TARGET CAPITAL INC.

# MANAGEMENT DISCUSSION AND ANALYSIS

FOR PERIOD ENDED SEPTEMBER 30 | 2011

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# MESSAGE FROM THE PRESIDENT

Following a disappointing first quarter, Target has seen positive strides in the second quarter of this year. Compared to the prior year's same quarter, controlled private company fees increased 37% and net earnings increased 51%. Our earnings continue to be influenced both by investments in new private companies and the compounding effect of billings to our existing controlled private companies. In this quarter, we invested in nine additional private companies, the effect of which will be reflected in our revenues for years to come.

Our investments in marketable securities continued to outperform the market and we are comfortable with our positions for both the short and long terms.

With cash on hand from our past bond offerings and an agreement with First Calgary Financial to access a $1,000,000 line of credit, we found ourselves in the position of being able to invest some funds not required for ongoing operations. After exploring a variety of investment opportunities, we have acquired a 50% interest in a private development company that is undertaking a mixed-use development in the downtown core of Langley, British Columbia.

The structure of the investment agreement limits risk to the Company, but gives us the opportunity to participate in a substantial projected profit. At present, the subject lands are in the process of being re-zoned; we hope that this process will be completed within the next six to nine months. Management will continue to report regularly as the project proceeds.

The main focus for the second half of the year will be to continue acquiring interests in controlled private companies and to work with our partners on our new real estate investment in Langley.

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 November 16, 2011. 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 and investment company fees. Its principle 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 is to enable 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 that vary in size from nil to several million dollars per private company.

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.

## Second quarter financial report

In the three months ended September 30, 2011, Target reports a net income of $104,391, a 51% increase over the prior year and the most profitable second quarter in company history. The increase is due to growth in both controlled private companies fees and dividend income from Target's holdings in Olympia Financial Group Inc. This was tempered by rising expenses associated with Target's growth.

The second quarter reversed the first quarter trend of low growth in the number of new controlled private companies. We added 9 new companies during the quarter, with a net increase of 6 after redemptions are accounted for. The original decrease was due to Income Tax Act changes introduced in the 2011 federal budget, banning certain structure elements which had been in use by companies across the country. While the changes had minimal impact on the structure offered by Target, the confusion and concern generated by the announcement reduced the number of new deals; an outcome anticipated by management. Management expects that the number of deals will continue to grow in the second half of this year.

The cost increases compared to the prior year are attributable to business development costs. Contributing factors include: the addition of a part-time staff member to manage increased transaction volume, the company is now paying market rent for its premises, and the company is now paying its CEO and President. None of these costs existed in the previous year's second quarter.

Year to date, Target is showing net earnings of $133,514 compared to $142,344 in the comparative period. This decline stems from the lower than expected controller private company fees in the first quarter, due to the changes in the federal budget discussed above. The second quarter provided a rebound in growth, but not quite enough to offset the first quarter results. Expenses show modest year over year growth, and are related to company development and the associated increase in transaction volume.

### *Summary of financial results*

| PERIODS ENDED SEPTEMBER 30 | | | |
|---|---|---|---|
| ($ thousands) | **2011** | 2010 | Variation 10-11 |
| Total revenue | **$ 280** | $ 213 | 31% |
| Total expenses | **(168)** | (140) | 20% |
| Net earnings before tax | **112** | 72 | 55% |
| Income tax expense | **(8)** | (4) | 100% |
| Net earnings | **$ 104** | $ 69 | 51% |
| Net earnings per share – Basic | **0.03** | 0.02 | 50% |
| Net earnings per share – Diluted | **0.03** | 0.02 | 50% |
| Total assets | **$ 6,616** | $ 6,834 | (3%) |

*Revenues*

During the quarters ended September 30, 2011 and 2010, the Company earned its operating revenue from the following sources:

| | **2011** | 2010 |
|---|---|---|
| Dividends | **28%** | 28% |
| Controlled private company fees | **66%** | 63% |
| Trailer fees | **5%** | 7% |
| Interest | **1%** | 2% |
| | **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 September 30, 2011 and March 31, 2011:

| ($ thousands) | **September 30 2011** | March 31 2010 | % change |
|---|---|---|---|
| Marketable securities | **$ 4,962** | $ 4,937 | 1% |
| Long-term investments | **644** | 644 | -% |
| Cash | **317** | 565 | (44%) |
| Trailer fee rights | **292** | 315 | (7%) |
| Accounts receivable | **278** | 252 | 10% |
| Notes receivable | **67** | 72 | (7%) |
| Controlled private companies | **50** | 46 | 8% |
| Equipment | **5** | 0 | N/A |
| Prepaid expenses | **1** | 3 | (55%) |
| TOTAL ASSETS | **$ 6,616** | $ 6,834 | (3%) |
| | | | |
| Long-term bonds | **$ 2,985** | $ 2,985 | -% |
| Callable bonds | **210** | 316 | (34%) |
| Deferred income taxes | **276** | 308 | (10%) |
| Accounts payable and accrued liabilities | **164** | 161 | 2% |
| Interest payable | **3** | 4 | (25%) |
| Bank loan | **-** | - | -% |
| TOTAL LIABILITIES | **$ 3,638** | $ 3,774 | (6%) |
| NET ASSETS | **$ 2,978** | $ 3,060 | (3%) |

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) | 30-Sep 2011 | 30-Jun 2011 | 31-Mar 2011 | 31-Dec 2010 | 30-Sep 2010 | 30-Jun 2010 | 31-Mar 2010 | 31-Dec 2009 | 30-Sep 2009 |
| Total revenue | 281 | 157 | 405 | 240 | 212 | 185 | 283 | 131 | 129 |
| Total expenses | (168) | (141) | (230) | (171) | (140) | (112) | (102) | (106) | (85) |
| Earnings before income taxes | 113 | 16 | 175 | 69 | 72 | 73 | 181 | 25 | 44 |
| Net Earnings | 104 | 29 | 147 | 66 | 69 | 74 | 89 | 35 | 46 |
| - Per share – basic and diluted | 0.03 | 0.01 | 0.04 | 0.02 | 0.02 | 0.02 | 0.02 | 0.01 | 0.01 |

## Outstanding Share Data

The following tables indicate the common shares and stock options issued and outstanding at November 16, 2011, September 30, 2011 and March 31, 2011:

| | **November 16 2011** | September 30 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 affect 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 potential that a customer will fail to perform their 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 six months ended September 30, 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 14.75:1, a slight improvement over the 11.94:1 ratio at the previous year end.

## Related Parties

During the periods ended September 30, 2011 and 2010, the Company entered into transactions with the following related parties:

Controlled private companies, Subsidiaries

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

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 $248,102 and $184,416 for the six and three months ended September 30, 2011 from its investments in private companies (2010 - $245,991 and $134,665). At period end, $272,845 was receivable from these companies (March 31, 2011 - $244,719).

The Company earned dividends of $154,700 and $77,610 for the six and three months ended September 30, 2011  from its investment in OFGI (2010 – $94,250 and $48,625).

The Company earned dividends of $nil for the six and three months ended September 30, 2011 from its investment in Eyelogic (2010 – $16,964 and $10,049).

The Company earned trailer fees of $26,095 and $14,286 for the six and three months ended September 30, 2011 from OBI (2010 - $34,398 and $15,356). At period end, $4,649 was receivable from OBI (March 31, 2011 - $6,801).

The Company paid $8,627 and $6,132 for the six and three months ended September 30, 2011 to OTC to manage its transfer and filing obligations (2010 - $6,368 and $4,935). The Company paid $34,664 and $21,784 for the six and three months ended September 30, 2011 to OFGI for the rent and operational costs of an office in downtown Calgary and consulting services (2010 - $23,602 and $14,380). At period end, $4,705 was payable to OTC (March 31, 2011 - $6,890) and $4,454 was payable to OGFI (March 31, 2011 - $1,572).

The Company paid royalties of $19,492 and $14,585 for the six and three months ended September 30, 2011 to Eyelogic relating to Target's controlled private companies (2010 - $24,355 and $13,187). At period end, $43,580 was payable to Eyelogic (March 31, 2011 - $50,004).

Remuneration of $12,000 and $6,000 for the six and three months ended September 30, 2011 was paid to Tarman, for providing the services of Rick Skauge as the Chief Executive Officer (2010 - $nil and $nil). At period end, $nil was payable to Tarman (March 31, 2011 - $6,300).

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 closed the purchase of a 50% stake in 1587182 Alberta Ltd., a real estate development company.

## Directors

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

## 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

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Chief Financial Officer

CRAIG SKAUGE
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