# Grenville Strategic Royalty Corp.

Interim Condensed Consolidated Financial Statements

**For the three and nine months ended September 30, 2017**

**(Unaudited)**

## Grenville Strategic Royalty Corp.

**Consolidated Statements of Financial Position**

**(Canadian dollars)**

| | Note | September 30, 2017 | December 31, 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 7 | $ 8,611,474 | $ 6,202,412 |
| Income tax recoverable | | 15,783 | 362,905 |
| Promissory note receivable – current portion | 8 | 624,000 | 2,015,378 |
| Royalty agreements acquired– current portion | 8 | 272,926 | 1,580,247 |
| Prepaid expense and other receivables | | 182,395 | 98,477 |
| **Total Current Assets** | | **9,706,578** | **10,259,419** |
| **Non-Current Assets** | | | |
| Property and equipment | | 113,950 | 122,126 |
| Deferred tax asset | 11 | 8,233,028 | 5,078,039 |
| Equity-accounted investment in joint venture | 9 | - | 128 |
| Equity securities in investee companies | 10 | 1,828,710 | - |
| Promissory note receivable – non current portion | 8 | 1,058,633 | - |
| Royalty agreements acquired – non-current portion | 8 | 21,689,691 | 33,966,754 |
| **Total Non-Current Assets** | | **32,924,012** | **39,167,047** |
| **Total Assets** | | **$ 42,630,590** | **$ 49,426,466** |
| **Liabilities and Shareholders' Equity** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | | $ 967,111 | $ 255,531 |
| Finance lease liability | | 3,471 | 3,189 |
| **Total Current Liabilities** | | **970,582** | **258,720** |
| **Non-Current Liabilities** | | | |
| Finance lease liability | | 3,842 | 7,698 |
| Convertible debentures | 12 | 16,225,107 | 15,943,173 |
| **Total Non-Current Liabilities** | | **16,228,949** | **15,950,871** |
| **Shareholders' Equity (Note 13)** | | | |
| Share capital | | $ 50,261,640 | $ 50,260,965 |
| Contributed surplus | | 944,116 | 719,047 |
| Equity component of convertible debentures | 12 | 558,831 | 558,831 |
| Accumulated deficit | | (26,333,528) | (18,321,968) |
| **Total Shareholders' Equity** | | **25,431,059** | **33,216,875** |
| **Total Liabilities and Shareholders' Equity** | | **$ 42,630,590** | **$ 49,426,466** |

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on November 21, 2017.

"Steve Parry"
Steve Parry, Director

"Peter Kampian"
Peter Kampian, Director

## Grenville Strategic Royalty Corp.

**Consolidated Statements of Comprehensive Income/(Loss)**

**(Canadian dollars)**

| | Note | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Royalty agreements acquired | 14 | $ (1,027,463) | $ (1,015,095) | $ (4,689,362) | $ (1,955,674) |
| Promissory notes receivable | 14 | 141,779 | 143,553 | (114,530) | (519,320) |
| Equity securities in investee companies | 14 | (364,932) | - | (2,002,390) | - |
| Share of joint venture profit, net of tax | | - | - | (128) | - |
| Fee income | 14 | 6,218 | - | 13,860 | - |
| Other interest income | 14 | 21,777 | 17,039 | 60,261 | 77,796 |
| **Total Revenues** | | **(1,222,621)** | **(854,503)** | **(6,732,289)** | **(2,397,198)** |
| **Operating Expenses** | | | | | |
| Salaries, benefits and staffing costs | 15 | $ 319,901 | $ 343,006 | $ 1,014,283 | $ 1,872,158 |
| Management and facility fees | | 41,640 | 38,724 | 121,039 | 115,964 |
| Share-based compensation | 16 | 67,309 | 93,591 | 225,069 | 208,280 |
| Professional fees | | 183,331 | 280,824 | 1,090,468 | 980,106 |
| Office and general administrative | | 100,753 | 119,716 | 316,175 | 414,157 |
| **Total Operating Expense** | | **712,934** | **875,861** | **2,767,034** | **3,590,665** |
| **Operating (Loss)** | | **$ (1,935,555)** | **$ (1,730,364)** | **$ (9,499,323)** | **$ (5,987,863)** |
| Financing expense | 12 | 438,467 | 424,714 | 1,316,934 | 1,284,020 |
| **(Loss) before income taxes** | | **(2,374,022)** | **(2,155,078)** | **(10,816,257)** | **(7,271,883)** |
| **Income Taxes** | | | | | |
| Current income tax expense | 11 | $ 294,981 | $ 296,919 | $ 350,291 | $ 490,252 |
| Deferred tax (recovery) | 11 | (905,935) | (761,154) | (3,154,988) | (2,247,268) |
| **Total Income Tax Recovery** | | **$ (610,954)** | **$ (464,235)** | **$ (2,804,697)** | **$ (1,757,016)** |
| **(Loss) and total comprehensive (loss)** | | **$ (1,763,068)** | **$ (1,690,843)** | **$ (8,011,560)** | **$ (5,514,867)** |
| **Earnings/(Loss) per share (Note 18)** | | | | | |
| Basic earnings/(loss) per share | | $ (0.0166) | $ (0.0159) | $ (0.0754) | $ (0.0522) |
| Diluted earnings/(loss) per share | | (0.0166) | (0.0159) | (0.0754) | (0.0522) |

See accompanying notes to financial statements.

# Grenville Strategic Royalty Corp.

## Consolidated Statements of Changes in Equity

## (Canadian dollars)

| | Number of shares | Note | Share capital | Warrants | Contributed surplus | Equity component of the convertible debenture | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2016** | **100,762,965** | | **$47,318,036** | **$ 618,068** | **$ 417,567** | **$ 558,831** | **$(2,994,743)** | **$ 45,917,759** |
| Share issue cost | - | | (6,885) | - | - | | - | (6,885) |
| Share warrants exercised | 5,443,456 | 13 | 2,904,475 | (618,068) | - | - | - | 2,286,407 |
| Stock options exercised | 78,193 | 13 | 36,647 | - | (12,170) | - | - | 24,477 |
| Share-based compensation | - | 16 | - | - | 208,280 | - | - | 208,280 |
| Dividends paid and payable | - | | - | - | - | - | (4,671,777) | (4,671,777) |
| Comprehensive loss for the period | - | | - | - | - | - | (5,514,867) | (5,514,867) |
| **Balance, September 30, 2016** | **106,284,614** | | **$50,252,273** | **$ -** | **$ 613,677** | **$ 558,831** | **$(13,181,387)** | **$38,243,394** |
| | | | | | | | | |
| **Balance, January 1, 2017** | **106,293,543** | | **$ 50,260,965** | **$ -** | **$ 719,047** | **$ 558,831** | **$(18,321,968)** | **$ 33,216,875** |
| Stock options exercised | 24,113 | 13 | 675 | - | - | - | - | **675** |
| Share-based compensation | - | 16 | - | - | 225,069 | - | - | **225,069** |
| Comprehensive loss for the period | - | | - | - | - | - | (8,011,560) | **(8,011,560)** |
| **Balance, September 30, 2017** | **106,317,656** | | **$ 50,261,640** | **$ -** | **$944,116** | **$ 558,831** | **$(26,333,528)** | **$25,431,059** |

See accompanying notes to financial statements.

