TARGET CAPITAL INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR PERIOD ENDED DECEMBER 31 | 2011

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# MESSAGE FROM THE PRESIDENT

Target is pleased to report the most profitable third quarter in Company history, continuing growth seen in the previous quarter. Earnings for the quarter were $149,322, an increase of 99% over the $68,649 earned in the comparative period.

Much of this growth has stemmed from an increase in the number of the Company's investments in controlled private companies. Interests in 10 new companies were purchased in this quarter which, added to the fees generated from existing controlled companies, combined to increase billings by 32% over the same period last year. As the Company usually earns more fees in the fourth quarter, as the controlled private companies raise funds prior to the February 29 RRSP contribution deadline, we anticipate an increase in this area next quarter as well.

The steady income provided by the controlled private companies and our dividend income has enabled the Company to explore a number of new and exciting opportunities. This quarter, we entered into a partnership in a real estate development in downtown Langley, British Columbia. Target agreed to provide interest-free financing of up to $2,050,000 to the project in exchange for 50% equity in the development company. This deal has the potential to be highly profitable, and the Company is excited to be moving forward.

Subsequent to the close of the quarter, Target also extended a loan of up to $500,000 to OrganicKidz Inc., a company that manufactures stainless-steel baby bottles. The loan is repayable by July 31, 2012 and interest of 9% is payable monthly. In return for providing financing, Target received an option to purchase 25% of OrganicKidz for a nominal price. If more financing is required, the Target has the right to acquire an additional 8% of the OrganicKidz by providing additional working capital of up to $250,000 on the same terms.

The Company is in the final stages of completing an offering memorandum with a maximum offering of $5,000,000 at a rate of prime plus 1% (prime is currently 3%). Target will use the proceeds from these bonds to either pay down existing debt or use for working capital to make additional investments.

We have welcomed these opportunities to diversify our business beyond the realm of controlled private companies, and look forward to further growth and development in the coming quarter.

Craig Skauge
PRESIDENT

Information contained in the Management Discussion and Analysis ("MD&A") is presented on the same basis as the financial statements and was prepared in accordance with International Financial Reporting Standards (IFRS) and is presented in Canadian dollars. The document presents the views of management as at February 15, 2012. Additional information on Target Capital Inc. (the "Company" or "Target") can be found on SEDAR at www.sedar.com.

## Cautionary note regarding forward-looking statements

The MD&A contains forward-looking statements. A statement we make is forward-looking when it uses what we know today to make a statement about the future. Forward-looking statements may include words such as *anticipate, believe, could, expect, intend, may, objective, plan* and *will*. The forward-looking statements contained or incorporated by reference in this Management Discussion and Analysis are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. Target cautions readers against placing reliance on forward-looking statements when making decisions, as the actual results could differ appreciably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements, due to various material factors. These factors include, among other things, capital market activity; changes in government monetary, fiscal and economic policies; changes in interest rates, inflation levels and general economic conditions; legislative and regulatory developments; competition; credit ratings; scarcity of human resources; and technological environment.

Forward-looking statements include, but are not limited to, statements with respect to (1) Capacity to deliver results (2) Risk framework (3) Liquidity (4) Trade receivables and (5) Income taxes. All statements, other than statements of historical fact, which address activities, events or developments that we expect or anticipate will or may occur in the future, are forward-looking statements. We include forward-looking statements because we believe it is important to communicate our expectations to our investors. However, all forward-looking statements are based on management's current expectations of future events and are subject to risk and uncertainty.

There have been no events or circumstances that have occurred during the period to which the MD&A relates, or to a period that is not yet complete, that are reasonably likely to cause actual results to differ materially from the forward-looking information identified in this MD&A.

The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by the securities regulations. The foregoing list of factors is not exhaustive.

