



## **Founders Advantage Capital Corp.**

Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS:** The Corporation's independent auditor has not performed a review of the comparative financial information for the three and twelve month periods ended September 30, 2015 in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor. The Corporation changed its independent auditor in fiscal 2016.

## Founders Advantage Capital Corp.

### Interim Condensed Consolidated Statements of Financial Position (Unaudited)

As at	September 30, 2016	September 30, 2015
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 35,785,843	\$ 12,113,085
Trade and other receivables (note 5)	10,448,213	647,690
Prepaid expenses and deposits	1,039,188	51,915
Notes receivable	318,315	-
	47,591,559	12,812,690
Investments (note 6)	2,673,000	14,866,596
Equity accounted investment (note 7)	603,126	-
Intangible assets (note 4 and 9)	126,478,982	-
Goodwill (note 9)	56,358,051	-
Capital assets (note 10)	295,221	-
<b>TOTAL ASSETS</b>	<b>\$ 233,999,939</b>	<b>\$ 27,679,286</b>
<b>LIABILITIES</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (note 11)	10,498,637	237,900
Loans and borrowings (note 12)	20,849,289	-
Deferred revenue	348,659	-
Other current liabilities	250,000	-
	31,946,585	237,900
Loans and borrowings (note 12)	8,129,084	-
Long-term accrued liabilities	126,932	-
Deferred revenue	211,614	-
Deferred tax liabilities (note 4)	24,651,360	-
	65,065,575	237,900
<b>EQUITY</b>		
Share capital (note 13)	111,339,611	27,026,682
Contributed surplus	13,900,084	6,677,732
Accumulated other comprehensive income	-	3,382,404
Deficit	(17,029,424)	(9,645,432)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>108,210,271</b>	<b>27,441,386</b>
<b>NON-CONTROLLING INTEREST</b>	<b>60,724,093</b>	<b>-</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 233,999,939</b>	<b>\$ 27,679,286</b>

Commitments (note 20)

Subsequent events (note 22)

The accompanying notes form an integral part of these interim condensed consolidated financial statements

## Founders Advantage Capital Corp.

### Interim Condensed Consolidated Statements of Net (Loss) Income (Unaudited)

	For the three months ended September 30,		For the twelve months ended September 30,	
	2016	2015	2016	2015
Revenues (note 16)	\$ 10,642,963	\$ -	\$ 13,660,734	\$ -
Direct costs	1,506,591	-	2,110,438	-
Gross profit	9,136,372	-	11,550,296	-
General and administrative (note 15)	3,504,150	452,305	7,306,895	2,007,528
Share-based payments (note 14)	3,173,053	395,596	5,044,018	1,215,596
Depreciation and amortization (note 9 and 10)	902,395	-	1,196,515	4,429
Acquisition and due diligence costs	857,750	-	2,736,408	54,196
	8,437,348	847,901	16,283,836	3,281,749
<b>EARNINGS (LOSS) FROM OPERATIONS</b>	<b>699,024</b>	<b>(847,901)</b>	<b>(4,733,540)</b>	<b>(3,281,749)</b>
Finance income	3,101	32,546	96,215	187,884
Finance expense	(1,504,707)	-	(2,020,716)	-
Foreign exchange gain	135,617	210,731	135,617	108,604
Loss on equity accounted investment (note 7)	(4,705)	-	(20,071)	-
Loss on sale of investments (note 6)	-	-	(1,319,184)	-
Other income	144,776	-	164,184	-
Loss on sale of capital assets	(11,452)	-	(11,452)	-
Impairment loss on capital assets	-	-	-	(70,784)
Mineral property (impairment) reversal (note 8)	-	(33,706)	-	17,196,763
Gain on arbitration settlement (note 8)	-	-	-	22,380,189
Special bonus for arbitration settlement (note 8)	-	-	-	(1,300,000)
	(1,237,370)	209,571	(2,975,407)	38,502,656
(LOSS) INCOME BEFORE INCOME TAX	(538,346)	(638,330)	(7,708,947)	35,220,907
Current tax expense	(1,488,837)	-	(1,779,137)	-
Deferred tax recovery (note 4)	856,036	488,444	4,125,148	488,444
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	<b>\$ (1,171,147)</b>	<b>\$ (149,886)</b>	<b>\$ (5,362,936)</b>	<b>\$ 35,709,351</b>
<b>NET (LOSS) INCOME ATTRIBUTABLE TO:</b>				
Shareholders	(2,842,354)	(149,886)	(7,383,992)	35,709,351
Non-controlling interest	1,671,207	-	2,021,056	-
	<b>\$ (1,171,147)</b>	<b>\$ (149,886)</b>	<b>\$ (5,362,936)</b>	<b>\$ 35,709,351</b>
<b>NET (LOSS) INCOME PER COMMON SHARE (note 17)</b>				
Basic	\$ (0.08)	\$ (0.02)	\$ (0.38)	\$ 3.61
Diluted	\$ (0.08)	\$ (0.02)	\$ (0.38)	\$ 3.57