## Grenville Strategic Royalty Corp.

### Consolidated Statements of Cash Flows

**(Canadian dollars)**

| | Note | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| (Loss) before income taxes | | $ (2,374,021) | $ (2,155,078) | $ (10,816,257) | $ (7,271,883) |
| Share-based compensation | 16 | 67,309 | 93,591 | 225,069 | 208,280 |
| Depreciation | | 9,400 | 9,765 | 27,953 | 29,905 |
| Unrealized loss/(gain) from change in fair value of royalty investments acquired and promissory notes receivable | 14 | 1,382,619 | 1,718,761 | 3,088,201 | 5,249,072 |
| Unrealized loss from change in fair value of equity securities in investee companies | 14 | 364,932 | - | 2,002,390 | - |
| Unrealized gain from investment derecognized | 14 | - | - | (922,284) | - |
| Unrealized foreign exchange loss/(gain) | 17 | 679,815 | (564,911) | 1,903,127 | 2,161,782 |
| Realized loss on investments written-off | 14 | - | 1,840,936 | 7,294,269 | 1,840,936 |
| Financing expense | 12 | 438,467 | 424,714 | 1,316,934 | 1,284,020 |
| Share of Joint venture loss (profit) | | - | - | 128 | - |
| Royalty agreements acquired and promissory note – new investments | 8 | (425,000) | (370,797) | (4,218,633) | (6,171,924) |
| Royalty agreements acquired and promissory note – redemption and principal payments | 8 | 31,000 | 1,305,724 | 225,055 | 1,303,472 |
| Royalty agreements acquired and promissory note – contract buyout | 8 | - | - | 2,000,000 | - |
| Equity securities in investee companies – new investments | | (3,025) | - | (4,050) | - |
| Income tax (paid)/recovered | | 238,201 | (91,702) | (3,169) | (2,415,686) |
| Changes in working capital items | 20 | 237,528 | (601,385) | 1,003,005 | (2,113,906) |
| **Net Cash Flows generated from (used in) Operating Activities** | | **647,225** | **1,609,618** | **3,121,738** | **(5,895,932)** |
| **Cash flows from financing activities** | | | | | |
| Exercise of share warrants and stock options | 13 | $ - | $ 60 | $ 675 | 2,304,000 |
| Finance lease payments | | (814) | (735) | (3,575) | (3,174) |
| Debenture interest paid | | - | - | (690,000) | (690,000) |
| Dividends paid | | - | (1,326,406) | - | (4,817,081) |
| **Net Cash flows from Financing Activities** | | **(814)** | **(1,327,081)** | **(692,900)** | **(3,206,255)** |
| **Cash flows from investing activity** | | | | | |
| Purchase of property and equipment | | **$ (19,776)** | **$ -** | **$ (19,776)** | **$ (9,580)** |
| **Net increase in cash during the period** | | **626,635** | **282,537** | **2,409,062** | **(9,111,767)** |
| Cash and cash equivalents, beginning of period | | 7,984,839 | 7,503,027 | 6,202,412 | 16,897,331 |
| **Cash and cash equivalents, end of period** | **7** | **$ 8,611,474** | **$ 7,785,564** | **$ 8,611,474** | **$ 7,785,564** |

See accompanying notes to financial statements.

## 1. Corporate information

Grenville Strategic Royalty Corp., an Ontario predecessor to Grenville Company ("Grenville Ontario"), was incorporated on July 29, 2013. On February 19, 2014, Grenville Strategic Royalty Corp. amalgamated with 2399579 Ontario Inc. to form Grenville Ontario. As a result of the amalgamation, Grenville Ontario became a wholly-owned subsidiary of Troon Ventures Ltd., a British Columbia Company, which was then renamed Grenville Strategic Royalty Corp. ("Company"). The registered office of the Company is located at 1400 – 400 Burrard Street, Vancouver, British Columbia V6C 2T6.

The Company has one wholly owned subsidiary, Grenville Ontario. The Company buys royalty interests in the revenue generated by small and medium sized businesses operating across a wide range of industry sectors.

## 2. Basis of presentation

The financial statements have been prepared on a historical cost basis, except for cash and cash equivalents, equity securities in investee companies, promissory notes receivable and royalty agreements acquired that have been measured at fair value. The functional and presentation currency is the Canadian dollar. Amounts are stated in and recorded to the nearest Canadian dollar except where otherwise indicated. The Company activities are managed and monitored by senior management as one operating and reportable segment.

**Statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared based on the principles of International Financial Reporting Standards (IFRS) and International Accounting Standard 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB), London, and the Interpretations of the International Financial Reporting interpretations Committee (IFRIC). The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's 2016 audited annual consolidated financial statements and accompanying notes.

The financial statements were approved and authorized by the Board of Directors on November 21, 2017.

## 3. Significant accounting judgements, estimates, and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

**Royalty agreements acquired**

The terms of the royalty agreements entered into by the Company provide that payments to be made by investee companies are fixed or determinable. In addition, each of the Company's royalty agreements contains one or more of the following terms: (i) a right in favour of the investee company to buydown or buyout part or all of the Company's royalty in exchange for a principal payment that, when combined with royalty payments made to the date of the buydown or buyout, exceed the value of the Company's initial investment; and (ii) the payment of a minimum monthly royalty payment by the investee company, which provides the Company with certainty of payment over time. As a result, the Company has concluded that it is highly probable (which it defines as a probability equal to or exceeding 75%) that it will collect greater than 85% of its initial investment under each royalty agreement.

For the royalty agreements acquired, the term of the agreement is normally perpetual and the royalty amount received can be dependent on the revenues of the investee. The term of the royalty agreement can also be influenced by the termination of the royalty agreement subsequent to a contract buyout event. As a result, uncertainties exist as to how long the agreements will exist and the royalty payment income that will be received. The Company is focused on building a portfolio of investee companies that have carried on business for a number of years and have a demonstrable history of revenues. This enables the Company to use historical revenues as the starting bases for estimating expected cash flows from an investment. Those royalty agreements that contain a provision requiring an investee company to make a minimum monthly royalty payment provide the Company with a strong indication of what expected cash flows under the royalty agreement should be over time. In addition to historical revenues of investee companies, the Company also considers other factors, such as external market factors, future performance and industry performance, in estimating expected cash flows from an investment.

**Royalty agreements acquired and promissory notes receivable and measurement of fair values**

A number of the Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities. The Company has established a control framework with respect to the measurement of fair values. This includes that all significant fair value measurements have been reviewed and approved by the Investment Committee of the Company. The Investment Committee reviews on a quarterly basis significant unobservable inputs and valuation adjustments used in the fair value measurement of royalty agreements acquired and promissory notes. Fair values are categorized into different levels of a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Further information about the assumptions made in measuring fair values for financial instruments are included in Note 5.

