, without reliance on the resources of the Company. All of the Investee Companies are independently managed and operated by their respective management companies. The Company takes a non-active role in the operation or management of the Investee Companies and as such the accounts of the Company and the Investee Companies are not consolidated as the Company does not have control over the Investee Companies under IFRS. The Company does not look to make money on the acquisition or disposition of Investee Companies. Its only source of revenue is derived from the fees it charges to Investee Companies.

The Company develops this part of its business by negotiating with corporate parties that wish to distribute debt securities that will qualify for Deferred Plans. The Company will establish or acquire a newly incorporated private company which (i) is operated by the underlying management entities; and (ii) intends to raise funds in the debt market. As a subsidiary of the Company, the Investee Company is then eligible to issue debt securities which qualify for Deferred Plans and the Company receives a monthly or quarterly investment fee based on the amount of funds raised by the Investee Companies.

During the year ended December 31, 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 year, 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 December 31, 2016, the Company had 22 Investee Companies in which it held a direct or indirect interest.

In January 2017, the Company and Knightswood Holdings Ltd. ("Holdings") entered into an assignment agreement under which the Company transferred all of its right, title and interest in the Investee Companies and all the contracts it has with the Investee Companies to Holdings. Holdings is a wholly owned subsidiary of the Company incorporated for the purpose of holding the Company's equity interest in the Investee Companies and administering the contracts between the Company and the Investee Companies.

On March 1, 2017, the Company and each of Elcyc Holdings Ltd. and Canterra Capital Corp. (collectively the "Operator") entered into a business management agreement (the "Management Agreement") under which the Operator is engaged to operate the business of Holdings, which includes overseeing the holding and administration of the Investee Companies for a term of five years. In exchange for the services provided, the Operator is entitled to receive all the net income of Holdings less $1,000 per annum per Investee Company, which will be paid to the Company. Pursuant to the Management Agreement, the Company will not commit its management or resources to Holdings nor will it be involved in or have the power to direct the activities of Holdings. The Operator will be solely responsible for managing the business operations and financial affairs, making decisions and setting out policies of Holdings.

The Company is currently looking for investment opportunities outside its current mandate of holding interests in only "Investee Companies". The Company anticipates making investments which do not involve only "Investee Companies", but which will involve more conventional equity and debt investments in private and public companies in various industries, including the cannabis industry. The Company is seeking investment capital by undertaking one or more debt and/or equity offerings.

in January 2017, the Company closed a non-brokered private placement and distributed 20,309,182 special warrants ("Special Warrants") priced at $0.055 per Special Warrant for gross proceeds of $1,117,005. Each Special Warrant entitles the holder to receive one unit ("Unit") of the Company, with each Unit consisting of one common share ("Share") and one Share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase one additional Share at $0.07 until January 20, 2019. In February 2017, the British Columbia Securities Commission issued the final receipt for the Company's non-offering prospectus (the "Prospectus"), which qualified the issuance of 20,309,182 Shares and 20,309,182 Warrants of the Company upon conversion of the Special Warrants.

In March 2017, the Company closed two non-brokered private placements and distributed a total of 25,510,656 Units priced at $0.055 per Unit for gross proceeds of $1,403,088. Each Unit consists of one Share and one Warrant, with each Warrant entitling the holder to purchase one additional Share at $0.07 until March 2019. To the date of this report and prior to the Stock Split, 1,456,827 Warrants had been exercised.

In March 2017, the Company granted 4,238,695 stock options (the "Stock Options") to new consultants of the Company, with each Stock Option permitting the holder to acquire one common share of the Company at a price of $0.075 per share (see "Outstanding Share and Option Data").

In April, 2017, the Company completed a forward split of its common shares on the basis of three post-split shares for one issued and outstanding common share (see "Subsequent Equity Transactions").

Selected Annual Information

Years ended December 31	2016	2015	2014
Total revenues	$ 231,000	$ 257,000	$ 275,000
Net income (loss)	(230,000)	33,000	37,000
Basic and diluted earnings (loss) per share	(0.025)	0.004	0.004
Total assets	417,000	722,000	612,000
Total long-term debt	-	-	-

Results of Operations

The following table highlights the financial results of the Company for the years ended December 31, 2016 and 2015:

	2016	2015	Change from 2015
Revenues	$ 231,000	$ 257,000	$ (26,000)
Total expenses	591,000	216,000	375,000
General	503,000	134,000	369,000
Operating	88,000	82,000	6,000
Gain from sale of investment	81,000	-	81,000
Income (loss) before tax	(276,000)	44,000	(320,000)
Income tax expense (recovery)	(46,000)	12,000	(58,000)
Net income (loss)	(230,000)	33,000	(263,000)
Earnings (loss) per share, basic & diluted (1)	(0.025)	0.004	(0.029)

(1) *The number of issued and outstanding common shares have been retroactively adjusted in order to effect the Stock Split approved subsequent to the year ended December 31, 2016*

For the year ended December 31, 2016, the Company reported net loss of $230,000 or $0.025 loss per share. This compares to net income of $33,000 or $0.004 basic and diluted earnings per share for the year ended December 31, 2015. The significant decrease in net income in 2016 was mainly due to paying bonuses totalling $375,000 to management and directors of the Company. No bonuses were paid in 2015.