**The accompanying interim MD&A updates our annual MD&A included in our 2011 Annual Report to shareholders, to which readers are referred. No update is provided where an item is not material or there has been no material change from the discussion in our annual MD&A.**

**The Interim Financial Statements have been prepared by the management of Target and have not been reviewed by the Company's auditors.**

**The accompanying interim MD&A is prepared on a going concern basis which assumes that the Company will continue operations for the foreseeable future; it will realize its assets, discharge its liabilities and meet commitments in the course of normal business.**

## Business Overview

Target was incorporated on June 8, 1993, under the Business Corporations Act of Alberta. The Company has investments in trailer fee rights, notes receivable, listed public companies and private real estate development companies. The Company also makes investments in a majority of the voting shares of certain private companies. The Company receives its revenues from trailer fees, dividends, interest income and investment company fees. Its principal expense is interest on its outstanding bonds.

The Company listed its shares on the TSX-Venture exchange (Symbol "TCI") on December 19, 2008.

### *Our Investment business*

Starting in 2009, Target began purchasing controlling interests in private companies. The nature of the Company's investment in the controlled private companies enables the debt securities of the companies to be eligible for Deferred Plans. A Deferred Plan is a registered retirement savings plan, registered education savings plan, registered retirement income fund, a locked-in retirement account or a tax-free savings account. The promoters managing these companies use the capital raised at their own discretion, without reliance on the management or resources of Target. Target's management and capital are not committed to these controlled private companies.

Target earns fees from each company for enabling these companies to raise funds from Deferred Plans. The annual fee is generally the greater of $2,500 or 0.5% of the total capital raised by each private company from Deferred Plans. The controlled private companies have raised capital via investment from Deferred Plans varying in size from nil to several million dollars.

Target does not consolidate these controlled private companies for accounting purposes. This is because Target has agreements with these companies that restrict Target's profits to the fees that it charges and its losses to the initial investment made and because Target is not the primary beneficiary of the success or failure of these private companies.

## Third quarter financial report

In the three months ended December 31, 2011, Target reports a net income of $131,344, a 99% increase over the comparative period and the most profitable third quarter in company history. The growth was driven by increases in both controlled private company fees and dividend income.

As expected, the third quarter produced a significant number of new controlled private companies, with 10 companies added. This combined with the annual and fund-raising fees on existing companies to produce a 32% increase in fees over the prior year. Fees from controlled private companies are earned throughout the year; however, they are historically highest in the 4th quarter as companies push to raise funds before the RRSP contribution deadline at the end of February.

During the quarter, Target closed a deal to partner in a real-estate redevelopment project in the greater Vancouver area. In return for a 50% stake in the Company, Target agreed to fund the redevelopment process by providing interest-free financing of up to $2,050,000, repayable by December 31, 2014.

Year to date, Target is showing net earnings of $264,861 compared to $208,363 in the comparative period. The growth rate is slower than the quarterly rate due to lower than expected controlled private company fees in the first quarter. However, the second and third quarters of the year were record highs for Target, and management expects this growth to continue in the fourth quarter. Expenses show modest year over year growth, and are related to company development and the associated increase in transaction volumes.

### *Summary of financial results*

| PERIODS ENDED DECEMBER 31 | | | |
|---|---|---|---|
| ($ thousands) | **2011** | 2010 | Variation 10-11 |
| Total revenue | **$ 314** | $ 240 | 31% |
| Total expenses | **(165)** | (172) | (4%) |
| Net earnings before tax | **149** | 69 | 228% |
| Income tax expense | **18** | 3 | 500% |
| Net earnings | **$ 131** | $ 66 | 99% |
| Net earnings per share – Basic | **0.03** | 0.02 | 50% |
| Net earnings per share – Diluted | **0.03** | 0.02 | 50% |
| Total assets | **$ 6,881** | $ 6,834 | 1% |

*Revenues*

During the quarters ended December 31, 2011 and 2010, the Company earned its operating revenue from the following sources:

| | 2011 | 2010 |
|---|---|---|
| Controlled private company fees | 68% | 67% |
| Dividends | 26% | 25% |
| Trailer fees | 6% | 8% |
| Interest | 0% | 0% |
| | 100% | 100% |