**Fair value of stock options and warrants**

Determining the fair value of stock options and warrants requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

**Income taxes**

The recognition of deferred income tax assets and liabilities requires estimates and significant judgments about future events such as future taxable profits based on the information available at the reporting date. For each reporting period, the income tax and deferred tax provision reflects our best estimate based on the information available at the reporting date. To the extent that our estimate of tax provisions or the realization of deferred tax assets or liabilities are not as expected, the provision for income taxes may increase or decrease in the future to reflect the actual experience.

## 4. Standards issued but not yet effective

At the date of authorization of these financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments, and interpretations that are expected to be relevant to the Corporation's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

The IASB has and will issue a collection of amendments as part of its annual project "Improvements to IFRSs." The amendments address details of the recognition, measurement, and disclosure of business transactions and serve to standardize terminology. They consist mainly of editorial changes to existing standards. Except as otherwise specified, the amendments, which have not yet been endorsed, are to be applied for annual periods beginning on or after January 1, 2014. They will not have a material impact on the presentation of the Company's financial position or results of operations.

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which addresses the recognition of revenue. The new standard is not expected to be in scope for the Company revenues generated from financial instruments, but the new standard will be in scope for revenues generated under license agreements.

In January 2016, the IASB issued IFRS 16 *Leases*, which addresses the accounting, classification and measurement for all types of leases for both lessors and lessee's. The application date of the new standard is January 1, 2019 and early adoption is possible. The Company is likely to early adopt for new leases undertaken prior to January 1, 2019.

## 5. Fair values

**a) Valuation Technique**

The Company uses valuation techniques with the objective of determining a fair value measurement that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of the royalty agreements acquired and promissory notes receivable by the Company are determined using discounted cash flow models with fair value estimated by applying a discount rate based on a weighted average cost of capital using variables from the industry in which each investee company operates as well as company specific variables. Future cash flows are weighted by the Company using a combination of a probability approach and a terminal value approach, as applicable, and the fair value for each investment is individually calculated. Some or all of the inputs used in the cash flow model may not be observable in the market and are generally derived from published sources that are commonly used by market participants.

As a result of the significant use of unobservable inputs a high degree of management judgement and estimation is required. Management judgement is required for the determination of the expected future cash flows on the financial instrument being measured, determination of the probability of the outcomes, adjustments to the discount rate for liquidity risk, model uncertainties and investee-specific risk factors. The extent of the adjustments to the discount rate is based on management's assessment that a third party market participant would take them into account in pricing the transaction.

**b) Fair value hierarchy – financial assets measured at fair value**

All financial assets are measured at fair value. All financial liabilities are measured at amortized cost.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In Canadian dollars, for the nine months ended September 30, 2017

The financial assets measured at fair value by hierarchy are shown in the table below. The amounts shown are based on the amounts recognized in the statement of financial position. All financial assets are classified as financial assets measured at fair value through profit and loss.

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **September 30, 2017** | | | | |
| Cash and cash equivalents | $ 8,611,474 | $ 8,611,474 | $ - | $ - |
| Royalty agreements acquired | 21,962,617 | - | - | 21,962,617 |
| Promissory notes receivable | 1,682,633 | - | - | 1,682,633 |
| Equity securities in investee companies | 1,828,710 | 1,824,660 | - | 4,050 |
| | **$ 34,085,434** | **$ 10,436,134** | **$ -** | **$ 23,649,300** |
| **December 31, 2016** | | | | |
| Cash and cash equivalents | $ 6,202,412 | $ 6,202,412 | $ - | $ - |
| Royalty agreements acquired | 35,547,001 | - | - | 35,547,001 |
| Promissory notes receivable | 2,015,378 | - | - | 2,015,378 |
| | **$ 43,764,791** | **$ 6,202,412** | **$ -** | **$ 37,562,379** |

There were no transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2016. For the nine months ended September 30, 2017, there was $1,697,043 tranferred from royalty agreements acquired under Level 3 into equity securities in investee companies under Level 1.

The following table shows a reconciliation between the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

| | Balance at January 1, 2017 | Total gains and (losses) recognized in profit or loss | Purchases | Maturities and repayment | Transfers in/(out) of Level 3 | Balance at September 30, 2017 |
|---|---|---|---|---|---|---|
| Royalty agreements acquired | $ 35,547,001 | $(12,573,598) | $4,218,633 | $(3,532,376) | (1,697,043) | $21,962,617 |
| Equity securities in investee companies | - | - | 4,050 | - | - | 4,050 |
| Promissory notes receivable | 2,015,378 | (332,745) | - | - | - | 1,682,633 |
| **Total** | **$ 37,562,379** | **$ (12,906,343)** | **$4,222,683** | **$(3,532,376)** | **(1,697,043)** | **$ 23,649,300** |

| | Balance at January 1, 2016 | Total gains and (losses) recognized in profit or loss | Purchases | Maturities and repayment | Transfers in/(out) of Level 3 | Balance at December 31, 2016 |
|---|---|---|---|---|---|---|
| Royalty agreements acquired | $ 43,735,477 | $(13,887,027) | $5,756,952 | $ (58,401) | - | $35,547,001 |
| Promissory notes receivable | 2,713,879 | (950,934) | 1,438,904 | (1,186,471) | - | 2,015,378 |
| **Total** | **$ 46,449,356** | **$ (14,837,961)** | **$7,195,856** | **$(1,244,872)** | **-** | **$ 37,562,379** |

The valuation technique used to determine the fair value of all Level 3 financial assets is a discounted cash flow model. The most significant unobservable inputs used in the valuation are the discount rate (range is between 13.3%-22.7%), growth rate of the revenues of the investee (range is between no growth and 25%) and the liquidity premium (range is between 3.2%-13.2%). The low and high input values represent the actual highest and lowest level of values used over the portfolio and represent the range on an individual investment basis. The input ranges will therefore vary from period to period based on the characteristic of the underlying investment at each statement of financial position date.

**c) Sensitivity of fair value measurement to changes in unobservable inputs**

For fair value measurements in Level 3, changing the most significant unobservable inputs by 1% would have the following impact on the fair value of the Level 3 financial assets as at September 30, 2017 and December 31, 2016 as follows:

| September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|
| Discount rate | Revenue growth rate | Liquidity premium | Discount rate | Revenue growth rate | Liquidity premium |
| $ 906,260 | $ 314,261 | $ 21,587 | $ 1,126,416 | $ 285,991 | $ 24,325 |

**d) Financial liabilities not measured at fair value**

All financial liabilities are measured at amortized cost. The table below is a comparison of the carrying amount and the fair value of the financial liabilities that are recognized in the statement of financial position:

| | Carrying Amount September 30, 2017 | Fair Value September 30, 2017 | Carrying Amount December 31, 2016 | Fair Value December 31, 2016 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 967,111 | $ 967,111 | $ 255,531 | $ 255,531 |
| Convertible debentures | 16,225,107 | 14,144,929 | 15,943,173 | 13,109,008 |
| **Total Financial Liabilities** | **$ 17,192,218** | **$ 15,112,040** | **$ 16,198,704** | **$ 13,364,539** |

The following methods and assumptions were used to estimate the fair values:

- Accounts payable and accrued liabilities, approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of the debt component of the convertible debentures for September 30, 2017 and December 31, 2016 was based on the listed price of the security at that date less a calculated price for the convertible option using a Black Scholes model.