In 2016, the Company reported revenues of $231,000, a decrease of $26,000 from $257,000 in 2015. As the Company's only source of revenue is administrative fees 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.

In 2016, general and administrative expenses were $503,000, an increase of $369,000 from $134,000 in 2015 primary due to paying bonuses and retiring allowance to management and directors of the Company in 2016. No bonuses were paid to management or directors in 2015.

The table below compares the composition of the expenses for the years ended December 31, 2016 and 2015:

	2016	2015	Change from 2015
General and administrative			
Administration fee	$ 38,000	$ 40,000	$ (2,000)
Directors' fee	30,000	34,000	(4,000)
Management fee and bonuses	435,000	60,000	375,000
	503,000	134,000	369,000
Operating			
Audit and legal fees	24,000	22,000	2,000
Bad debt	-	17,000	(17,000)
Business development	11,000	3,000	8,000
Marketing and travel	4,000	3,000	1,000
Office and miscellaneous	7,000	2,000	5,000
Rent	27,000	24,000	3,000
Transfer agent and filing fee	15,000	11,000	4,000
	88,000	82,000	6,000
	$ 591,000	$ 216,000	$ 375,000

In 2016, operating expenses increased slightly to $88,000 from $82,000 in 2015. Overall, the expense in each category in 2016 increased slightly from 2015, with the most increase in business development which is a contingent fee paid to finders for all income earned from new businesses brought in by the finders. In 2015, the Company wrote off $17,000 of receivables from an Investee Company which had not paid the administrative fee since March 2014. At December 31, 2016, the Company concluded that no further write-off of receivables was required as none of the receivables was 90 days past due.

Also in 2016, the Company sold an investment to a company related to the Company by certain directors in common for $100,000 and realized a gain of $81,113 (See "Transactions with Related Parties").

Summary of Quarterly Results

The following financial information is for each of the eight most recently completed quarters of the Company:

	Total Revenues	Net income (loss)	Earnings (loss) per share Basic & Diluted [(1)]
December 31, 2016	$ 50,000	$ (335,000)	$ (0.036)
September 30, 2016	73,000	15,000	0.002
June 30, 2016	56,000	7,000	-
March 31, 2016	52,000	83,000	0.009
December 31, 2015	48,000	(2,000)	-
September 30, 2015	74,000	11,000	0.001
June 30, 2015	71,000	17,000	0.002
March 31, 2015	64,000	7,000	0.001

[(1)] *The number of issued and outstanding common shares have been retroactively adjusted in order to effect the Stock Split approved subsequent to the year ended December 31, 2016*

The loss in the quarter ending December 31, 2016 was due to the decision of paying bonuses to management and directors in that quarter. 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

<u>Trilogy Bancorp Ltd. ("Trilogy")</u>

Trilogy, a private company which is owned one-third by Maurice Levesque and one-third by Stephen McCoach, who are directors of the Company, provides administrative services and office space to the Company on for an agreed-upon amount on a month to month basis. For the year ended December 31, 2016, the Company was charged a total of $60,000 for administrative services and rent. No amount was outstanding to Trilogy at December 31, 2016.

<u>Investee Companies</u>

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 year ended December 31, 2016, the Company reported administration fee income of $231,000. At December 31, 2016, $53,000 was outstanding from the Investee Companies.

<u>Compensation of key management personnel</u>

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 year ended December 31, 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 year ended December 31, 2016, the Company incurred $30,000 in management consulting fees and $11,013 in business development fee. Also during the year, the Company paid a management bonus of $125,000 to Elcyc. At December 31, 2016, $8,350 was outstanding to Elcyc.

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 year ended December 31, 2016, the Company incurred $30,000 in management consulting fees and $342 in business development fee. Also during the year, Canterra charged the Company $2,250 in management rent. In 2016, the Company paid a management bonus of $125,000 to Canterra. At December 31, 2016, $6,250 was outstanding to Canterra.

In 2016, the Company paid a bonus of $5,000 to the Chief Financial Officer of the Company.

The Company pays a monthly fee to the directors for the services provided. For the year ended December 31, 2016, the Company incurred $29,750 in directors' fees. Also during the year, the Company paid a bonus of $20,000 to directors and a retiring allowance of $100,000 to a director. No amount was outstanding to the directors at December 31, 2016.

Qwest Investment Management Corp. ("Qwest")

During the year ended December 31, 2016, Qwest, a company controlled by Maurice Levesque, President and director of the Company, charged the Company management rent of $2,250.