## Comparison of financial condition at period end with the prior year-end

The table summarizes the financial condition of the company as at December 31, 2011 and March 31, 2011:

| ($ thousands) | December 31 2011 | March 31 2011 | % change |
|---|---|---|---|
| Marketable securities | $ 5,109 | $ 4,937 | 3% |
| Long-term investments | 644 | 644 | -% |
| Related party loan | 360 | 0 | N/A |
| Accounts receivable | 362 | 252 | 44% |
| Trailer fee rights | 281 | 315 | (11%) |
| Notes receivable | 64 | 72 | (12%) |
| Controlled private companies | 56 | 46 | 21% |
| Equipment | 4 | 0 | N/A |
| Prepaid expenses | 1 | 3 | (82%) |
| Cash | 0 | 565 | (100%) |
| TOTAL ASSETS | $ 6,881 | $ 6,834 | 1% |
| Long-term bonds | $ 2,985 | $ 2,985 | -% |
| Bank indebtedness | 389 | 0 | N/A |
| Callable bonds | 191 | 316 | (39%) |
| Deferred income taxes | 252 | 308 | (18%) |
| Accounts payable and accrued liabilities | 176 | 161 | 9% |
| Interest payable | 7 | 4 | 54% |
| TOTAL LIABILITIES | $ 4,000 | $ 3,774 | 6% |
| NET ASSETS | $ 2,881 | $ 3,060 | 1% |

Changes since year end are attributable to normal operations of the company.

## Quarterly Results

The following table presents the most recent quarterly results:

| THREE MONTHS ENDED | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 (IFRS) | | | 2011 (Canadian GAAP) | | | | 2010 (Canadian GAAP) | |
| ($ thousands) | 31-Dec 2011 | 30-Sep 2011 | 30-Jun 2011 | 31-Mar 2011 | 31-Dec 2010 | 30-Sep 2010 | 30-Jun 2010 | 31-Mar 2010 | 31-Dec 2009 |
| Total revenue | 314 | 281 | 157 | 405 | 240 | 212 | 185 | 283 | 131 |
| Total expenses | (165) | (168) | (141) | (230) | (171) | (140) | (112) | (102) | (106) |
| Earnings before income taxes | 149 | 113 | 16 | 175 | 69 | 72 | 73 | 181 | 25 |
| Net Earnings | 131 | 104 | 29 | 147 | 66 | 69 | 74 | 89 | 35 |
| - Per share – basic and diluted | 0.03 | 0.03 | 0.01 | 0.04 | 0.02 | 0.02 | 0.02 | 0.02 | 0.01 |

## Outstanding Share Data

The following tables indicate the common shares and stock options issued and outstanding at February 15, 2012, December 31, 2011 and March 31, 2011:

| | **November 15 2012** | December 31 2011 | March 31 2011 |
|---|---|---|---|
| Common Shares | **3,851,863** | 3,851,863 | 3,851,863 |
| Stock Options | **-** | - | - |
| Weighted average number of shares outstanding during the period Basic and diluted | **3,851,863** | 3,851,863 | 3,851,863 |

## Business Risks

### *Leadership*

Target is dependent on members of its senior management and operational staff. A loss of one or more of these individuals could adversely affect Target's business. Target has minimized the impact of losing any one individual by cross-training senior management and operational staff to assume a variety of roles within the Company.

### *Financing*

Target has sufficient cash reserves to maintain day-to-day operations without additional financing.

*Regulation*

The Company is subject to various laws, regulations and court decisions that may have negative effects on the Company. Changes in the regulatory environment imposed upon the Company could adversely impact the ability of the Company to attain its objectives. Specifically, Target's investments in controlled private companies are reliant on regulations under the *Income Tax Act*, and there can be no assurance that the Government will not adopt laws or regulatory requirements that could adversely affect this line of business.

*Credit risk*

Credit risk arises from the Company's accounts receivable due from customers. There is always the potential that a customer will fail to perform its financial obligations. The Company has a significant number of customers, thus minimizing the concentration of risk. Target is committed to a policy of closely monitoring the Company's risk and exposure in the area of accounts receivable. During the nine months ended December 31, 2011, the Company expensed $2,250 (2011 - $nil) in uncollectable accounts receivable balances.