## 6. Financial risk management objectives and policies

The Company's primary risk management objective is to protect the Company's assets and cash flow. The Company is exposed to market risks including interest rate, credit, foreign exchange and liquidity risks. The Company's management team oversees the management of these risks. It is the Company's policy that no trading for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees to policies for managing each of these risks, which are summarized below:

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise several types of risk: interest rate risk, currency risk, commodity price risk, and other price risk, such as equity risk. The Company is not directly subject to commodity price risk and has exposure to equity price risk on the equity securities held in investee companies.

**Interest rate risk**

The Company invests surplus cash in bank deposits which, due to their short term nature, do not expose the Company to any material interest rate risks. For royalty agreements acquired and promissory notes receivable, the income can vary on a monthly basis and is not a function of an underlying interest rate. The Company has no material interest rate exposure.

**Equity price risk**

In certain circumstance the Company may exchange the royalty investments for equity instruments in the investee company. The only significant equity security held was in an investee listed on an exchange and the shares are actively traded. The fair value of the equity securities similar to any other Level 1 asset was measured using the quoted price of the share by the numbers of shares held. The equity price risk exposure of September 30, 2017 is $1,828,710 and a 1% change in the share price has an impact of $18,287 on the results.

**Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Starting in 2014, the Company has foreign currency exposures to receivables in United States dollars. The transaction exposure will be minimized by converting all foreign currency to Canadian dollars immediately. The Company continually monitors its translation exposure and its related impact on reported results. The foreign exchange exposure at September 30, 2017 was $27,174,124 (December 31, 2016: $28,914,478) United States dollars and a 1% movement in the exchange rate has an impact of $271,174 (December 31, 2016: $289,145) on the Company's results.

**Credit risk**

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company enters into royalty arrangements with investees in which a purchase price is advanced in return for participation in the investees' revenue stream. This can take the form of a royalty or promissory note, without limitation. The carrying amount of cash, royalty agreements acquired and promissory note receivable represents the maximum exposure to credit risk. The maximum exposure at September 30, 2017 was $32,256,724 (December 31, 2016: $43,764,792). The cash is held by a Canadian bank which is rated A+ and the cash is invested in short term liquid investments.

In monitoring credit risk, the Company considers industry, sales volume and aging trends, maturity, and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis and by continuously reviewing both actual and forecasted cash flows to ensure that the Company has appropriate capital capacity and liquidity.

The following table summarizes the amount of contractual undiscounted future cash flow requirements including all financial instruments as at September 30, 2017 and December 31, 2016 respectively:

**In Canadian dollars, for the nine months ended September 30, 2017**

| **Contractual obligations** | **2018** | **2019** | **2020** | **2021** | **2022** | **Total** |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 967,111 | - | - | - | - | $ 967,111 |
| Finance Lease Liability | 3,471 | 3,842 | - | - | - | 7,313 |
| Convertible debenture | - | 17,250,000 | - | - | - | 17,250,000 |
| **Total** | **970,582** | **17,253,842** | **-** | **-** | **-** | **18,224,424** |

| **Contractual obligations** | **2017** | **2018** | **2019** | **2020** | **2021** | **Total** |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 255,531 | $ - | $ - | $ - | $ - | $ 255,531 |
| Finance lease liability | 3,189 | 3,530 | 4,168 | - | - | 10,887 |
| Convertible debenture | - | - | 17,250,000 | - | - | 17,250,000 |
| **Total** | **$ 258,720** | **$ 3,530** | **$17,254,168** | **$ -** | **$ -** | **$ 17,516,418** |

**Capital management**

The Company manages its capital with the primary objective of safeguarding it while providing sufficient working capital to sustain day-to-day operations. For the year ended December 31, 2016, the Company raised additional capital of $2,303,402, net of transactions costs through the exercise of share warrants and stock options.

The Company will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Company's strategy, economic conditions, and the risk characteristics of the business. The capital requirements for the Company is not subject to any external regulatory guidelines.

## 7. Cash and cash equivalents

| | **September 30, 2017** | **December 31, 2016** |
|---|---|---|
| Cash held in bank accounts | $ 958,034 | $ 648,504 |
| Guaranteed investment certificates cashable at any time | 7,653,440 | 5,553,908 |
| | **$ 8,611,474** | **$ 6,202,412** |

Included in the guaranteed investment certificates was $170,226 (December 31, 2016: $170,109) that was held as collateral for security purposes.

## 8. Royalty agreements acquired and promissory notes receivable

### a) Financial assets measured at fair value through profit and loss

| **Royalty agreements acquired** | **September 30, 2017** | **December 31, 2016** |
|---|---|---|
| Due within 1 year | $ 272,926 | $ 1,580,247 |
| Due after more than 1 year | 21,689,691 | 33,966,754 |
| **Total** | **$ 21,962,617** | **$ 35,547,001** |

The term of the typical royalty agreement is normally perpetual and in certain cases the investee has a buyout and buydown option.

| **Promissory notes receivable** | **September 30, 2017** | **December 31, 2016** |
|---|---|---|
| Due within 1 year | $ 624,000 | $ 2,015,378 |
| Due after more than 1 year | 1,058,633 | - |
| **Total** | **$ 1,682,633** | **$ 2,015,378** |
| | | |
| **Total carrying amount of royalty agreements acquired and promissory notes receivable** | **$ 23,645,250** | **$ 37,562,379** |

For particular investments, the Company has in place a charge on the assets of the investees under General and Security Agreements. The carrying value of these investments with such security in place was at September 30, 2017, $9,035,682 (December 31, 2016: $7,818,819).

The Company has provided a 100% cash backed financial guarantee of up to $110,000 (December 31, 2016: $110,000) on behalf of an investee. The value of this financial guarantee recognized at September 30, 2017 was nil (December 31, 2016: nil).