The accompanying notes form an integral part of these interim condensed consolidated financial statements

## Founders Advantage Capital Corp.

### Interim Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

	For the three months ended September 30,		For the twelve months ended September 30,	
	2016	2015	2016	2015
NET (LOSS) INCOME FOR THE PERIOD	\$ (1,171,147)	\$ (149,886)	\$ (5,362,936)	\$ 35,709,351
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>				
Items that will be subsequently reclassified to comprehensive income:				
Unrealized (loss) gain on available for sale financial assets, net of tax (note 6)	-	(4,062,533)	-	3,370,006
Transfer of unrealized loss on available for sale investments to net loss, net of tax (note 6)	-	-	(3,382,404)	-
	-	(4,062,533)	(3,382,404)	3,370,006
<b>COMPREHENSIVE (LOSS) INCOME FOR THE PERIOD</b>	<b>\$ (1,171,147)</b>	<b>\$ (4,212,419)</b>	<b>\$ (8,745,340)</b>	<b>\$ 39,079,357</b>
<b>COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:</b>				
Shareholders	(2,842,354)	(4,212,419)	(10,766,396)	39,079,357
Non-controlling interest	1,671,207	-	2,021,056	-
	<b>\$ (1,171,147)</b>	<b>\$ (4,212,419)</b>	<b>\$ (8,745,340)</b>	<b>\$ 39,079,357</b>

The accompanying notes form an integral part of these interim condensed consolidated financial statements

## Founders Advantage Capital Corp.

### Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity	Non-controlling interest	Total equity
<b>Balance at September 30, 2014</b>	\$ 48,083,836	\$ 5,123,636	\$ 12,398	\$ (45,354,783)	\$ 7,865,087	\$ -	\$ 7,865,087
Exercise of share options	1,171,500	(461,500)	-	-	710,000	-	710,000
Deferred share unit grant	(580,000)	2,015,596	-	-	1,435,596	-	1,435,596
Return of capital distribution	(21,648,654)	-	-	-	(21,648,654)	-	(21,648,654)
Net income and comprehensive income	-	-	3,370,006	35,709,351	39,079,357	-	39,079,357
<b>Balance at September 30, 2015</b>	\$ 27,026,682	\$ 6,677,732	\$ 3,382,404	\$ (9,645,432)	\$ 27,441,386	\$ -	\$ 27,441,386
Shares issued on the acquisition of Advantage Investments (note 4 and 13)	2,428,572	-	-	-	2,428,572	-	2,428,572
Shares held in escrow (note 13)	(2,428,572)	-	-	-	(2,428,572)	-	(2,428,572)
Subscription receipts offering (note 13)	28,789,561	-	-	-	28,789,561	-	28,789,561
Share issuance costs (note 13)	(2,254,306)	-	-	-	(2,254,306)	-	(2,254,306)
Fair value of broker warrants issued (note 14)	(2,178,334)	2,178,334	-	-	-	-	-
Shares issued on the acquisition of DLC Group (note 4)	26,666,668	-	-	-	26,666,668	-	26,666,668
Share-based payments (note 14)	-	5,044,018	-	-	5,044,018	-	5,044,018
Net (loss) income and comprehensive (loss) income	-	-	(3,382,404)	(7,383,992)	(10,766,396)	2,021,056	(8,745,340)
Non-controlling interest on acquisition of DLC Group (note 4)	-	-	-	-	-	58,703,037	58,703,037
Common share offering (note 13)	33,289,340	-	-	-	33,289,340	-	33,289,340
<b>Balance at September 30, 2016</b>	\$ 111,339,611	\$ 13,900,084	\$ -	\$ (17,029,424)	\$ 108,210,271	\$ 60,724,093	\$ 168,934,364