*Liquidity*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Management regularly reviews future cash requirements to ensure adequate funds are available. At quarter end, Target had a strong current ratio of 7.17:1, a decrease over the 11.94:1 ratio at the previous year end.

## Related Parties

During the periods ended December 31, 2011 and 2010, the Company entered into transactions with the following related parties:

Controlled private companies, Subsidiaries

Eyelogic Systems Inc. ("Eyelogic"), Common management

Industrial Avenue Development Corporation ("IADC"), Significant share ownership

Olympia Benefits Inc. ("OBI"), Common management

Olympia Financial Group Inc. ("OFGI"), Common management

Olympia Trust Company ("OTC"), Common management

Tarman Inc. ("Tarman"), Common management

The Company earned controlled private company fees of $460,772 and $212,670 for the nine and three months ended December 31, 2011 from its investments in private companies (December 31, 2010 - $407,288 and $161,297). At period end, $354,745 was receivable from these companies (March 31, 2011 - $244,719).

The Company earned dividends of $233,675 and $78,975 for the nine and three months ended December 31, 2011 from its investment in OFGI (December 31, 2010 – $152,625 and $58,375).

The Company earned dividends of $nil for the nine and three months ended December 31, 2011 from its investment in Eyelogic (December 31, 2010 - $16,964 and $nil).

The Company earned trailer fees of $44,984 and $18,889 for the nine and three months ended December 31, 2011 from OBI (December 31, 2010 - $52,735 and $18,337). At period end, $6,969 was receivable from OBI (March 31, 2011 - $6,801).

The Company paid $12,907 and $4,281 for the nine and three months ended December 31, 2011 to OTC to manage its transfer and filing obligations (December 31, 2010 - $9,837 and $3,469). The Company paid $54,877 and $20,213 for the nine and three months ended December 31, 2011 to OFGI for the rent and operational costs of an office in downtown Calgary and consulting services (December 31, 2010 - $26,023 and $10,511). At period end, $4,448 was payable to OTC (March 31, 2011 - $6,890) and $6,722 was payable to OGFI (March 31, 2011 - $1,572).

The Company paid royalties of $37,451 and $17,959 for the nine and three months ended December 31, 2011 to Eyelogic relating to Target's controlled private companies (December 31, 2010 - $36,651 and $12,296). At period end, $62,439 was payable to Eyelogic (March 31, 2011 - $50,004).

Remuneration of $18,000 and $6,000 for the nine and three months ended December 31, 2011 was paid to Tarman, for providing the services of Rick Skauge as the Chief Executive Officer (December 31, 2010 - $nil and $nil). At period end, $nil was payable to Tarman (March 31, 2011 - $6,300).

A related party loan is due from IADC. At period end, $360,316 was receivable from IADC (March 31, 2011 - $nil).

These transactions are in the normal course of operations and have been valued at the exchange amount, which is the amount of consideration established and agreed to by the related parties in written agreements.

## Accounting Policies

Effective April 1, 2011, the Company started reporting under International Financial Reporting Standards ("IFRS"). A discussion of the impact of these changes is included in the condensed interim financial statements.

Other than the conversion to IFRS, the Company has not adopted any new accounting policies since year end.

## Subsequent Events

Subsequent to period end, Target entered an agreement to provide a secured loan of up-to $500,000 to OrganicKidz Inc. ("OKI"), a Calgary-based manufacturing company; OKI is related to Target by way of a common Director. The loan bears interest at 9%, is due July 31, 2013, and includes an option for Target to purchase either 25% or 33% of the Company for a nominal amount, depending on the amount of the loan utilized by OKI. As of February 15, 2012, the loan balance was $150,000.

## Directors

Rick Skauge[4]
Craig Skauge[4]
Ryan Hoult[4]
Brian Newman[1234]
Charles Chebry[1234]
Gerard Janssen[1234]
Anne Louise Bartlett

## Officers

Rick Skauge
*Chief Executive Officer*

Craig Skauge
*President*

Ryan Hoult
*Chief Financial Officer*

## Board Committees

[1] Audit Committee
[2] Corporate Governance Committee
[3] Executive Compensation Committee
[4] Investment Committee

## Head Office

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