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 December 31, 2016, the Company had working capital of $382,000 as compared to $594,000 at December 31, 2015. None of the Company's resources is committed to the Investee Companies. Management does not foresee the Company will be running into working capital deficiency.

The Company's capital resources consist of shareholders' equity. The Company is currently looking for investment opportunities and will seek investment capital by undertaking one or more debt and/or equity offerings.

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.

Fourth Quarter

Generally, the Company reviews the receivables from the Investee Companies in the fourth quarter unless it is inevitable that the account is impaired. The Company reviewed all other receivables in the fourth quarter of 2016 and concluded that no further provision for allowance was required.

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. Areas requiring estimates and judgements are as follows:

Determination of control of the Investee Companies

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.

Fair value of available-for-sale investment

The Company estimates the fair value of its investment in the shares of a private company by reference to available sources and determines the range of reasonable fair value measurements and the probabilities of various estimates within the range. When the information from available sources within the range of reasonable fair value measurement and the probabilities of the various estimates cannot be reasonably assessed, the Company estimates the fair value using its own judgment. The actual fair value of the investment may differ significantly from the Company's carrying amount.

Measurement of deferred tax assets and liabilities

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

Future changes in accounting standards

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.

Subsequent Equity Transactions

In December 2016, the Company filed a non-offering prospectus with respect to a non-brokered private placement (the "Prospectus") which was subsequently completed in January 2017 and under which the Company distributed 20,309,182 special warrants ("Special Warrants") priced at $0.055 per Special Warrant for gross proceeds of $1,117,005. Each Special Warrant entitles the holder to receive one unit ("Unit") of the Company, with each Unit consisting of one common share ("Share") and one share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase one additional Share at $0.07 until January 20, 2019. In February 2017, the British Columbia Securities Commission issued the final receipt for the Company's Prospectus, which qualified the issuance of 20,309,182 Shares and 20,309,182 Warrants of the Company upon conversion of the Special Warrants.

In March 2017, the Company closed two non-brokered private placements and distributed a total of 25,510,656 Units priced at $0.055 per Unit for gross proceeds of $1,403,088. Each Unit consists of one Share and one Warrant, with each Warrant entitling the holder to purchase one additional Share at $0.07 until March 2019.

On April 7, 2017, the Company completed a forward split of its common shares (the "Stock Split") on the basis of three post-split shares for one issued and outstanding common share upon the receipt of approval from the TSX Venture Exchange. Following the completion of the Stock Split, the Company had 149,201,853 common shares issued and outstanding.

Outstanding Share and Option Data

At December 31, 2016, 3,011,667 common shares were issued and outstanding prior to the Stock Split. The number of issued and outstanding shares have been retroactively adjusted to 9,035,001 in order to effect the Stock Split approved subsequent to the year ended December 31, 2016. No Stock Options were outstanding at December 31, 2016.

In January 2017, at a meeting of the shareholders of the Company, it was approved that the authorized share capital of the Company would be increased from 100,000,000 to an unlimited number of common shares. At the date of this report, and after the Stock Split, the Company had 150,864,996 common shares issued and outstanding.

On March 15, 2017, the Company granted 4,238,695 Stock Options to new consultants of the Company, with each Stock Option permitting the holder to acquire one common share of the Company at a price of $0.075 per share. The Stock Options expire five years from the date of grant. Upon the Stock Split, and as of the date of this report, the Company had 12,716,085 Stock Options outstanding with an exercise price of $0.025 per share.

As at the date of this report, and after the Stock Split, the Company had 133,089,033 Warrants outstanding. Subsequent to the Stock Split, each Warrant entitles the holder to purchase one additional Share at $0.0233 per Share.

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.

Forward-looking information may include, but is not limited to,
- *possible investments the Company may make in the future*
- *raising additional financing to further the Company's investment business*
- *the investment objectives and strategies of the Company in carrying out its business*
- *identifying specific industries or businesses in which the Company will make its investments*

Although the Company believes that the expectations reflected in such forward-looking information are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking information is expressly qualified in its entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this MD&A regarding the Company's objectives, plans and goals, including future operating results, economic performance may make reference to or involve forward-looking information. The purpose of forward-looking information is to provide the reader with a description of management's expectations, and such forward-looking information may not be appropriate for any other purpose. Readers should not place undue reliance on forward-looking information contained in this MD&A. The Company undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law.

Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances at the date that such statements are made, but which may prove to be incorrect. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking information. Some of the risks and other factors which could cause actual results to differ materially from those expressed in the forward-looking information contained in this MD&A. Of primary note, the Company is adopting a new investment strategy, but has not yet formalized any investment restrictions, timetable, types of acquisitions or investments to be made, or industries in which to invest.

The forward-looking statements in this MD&A are based on the reasonable beliefs, expectations and opinions of management on the date of this MD&A. Although management has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There is no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except as, and to the extent required by, applicable securities laws.