**In Canadian dollars, for the nine months ended September 30, 2017**

## b) Movement during the period

The changes in the carrying amount in royalty agreements acquired, promissory notes receivable and loan receivable during the reporting periods were:

| | Nine months ended September 30, 2017 | | Year ended December 31, 2016 | |
|---|---|---|---|---|
| | Royalty agreement acquired | Promissory notes receivable | Royalty agreement acquired | Promissory notes receivable |
| **Starting balance** | **$ 35,547,001** | **$ 2,015,378** | **$ 43,735,477** | **$ 2,713,879** |
| New agreements acquired during the period | 4,218,633 | - | 5,441,246 | 1,438,904 |
| Principal payments | - | - | - | (89,530) |
| Redemption and contract buyout repayments | (2,225,055) | - | (1,317,000) | (50,000) |
| Investments written-off | (5,465,000) | (869,635) | (1,840,936) | - |
| Extinguishment of royalties | (2,290,320) | - | - | - |
| Promissory notes converted into royalty agreement | - | - | 1,200,154 | (1,200,154) |
| Movement during the period for royalty earned and payments received - net | (976,626) | - | 315,706 | - |
| Royalty earned but written-off as payment not received | (959,634) | - | - | - |
| Royalty/interest earned added to the investment | - | - | 58,445 | 153,214 |
| Foreign exchange movements during the period | (2,086,516) | (174,774) | (1,398,846) | (104,610) |
| Change in fair value during the period | (3,799,866) | 711,664 | (10,647,245) | (846,325) |
| **Ending balance** | **$ 21,962,617** | **$ 1,682,633** | **$ 35,547,001** | **$ 2,015,378** |

## c) Concentration

Concentrations of credit risk arise from exposures to a single investee and groups of investees who have similar credit characteristics such as groups in the same economic and geographical regions. Concentration risk is managed by appropriately diversifying the portfolio through the use of concentration limits. There are limits set for individual investee exposure, geographical exposure and economic factors (cyclical, neutral and defensive).

The carrying amount for the royalty agreements acquired and promissory note receivable in each category by geographic location and economic factor were:

**i) Geographic**

| | September 30, 2017 | % | December 31, 2016 | % |
|---|---|---|---|---|
| Canada | $ 10,720,000 | 22 | $ 14,365,000 | 28 |
| United States of America | 37,650,482 | 78 | 36,640,784 | 72 |
| **Total portfolio value** | **$ 48,370,482** | 100 | **$ 51,005,784** | 100 |
| Royalty agreements acquired – due within one year not included | 272,926 | | 1,580,247 | |
| Cumulative change in foreign exchange | (1,391,929) | | 869,235 | |
| Cumulative change in fair value | (17,286,867) | | (14,088,900) | |
| Extinguishment of royalty investment | (2,290,320) | | - | |
| Investment written-off | (2,000,000) | | - | |
| Royalty payment/interest earned added to the investment | 211,656 | | 211,656 | |
| Redemptions since inception | (2,240,698) | | (2,015,643) | |
| **Carrying amount recognized in the statements of financial position** | **$ 23,645,250** | 100 | **$ 37,562,379** | 100 |

**ii) Economic**

| | September 30, 2017 | % | December 31, 2016 | % |
|---|---|---|---|---|
| Cyclical | $ 17,950,385 | 37 | $ 20,145,385 | 39 |
| Neutral | 21,677,003 | 45 | 17,652,425 | 35 |
| Defensive | 8,743,094 | 18 | 13,207,974 | 26 |
| **Total portfolio value** | **$ 48,370,482** | **100** | **$ 51,005,784** | **100** |
| Royalty agreements acquired – due within one year not included | 272,926 | | 1,580,247 | |
| Cumulative change in foreign exchange | (1,391,929) | | 869,235 | |
| Cumulative change in fair value | (17,286,867) | | (14,088,900) | |

**In Canadian dollars, for the nine months ended September 30, 2017**

| | | | | | | |
|---|---|---|---|---|---|---|
| Extinguishment of royalty investment | | (2,290,320) | | | - | |
| Investment written-off | | (2,000,000) | | | - | |
| Royalty payment/interest earned added to the investment | | 211,656 | | | 211,656 | |
| Redemptions since inception | | (2,240,698) | | | (2,015,643) | |
| **Carrying amount recognized in the statements of financial position** | **$** | **23,645,250** | **100** | **$** | **37,562,379** | **100** |

## 9. Equity-accounted investment in joint venture

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Interest in Foregrowth-Grenville Investments Inc. | $ - | $ 128 |

On October 17, 2016, the Company signed with Foregrowth Holdco Inc. a wholly-owned subsidiary of Gravitas Ilium, a license and transaction management agreement and an unanimous shareholders agreement (together referred to as the "Agreements"). Under the Agreements, a joint venture legal entity was formed called Foregrowth-Grenville Investments Inc. ("FGII"), a company incorporated on October 6, 2016 and principal place of business in Toronto, Ontario. FGII has the right to co-invest in each new royalty investment made by the Company and has been granted, limited, non-exclusive, non-assignable, non-transferable right to use, with no right to sub-license, specified intellectual property of the Company. 15% of the shares of FGII are held by the Company and the Company is entitled to 15% of the cash distributions made by FGII. The Company nominates one of the two board members of FGII. Decisions made in FGII require unanimous consent by the directors and when required, the shareholders. The Company will manage the operational activities of FGII. Under the license agreement with FGII, the Company is entitled to a license fee based on 1% of the amount invested (payable at the date of the investment) and 1% on the total outstanding invested amount (payable monthly). The Company will not be liable to FGII or any other party for any losses incurred from co-investing in the royalty investments. Under the unanimous shareholders agreement, Foregrowth Holdco Inc. has contracted that (a) all investments made by FGII in royalty investments; and (b) all costs and expenses of FGII are to be financed by way of loans or revolving credit facilities arranged by them.

The following table summarizes the financial information of FGII as included in its own financial statements and reconciles the summarized financial information to the carrying amount of the Company's interest in FGII;

| | September 30, 2017 | | December 31, 2016 | |
|---|---|---|---|---|
| Percentage ownership interest | | 15 | | 15 |
| Royalty agreements acquired | $ | 777,600 | $ | 355,338 |
| Current assets (including cash and cash equivalents of 2017: $708,184 - 2016: $206,651) | | 708,184 | | 206,651 |
| Current liabilities (including trade and other payables of 2017: $31,662 2016: $333) | | (39,311) | | (795) |
| Non-current liabilities (including notes payable of 2017: $1,459,073 - 2016: $560,000) | | (1,459,042) | | (560,339) |
| Net assets | **$** | **(12,569)** | **$** | **855** |
| **Company's share of net assets (15%) and carrying amount of interest** | **$** | **-** | **$** | **128** |
| | | | | |
| Revenue | $ | 77,499 | $ | 7,985 |
| Operating expenses (including license fee paid to the Company of 2017: $9,163 - 2016: -) | | (13,055) | | (4,195) |
| Interest expense | | (82,490) | | (2,626) |
| Income tax recovery (expense) | | 4,664 | | (309) |
| Profit (Loss) and total comprehensive income (Loss) | **$** | **(13,382)** | **$** | **855** |
| **Company's share of profit and total comprehensive income (15%)** | **$** | **-** | **$** | **128** |
| **Dividends received by the Company** | **$** | **-** | **$** | **-** |

## 10. Equity securities in Investee entities

| | Cost September 30, 2017 | | Carrying amount September 30, 2017 | | Cost December 31, 2016 | | Carrying Amount December 31, 2016 | |
|---|---|---|---|---|---|---|---|---|
| Lattice Biologics Ltd – common shares | $ | 3,622,050 | $ | 1,824,660 | $ | - | $ | - |
| Other | | 209,050 | | 4,050 | | - | | - |
| **Total** | **$** | **3,831,100** | **$** | **1,828,710** | **$** | **-** | **$** | **-** |

On April 26, 2017, the Company announced that subject to all necessary approvals, including the approval of the TSX Venture Exchange, 18,246,600 common shares ("Shares") of Lattice Biologics Ltd ("Lattice") will be issued to the Company at an issue price of CDN$0.20 in exchange for the extinguishment of USD$2,000,000 of Grenville's original royalty investment in Lattice and USD$700,000 of overdue royalty payments owing by Lattice to Grenville under the existing royalty agreement between the Company and Lattice. Following the approval of the TSX Venture Exchange on June 8, 2017, 18,246,600 Shares of Lattice were issued to the Company and immediately following the issuance of the Shares, the Company held approximately 19.68% of the total issued and outstanding common shares of Lattice. The Shares were subject to a four-month hold period under applicable securities laws that expired on October 12, 2017.