The accompanying notes form an integral part of these interim condensed consolidated financial statements

## Founders Advantage Capital Corp.

Interim Condensed Consolidated Statements of Cash Flows

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

	Twelve months ended September 30, 2016	Twelve months ended September 30, 2015
<b>OPERATING ACTIVITIES</b>		
Net (loss) income for the period	\$ (5,362,936)	\$ 35,709,351
<i>Items not affecting cash:</i>		
Share-based payments (note 14)	5,044,018	1,215,596
Depreciation and amortization (note 9 and 10)	1,196,515	4,429
Loss on sale of investments (note 6)	1,319,184	-
Loss on disposal of capital assets	11,452	-
Other non-cash items	272,010	-
Impairments	-	70,784
Mineral property impairment reversal (note 8)	-	(17,196,763)
Gain on arbitration settlement (note 8)	-	(22,380,189)
Deferred tax recovery	(4,125,148)	(488,444)
Changes in non-cash working capital (note 18)	(1,541,848)	(377,722)
<b>CASH USED IN OPERATING ACTIVITIES</b>	<b>(3,186,753)</b>	<b>(3,442,958)</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on capital assets (note 10)	(132,319)	(8,650)
Investment in DLC, net of cash received (note 4)	(54,769,532)	-
Contribution to equity accounted investee (note 7)	(20,000)	-
Investment in shares (note 6)	(3,083,157)	(10,908,962)
Proceeds from sale of investments (note 6)	10,086,721	-
Investment in franchisee non-compete agreements and relationships (note 9)	(737,199)	-
Proceeds from arbitration settlement (note 8)	-	39,585,602
<b>CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(48,655,486)</b>	<b>28,667,990</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from equity financing, net of transaction costs (note 13)	59,011,748	-
Proceeds from debt financing, net of transaction costs (note 12)	37,383,546	-
Repayment of debt (note 12)	(21,015,914)	-
Return of capital distribution (note 13)	-	(21,648,654)
Issuance of shares on exercise of share options	-	710,000
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>75,379,380</b>	<b>(20,938,654)</b>
Increase in cash and cash equivalents	23,537,141	4,286,378
Impact of foreign exchange on cash and cash equivalents	135,617	-
Cash and cash equivalents, beginning of period	12,113,085	7,826,707
<b>Cash and cash equivalents, end of period</b>	<b>\$ 35,785,843</b>	<b>\$ 12,113,085</b>
Cash flows include the following amounts:		
Interest paid	\$ 1,596,882	\$ 187,884
Income taxes paid	\$ 776,059	\$ -

The accompanying notes form an integral part of these interim condensed consolidated financial statements

# Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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## 1. NATURE OF OPERATIONS

Founders Advantage Capital Corp. (“Founders Advantage” or the “Corporation”) is an investment corporation listed on the TSX Venture Exchange (“Exchange”) under the symbol “FCF”. The Corporation’s name was changed from FCF Capital Inc. to Founders Advantage Capital Corp. on May 16, 2016. Previously, the Corporation’s name was Brilliant Resources Inc., which changed to FCF Capital Inc. on June 25, 2015. The Corporation commenced trading under the symbol “FCF” effective June 29, 2015. The head office of the Corporation is located at Suite 232, 2031 - 33rd Avenue S.W., Calgary, Alberta T2T 1Z5. The Corporation was incorporated under the *Business Corporations Act* (Alberta) on October 1, 1998.