**In Canadian dollars, for the nine months ended September 30, 2017**

## 11. Income taxes

**(a) Amounts recognized in statements of comprehensive income/(loss)**

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Income tax expense/(recovery) – current year | $ 294,981 | $ 215,107 | $ 349,832 | $ 484,695 |
| Income tax (recovery) – prior year | - | 81,812 | 459 | 5,557 |
| **Deferred tax expense/(recovery)** | | | | |
| Origination and reversal of temporary differences in period | (905,935) | (761,154) | (3,154,988) | (2,356,336) |
| Deferred tax expense – prior year | - | - | - | 109,068 |
| **Total income taxes** | **$ (610,954)** | **$ (464,235)** | **$ (2,804,697)** | **$ (1,757,016)** |

**(b) Reconciliation of effective tax rate**

| | | Nine months ended September 30, 2017 | | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| **Profit/(Loss) before tax** | | **$ (10,816,257)** | | **$ (7,271,883)** |
| Tax at the combined Canadian federal and provincial statutory tax rate | 26.50% | (2,866,308) | 26.50% | **(1,927,049)** |
| Income tax expense (recovery) – prior year | | 459 | | 5,557 |
| Deferred tax expense – prior year | | - | | 109,068 |
| Tax cost of non-deductible expenses | (0.57%) | 61,152 | (0.77)% | 55,407 |
| **Incomes taxes recognized in statements of comprehensive Income (Loss) and effective tax rate** | **25.93%** | **$ (2,804,697)** | **25.73%** | **$ (1,757,017)** |

**(c) Movement in deferred tax balances**

The Company has established, based on the financial performance that it is probable that the Company will have future taxable income. As a result, the Company recognized a deferred tax asset for temporary differences existing at June 30, 2015. The composition of the deferred tax asset at June 30, 2017 and December 31, 2016 was made up as follows:

| **Amounts recognized in statement of comprehensive income (loss)** | **September 30, 2017** | **December 31, 2016** |
|---|---|---|
| Transaction costs on common shares issue and convertible debenture | $ (244,031) | $ (294,639) |
| Property and equipment | 13,089 | 5,750 |
| Tax losses available | 511,667 | - |
| RTO expense | 105,280 | 106,919 |
| Realized losses not claimed | 1,351,306 | - |
| Unrealized gain on foreign exchange differences | (78,878) | (589,551) |
| Unrealized loss on changes in fair value | 5,988,369 | 5,261,174 |
| Other temporary differences | 4,188 | 6,749 |
| | **7,650,990** | **4,496,402** |
| **Amounts recognized in equity** | | |
| Equity component of convertible debenture | (201,483) | (201,483) |
| Issuance cost for special warrants and common shares | 783,521 | 783,120 |
| | **582,038** | **581,637** |
| **Balance at September 30, 2017 and December 31, 2016** | **$ 8,233,028** | **$ 5,078,039** |

The effective tax rate used in determining the value of the deferred tax asset was 26.50%. There was no unrecognized deferred tax asset or liability at September 30, 2017 and December 31, 2016.

## 12. Convertible debentures

On July 10, 2014 and July 17, 2014, the Company closed an offering for convertible unsecured subordinated debentures (the "**Debentures**"), for an aggregate gross proceeds of $17,250,000. The issue costs were $1,343,425 resulting in net proceeds of $15,906,575. The Debentures bear interest from the date of issue at 8% per annum, payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2014. The Debentures have a maturity date of December 31, 2019 (the "**Maturity Date**"). The Debentures are convertible at the holder's option at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Company for redemption of the Debentures into common shares at a conversion price of $0.92 per common share, being a conversion rate of 1,086.9565 common shares for each $1,000 principal amount of Debentures. The Debentures are listed for trading on the TSX Venture Exchange under the symbol GRC.DB.

For accounting purposes, the Debentures are separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 8.96% for the Debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value of the Debentures and the fair value of the liability component.

**In Canadian dollars, for the nine months ended September 30, 2017**

The Debentures are direct, unsecured obligations of the Company, subordinated to other indebtedness of the Company for borrowed money and ranking equally with all other unsecured subordinated indebtedness. The Debentures are not redeemable before December 31, 2017. On or after December 31, 2017, but prior to the Maturity Date, the Company may, at its option, redeem the Debentures, in whole or in part, at a price equal to the principal amount of the Debentures plus all accrued and unpaid interest up to but excluding the date of redemption.

The following table summarizes the outstanding balance and changes in the amounts recognized in the liability and equity during the period:

| | | |
|---|---|---|
| **Principal** | | |
| Balance at September 30, 2017 and December 31, 2016 | $ | **17,250,000** |
| **Liability** | | |
| Gross proceeds | $ | 17,250,000 |
| Issue costs | | (1,343,425) |
| Equity component less issue costs allocated | | (760,314) |
| Liability component initially recognized | | 15,146,261 |
| Accretion of finance expense for the period from July 10, 2014 to December 31, 2016 | | 796,912 |
| **Balance at December 31, 2016** | | **15,943,173** |
| Accretion of finance expense for the nine months ended September 30, 2017 | | 281,934 |
| **Balance at September 30, 2017** | | **16,225,107** |
| **Equity** | | |
| Equity component initially recognized | $ | 760,314 |
| Deferred tax liability recognized | | (201,483) |
| **Balance at September 30, 2017 and December 31, 2016** | | **558,831** |

The financing expense amounts recognized in the statement of comprehensive income (loss) were made up as follows:

| | | **Three months ended September 30, 2017** | | **Three months ended September 30, 2016** | | **Nine months ended September 30, 2017** | | **Nine months ended September 30, 2016** |
|---|---|---|---|---|---|---|---|---|
| Interest expense on convertible debentures | $ | 345,000 | $ | 345,000 | $ | 1,035,000 | $ | 1,031,219 |
| Accretion of finance expense for the period | | 93,467 | | 79,714 | | 281,934 | | 252,801 |
| **Total** | **$** | **438,467** | **$** | **424,714** | **$** | **1,316,934** | **$** | **1,284,020** |

## 13. Share capital and other components of equity

**Common shares**

The authorized share capital of the Company consists of an unlimited number of voting common shares without par value. The issued and outstanding common shares at September 30, 2017 were 106,317,656 (December 31, 2016: 106,293,543).

During the nine-month period ended September 30, 2017, 24,113 common shares were issued as a result of stock options been exercised. The proceeds received net of issuance costs was $675. During the nine-month period ended September 30, 2016, 5,521,649 common shares were issued from the exercise of share warrants and stock options. The proceeds received net of issuance costs was $2,304,000. $618,068 was transferred from share warrants into share capital following the exercise and expiry of the share warrants. For the stock options exercised, $12,170 was transferred from contributed surplus into share capital.

**Share warrants**

9,660,538 share warrants with an expiry date of February 19, 2016 were issued at an exercise price of $0.42 per warrant with a fair value of $1,044,074. From February 19, 2014 to the expiry date, 9,385,517 warrants were exercised and the Company received in total proceeds of $3,941,917 during that period. Between January 1, 2016 and the expiry date of the share warrants, 5,443,456 warrants were exercised and proceeds of $2,286,407 after transaction costs were received from the common shares raised. As at September 30, 2017, there are no outstanding share warrants.

For the nine-months period ended September 30, 2016, $618,068 was transferred from the amount recognized for the fair value of the share warrants into share capital relating to the share warrants exercised during the period and the share warrants that were not exercised.

Each share warrant was convertible into one common share of the Company. The fair value of the share warrants at the date of issue was estimated at the date of issue using the Black-Scholes Option Pricing Model using the following assumptions:

| | | |
|---|---|---|
| Expected stock price volatility | | 35.45% |
| Expected life in years | | 2.00 |
| Risk free interest rate | | 1.00% |
| Expected dividend yield | | 0.0% |
| Weighted average fair value per warrant granted | $ | 0.1081 |

**In Canadian dollars, for the nine months ended September 30, 2017**

**Stock Options**

The purpose of the Company's stock option plan ("the "Plan") is to develop the interest of and provide an incentive to eligible employees, directors and consultants of the corporation and its affiliates. The Plan provides for the issuance of a maximum of 10% of the issued and outstanding common shares. Options granted may vest over certain time periods within the option period, which will limit the number of options that may be exercised. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

| Issue Date | Number of Options Outstanding | Number of Options Exercisable | Exercise Price | Expiry Date | Remaining contractual life (years) |
|---|---|---|---|---|---|
| February 19, 2014 | 177,052 | 177,052 | $0.03 | August 1, 2018 | .83 |
| February 19, 2014 | 68,955 | 68,955 | $0.51 | March 13, 2018 | .45 |
| April 3, 2014 | 1,357,500 | 1,357,500 | $0.50 | April 3, 2019 | 1.50 |
| May 25, 2015 | 722,500 | 402,500 | $0.88 | May 25, 2020 | 2.65 |
| July 10, 2015 | 1,500,000 | 375,000 | $0.87 | July 10, 2020 | 2.77 |
| September 21, 2015 | 300,000 | 75,000 | $0.64 | September 21, 2020 | 2.97 |
| June 3, 2016 | 1,800,000 | 100,000 | $0.44 | June 3, 2021 | 3.67 |
| November 18, 2016 | 2,275,000 | 150,000 | $0.15 | November 18, 2021 | 4.13 |
| **Total** | **8,201,007** | **2,706,007** | | | |
| **Weighted average exercise price** | **$ 0.4859** | **$ 0.5594** | | **Weighted average remaining contractual life** | **3.07** |

Between January 1, 2017 and September 30, 2017, 2,197,667 options expired and were forfeited.

**Share-based payments**

The Company uses the Black-Scholes option pricing model to calculate the fair value of any options granted. The model requires management to make estimates, which are subjective and may not be representative of actual results. For the expected stock price volatility estimate, the business activities changed significantly following the RTO and as a result, the volatility percentage was based on the historical volatility for the same term as the contractual life of the option, of publicly-listed entities with a similar type of business. Changes in assumptions can materially affect estimates of fair values. The following weighted average assumptions were used to estimate the weighted average grant date fair value: The following weighted average assumptions were used to estimate the weighted average grant date fair value of the outstanding options as at September 30, 2017.

| **Assumption** | |
|---|---|
| Expected stock price volatility | 45.62% |
| Expected life | 4.98 |
| Risk free interest rate | 1.03% |
| Expected dividend yield | 1.84% |
| Weighted average fair value per option granted | $0.1519 |

## 14. Revenues

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| **Royalty agreements acquired** | | | | |
| Royalty payment income | $ 1,049,836 | $ 1,953,656 | $ 3,408,598 | $ 6,429,898 |
| Unrealized foreign exchange (loss) gains (note 17) | (684,289) | 496,522 | (1,795,487) | (2,039,163) |
| Realized foreign exchange (loss) gains (note 17) | (10,391) | - | (257) | - |
| Realized gain from contract buyout | - | - | 3,000,000 | - |
| Unrealized gain from investment derecognized | - | - | 922,284 | - |
| Realized loss from investment written-off | - | (1,840,936) | (6,424,634) | (1,840,936) |
| Unrealized loss from changes in fair value | (1,382,619) | (1,624,337) | (3,799,866) | (4,505,473) |
| **Total** | **$ (1,027,463)** | **$ (1,015,095)** | **$ (4,689,362)** | **$ (1,955,674)** |

**In Canadian dollars, for the nine months ended September 30, 2017**

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended Septermber 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| **Promissory notes receivable** | | | | |
| Interest payment income | 137,305 | $ 90,402 | $ 151,080 | $ 268,110 |
| Unrealized foreign exchange gain/(loss) gains (note 17) | 4,474 | 48,896 | (107,640) | (142,510) |
| Realized gain on full redemption of note | | 98,679 | | 98,679 |
| Realized loss on loan receivable written-off | - | | (869,635) | |
| Unrealized loss from changes in fair value | - | (94,424) | 711,665 | (743,599) |
| **Total** | **$ 141,779** | **$ 143,553** | **$ (114,530)** | **$ (519,320)** |

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| **Equity securities in investee companies** | | | | |
| Unrealized loss from changes in fair value | **$ (364,932)** | **$ -** | **$ (2,002,390)** | **$ -** |

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| **Fee income** | | | | |
| Fees earned under license agreements | **$ 6,218** | **$ -** | **$ 13,860** | **$ -** |

On October 17, 2016, the Company signed license and transaction management agreements with Foregrowth-Grenville Investments Inc. ("FGII") and Darwin Strategic Royalty Corporation ("Darwin"). Under each agreement, FGII and Darwin have the right to co-invest in each new royalty investment made by the Company and were granted, limited, non-exclusive, non-assignable non-transferable right, with no right to sub-license, specified intellectual property items of the Company in exchange for a license fee. The licence fee under the agreement is calculated as follows:

| | |
|---|---|
| Darwin | Equal to 6% of royalty payments, buyout payments and any other income earned from the Darwin royalty investments. |
| FGII | 1% of the amount invested by FGII and 1% of the outstanding invested amount of FGII. |