The Corporation’s current investment approach is to acquire controlling equity interests in middle-market private companies with strong cash flows, and proven management teams who are driven to grow their underlying business (the “Founders Advantage Investment Approach”). Previously, when operating under the name Brilliant Resources Inc., the Corporation was a junior resource company in the business of acquiring mineral rights. The change of business from a junior resource company to an investment company was approved by the Exchange and the shareholders of the Corporation on June 25, 2015.

On February 23, 2016, the Corporation acquired 100% of the shares of Advantage Investments (Alberta) Ltd. (“Advantage Investments”), which resulted in the Corporation obtaining the resources to pursue the Founders Advantage Investment Approach. This investment approach allows owners of investee companies to continue managing the day to day operations, has no mandated liquidity time frame, and is designed to be permanent. As a part of this ongoing investment strategy, on June 3, 2016, Founders Advantage acquired 60% of Dominion Lending Centers Limited Partnership (“DLC”), which is engaged in the business of franchising mortgage brokerage services through its subsidiary entities (see note 4 for discussion of the DLC acquisition). DLC is headquartered in British Columbia and has operations across Canada.

Effective in 2016, the Corporation has changed its financial year-end from September 30 to December 31 to align its year-end with its investee subsidiaries and peer groups. The change in year-end will result in the Corporation filing a one-time, fifteen-month transition year covering the period of October 1, 2015 to December 31, 2016. Subsequent to the transition year, the Corporation’s first full financial year will cover the period January 1, 2017 to December 31, 2017.

## 2. BASIS OF PREPARATION

### Statement of compliance

These unaudited interim condensed consolidated financial statements (“interim financial statements”) of the Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), including International Accounting Standard (“IAS”) 34, Interim Financial Reporting. They do not include all information required for annual financial statements and, therefore, should be read in conjunction with the Corporation’s audited consolidated financial statements as at and for the year ended September 30, 2015.

These interim financial statements were authorized for issuance by the Audit Committee of the Corporation, on behalf of the Board of Directors, on November 10, 2016.

## 3. SIGNIFICANT ACCOUNTING POLICIES

As a result of the transition of the Corporation to an investment company in 2015, certain new accounting policies have been adopted. A complete summary of the significant accounting policies used in the preparation of these interim financial statements are as follows. These policies have been applied to all periods presented.

### a) Basis of measurement

These interim financial statements have been prepared on a historical cost basis with the exception of investments, which are measured at fair value as determined at each reporting date.

These interim financial statements are presented in Canadian Dollars, which is the Corporation’s functional currency.

# Founders Advantage Capital Corp.

## Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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### b) Basis of consolidation

These interim financial statements include the accounts of the Corporation and the entities acquired as part of the DLC transaction from June 3, 2016, the date of acquisition. All intercompany balances and transactions have been eliminated on consolidation.

In December 2015, the Corporation commenced the process of dissolving Ivory Resources Inc. ("Ivory") and Ivory's subsidiaries, Equatorial Resources Inc., Bissau Phosphate Inc. and Bissau Resources Inc. All of such subsidiaries of the Corporation, each which were governed by the laws of the Cayman Islands, were deemed to be dissolved per the certificates of resolution dated March 30, 2016.

Advantage Investments was dissolved effective April 27, 2016 and is no longer a subsidiary of the Corporation.