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| **Other interest income** | | | | |
| Interest income on invested cash and cash equivalents | **$ 21,777** | **$ 17,039** | **$ 60,261** | **$ 77,796** |

## 15. Employee benefit expense

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | NIne months ended September 30, 2016 |
|---|---|---|---|---|
| Wages and salaries | $ 297,636 | $ 320,000 | $ 930,470 | $ 1,090,726 |
| Contract payment | - | - | - | 675,000 |
| Other benefits | 14,214 | 9,819 | 41,760 | 29,840 |
| Recruitment expense | 312 | - | 8,312 | 8,000 |
| Employer related costs for insurance, health tax | 7,739 | 13,187 | 33,741 | 68,592 |
| **Salaries, benefits and other staffing costs** | **319,901** | **343,006** | **1,014,283** | **1,872,158** |
| Share-based compensation **(Note 16)** | 67,309 | 93,591 | 225,069 | 208,280 |
| Total | $ 387,210 | $ 436,597 | $ 1,239,352 | $ 2,080,438 |

**In Canadian dollars, for the nine months ended September 30, 2017**

## 16. Share-based compensation

The amounts recognized in the statement of comprehensive income (loss) were made up as follows:

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Expense recognized for services provided based on vesting conditions of stock options (**Note 15**) | **$ 67,309** | **$ 93,591** | **$ 225,069** | **$ 208,280** |

## 17. Foreign exchange loss (gain)

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Unrealized foreign exchange loss/(gain) | $ 679,815 | $ 564,911 | **$** 1,903,127 | **$** (2,161,782) |
| Realized foreign exchange loss/(gain) | 10,391 | (19,493) | 257 | (19,890) |
| **Total recognized in comprehensive income/loss** | **$ 690,206** | **$ 545,418** | **$ 1,903,384** | **$ (2,181,672)** |

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Revenues –royalty agreements acquired | 694,680 | $ 496,522 | $ 1,795,744 | $ (2,039,162) |
| Revenues – promissory notes receivable | (4,474) | 48,896 | 107,640 | (142,510) |
| **Total** | **$ 690,206** | **$ 545,418** | **$ 1,903,384** | **$ (2,181,672)** |

## 18. Earnings/ (Loss) per share

The following reflects the profit, loss and unit data used in the basic and diluted earnings per share computations:

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Profit/(loss) attributable to ordinary equity holders for basic earnings /(loss) per share | $ (1,763,068) | $ (1,690,843) | $ (8,011,560) | $ (5,514,867) |
| Financing expense (**Note 12**) after tax at 26.5% | 322,273 | 312,165 | 967,946 | 943,755 |
| Profit/(loss) attributable to ordinary equity holders for diluted earnings /(loss) per share | (1,440,795) | (1,378,678) | (7,043,614) | (4,571,112) |
| Basic weighted average number of shares outstanding | 106,317,656 | 105,596,427 | 106,311,120 | 106,282,918 |
| Diluted weighted average number of shares outstanding | 133,991,463 | 133,006,662 | 133,984,927 | 133,286,331 |

Due to the anti-dilutive impact, the same net loss attributable to ordinary equity holders and weighted average number of common shares have been used for both the basic and diluted earnings and loss calculations for all reporting periods.

**In Canadian dollars, for the nine months ended September 30, 2017**

## 19. Operating segment information

For management purposes, the Company activities are managed and monitored by senior management as one operating segment. The financial statements included are the same financial statements that management uses to monitor the performance of the Company.

**Entity-wide information**

All the Company's reported revenue is from external customers and the breakdown by country was:

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Canada | $ 311,313 | $ 767,561 | $ 74,847 | $ 2,138,047 |
| United States | (1,533,934) | (1,622,064) | (6,807,136) | (4,535,245) |
| **Totals** | **$ (1,222,621)** | **$ (854,503)** | **$ (6,732,289)** | **$ (2,397,198)** |

The breakdown of reported revenue excluding interest income and license fee income on cash and cash equivalents and interest received on tax refunds of $73,993 (2016: $77,796) for each economic factor segment was:

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Cyclical | $ 36,795 | $ (674,792) | $ (1,943,643) | $ (4,128,497) |
| Neutral | (404,326) | 21,236 | (2,185,262) | 1,382,025 |
| Defensive | (882,955) | (217,985) | (2,677,375) | 271,478 |
| **Totals** | **$ (1,250,486)** | **$ (871,541)** | **$ (6,806,280)** | **$ (2,474,994)** |

For the nine months ended September 30, 2017, the royalty payment income and the interest income on promissory notes for 3 (2016:1) investees were greater than 10% of the total revenues. All non-current assets are located in Canada. For this purpose, non-current assets exclude all financial instruments and deferred tax.

## 20. Changes in working capital items

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Royalty agreements acquired – current portion | $ 63,028 | $ (538,158) | $ 720,345 | $ (1,474,411) |
| Prepaid expense | (29,081) | 36,149 | (83,918) | (42,818) |
| Accounts payable and accrued liabilities | 203,581 | (99,376) | 366,578 | (596,677) |
| **Total changes in working capital items** | **$ 237,528** | **$ (601,385)** | **$ 1,003,005** | **$ (2,113,906)** |

## 21. Commitments

**Operating leases – minimum lease payments under non-cancellable leases**

| | September 30, 2017 | December 31, 2016 |
|---|---|---|
| Less than one year | $ 87,333 | $ 152,418 |
| Between one and six years | 451,220 | 12,702 |
| **Total** | **$ 538,553** | **$ 165,120** |

On July 12, 2017, the Company signed a sublease agreement for new office space situated in Toronto. The Company occupied the space when the sublease on the existing office expired. The sublease is for a term of six years and 2 months commencing October 1, 2017 but the sublandlord has the option to terminate the lease as of November 30, 2020.

**In Canadian dollars, for the nine months ended September 30, 2017**

## 22. Related party disclosures

**Key management personnel**

| | Three months ended September 30, 2017 | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | Nine months ended September 30, 2016 |
|---|---|---|---|---|
| Short term employee benefits | $ 221,517 | $ 222,426 | $ 686,936 | $ 792,921 |
| Share-based compensation | 63,527 | 67,556 | 194,166 | 126,059 |
| Consultancy fees | 67,966 | 61,371 | 205,035 | 102,829 |
| Contract payment | - | - | - | 675,000 |
| **Total** | **$ 353,010** | **$ 351,353** | **$ 1,086,137** | **$ 1,696,809** |

Effective April 26, 2016, Mr. William R. Tharp the former Chief Executive Officer and President of the Company ceased to hold the offices of Chief Executive Officer and President of the Company. In accordance with the terms of Mr. Tharp's employment agreement, the Company paid Mr. Tharp the sum of $675,000 in connection with his departure from the Company. The number of key management personnel were 9 (2016: 9) and are identified as the members of the board of directors and the officers of the Company.