Subsidiaries are those entities over which the Corporation has control. The Corporation controls an entity when it is exposed to or has the rights to variable returns from its involvement with the investment, and has the ability to affect those returns through its power over the investee. The existence and effect of voting rights are considered when assessing whether the Corporation controls another entity. Subsidiaries are fully consolidated from the date control is transferred to the Corporation, and are deconsolidated from the date control ceases.

#### *Non-controlling interest*

Non-controlling interests represent equity interests owned by outside parties. Non-controlling interests are measured at fair value on the date acquired plus their proportionate share of subsequent changes in equity.

### c) Cash and cash equivalents

Cash consist of demand deposits with accredited financial institutions in Canada.

The Corporation has provided \$100,000 (2015 - \$100,000) of cash as security to one of the Corporation's financial institutions for corporate credit card liabilities.

Cash equivalents consists of temporary investments with a maturity of three months or less. At September 30, 2016 cash equivalents are \$nil (2015 - \$10,000,000).

### d) Business combinations

The Corporation uses the acquisition method to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured as the aggregate of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of the exchange. Acquisition costs are expensed as they are incurred. The identifiable assets and liabilities assumed are measured at their fair values at the date of acquisition, and any excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is reassessed and any remaining difference is recognized directly in the consolidated statement of income.

Contingent consideration, if any, is recognized at fair value on the date of the acquisition, with subsequent changes in the fair values recorded in the consolidated statement of income. Contingent consideration is not re-measured when it is an equity instrument and its subsequent settlement is accounted for within equity.

### e) Equity accounted investments

Equity accounted investments are investments over which the Corporation has significant influence, but not control. Generally, the Corporation is considered to exert significant influence when it holds at least a 20% interest in an entity. The financial results of the Corporation's significantly influenced investments are included in the Corporation's consolidated financial statements using the equity method of accounting, whereby the investment is initially recognized at cost, and the carrying amount is then subsequently adjusted to recognize the Corporation's share of earnings or losses of the underlying investment. If the Corporation's carrying value in the equity accounted investment is reduced to zero, further losses are not recognized except to the extent that the Corporation has incurred legal or constructive obligations or has made payments on behalf of the equity accounted investee.

At the end of each reporting period, the Corporation assesses whether there is objective evidence that the investment is impaired. If the investment is considered impaired, the Corporation estimates its recoverable amount, and any difference is charged to the consolidated statement of income.



## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

### f) Capital assets

Capital assets are recorded at cost, net of accumulated depreciation and impairment, if any. Cost of capital assets represents the fair value of the consideration given to acquire the assets. Depreciation is calculated on a straight-line basis over their useful lives as follows:

Assets	Estimated useful life
Computer equipment	2 - 4 years
Furniture and equipment	5 years
Other	2 - 5 years

The depreciation methods and estimated useful lives for capital assets are reviewed at the end of each reporting period and adjusted if appropriate. Any change is accounted for prospectively as a change in accounting estimate.

### g) Intangible assets and goodwill

#### *Intangible assets*

Identifiable intangible assets acquired through a business combination are initially recorded at fair value and are carried at cost less accumulated amortization. Identifiable intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. The indefinite life intangible assets, which are comprised of brand names, are tested for impairment annually, or more frequently if there is an indication that the intangible asset may be impaired. The indefinite life assumption is reviewed each reporting period to determine if it continues to be supportable. If the indefinite life assessment is no longer deemed supportable, the change in useful life from indefinite to finite is made. Any change is accounted for prospectively as a change in accounting estimate.

Franchise rights includes renewable franchise agreements and franchisee non-competition agreements and relationships. The renewable franchise agreements were acquired on acquisition of DLC, and are amortized on a straight-line basis over the estimated economic life of 25-years. Franchisee non-competition agreements and relationships are comprised of the cost of acquiring and renewing contracts with DLC franchisees, and are amortized on a straight-line basis over the life of the related non-competition agreement which ranges from 2 to 10 years.

Software was acquired on acquisition of DLC. The software has a 6-year useful life and is amortized over its useful life on a straight-line basis.

The amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period and adjusted if appropriate. Any change is accounted for prospectively as a change in accounting estimate.

#### *Goodwill*

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination at the date of acquisition. When goodwill is acquired through a business combination for the purposes of impairment testing, it is allocated to each cash-generating unit ("CGU"), or group of CGU's, which represents the smallest identifiable group of assets that generate cash inflows. The allocation is made to the CGU's, or group of CGU's, that is expected to benefit from the related acquisition. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

### h) Impairment

Long-lived assets with finite useful lives are assessed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, and intangible assets with indefinite useful lives, are tested for impairment annually, or more frequently if an indicator for impairment exists. To assess for impairment, assets are grouped into CGU's, and an impairment loss is recorded when the carrying value exceeds its recoverable amount. At the end of each reporting period, an assessment is made as to whether there is any indication that impairment losses previously recognized, other than those that relate to goodwill impairment, may no longer exist or have decreased. If such indications exist, the Corporation makes an estimate of the recoverable amount, and if appropriate, reverses all or part of the impairment. If an impairment is reversed, the carrying amount will be revised to equal the newly estimated recoverable amount. The revised carrying amount may not exceed the carrying amount that would have resulted after taking depreciation into account had no impairment loss been recognized in prior periods. The amount of any impairment reversal is recorded directly to consolidated income.

## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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### i) Financial instruments

A financial instrument is any instrument that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. On initial recognition, financial assets and liabilities are measured at their fair value, and then subsequently are measured based on their classification. The Corporation classifies its financial assets and liabilities into one of the following categories:

#### *Fair value through profit or loss*

A financial asset or liability is classified as at fair value through profit or loss ("FVTPL") if it is classified as held-for-trading or is designated as such on initial recognition. The Corporation classifies a financial instrument as held-for-trading if it was acquired principally for the purpose of selling or repurchasing in the short-term. Directly attributable transaction costs are recognized in income as incurred. These financial assets and financial liabilities are measured at fair value, with any gains and losses on revaluation recognized in income as incurred. At September 30, 2016 the Corporation did not have any financial instruments classified as FVTPL.

#### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are initially measured at fair value and subsequently at amortized cost using the effective interest rate method. The Corporation's loans and receivables are comprised of cash and cash equivalents, note receivable and trade and other receivables.

#### *Available-for-sale assets*

Available-for-sale assets are non-derivative financial assets that are either designated in this category or are not classified in any of the other financial asset categories. These assets are measured at fair value, plus transaction costs, and subsequently are measured at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments are transferred from other comprehensive income to earnings for the period. The Corporation's investments are classified as available-for-sale.

#### *Financial liabilities at amortized cost*

This category consists of non-derivative financial liabilities that do not meet the definition of held-for-trading liabilities, and that have not been designated as liabilities at fair value through profit or loss. These liabilities are initially measured at fair value, less any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. The Corporation's financial liabilities that are measured at amortized cost include trade payables and loans and borrowings.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired, or the Corporation has transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial assets have transferred.

A financial liability is derecognized when its contractual obligations are discharged or expire.

### j) Revenue recognition

Revenue is comprised of fees earned on the franchising of mortgage brokerage services and commissions generated on the brokering of mortgages. Revenue is measured at the fair value of the consideration received or receivable to the extent that it is probable the economic benefits will flow to the Corporation, the amount of revenue can be reasonably estimated, and the costs incurred with respect to the transaction can be reliably measured.

#### *Franchising revenue, mortgage brokerage services*

Franchising revenue from mortgage brokerages includes income from royalties, advertising fees and volume bonus income.

Royalty income is based on a percentage of the mortgage related revenues earned by the franchisees, and is recognized as the franchisees earn their commissions and bonuses from lending contracts. Income from advertising fees relates to advertising and management fees collected from franchisees on a monthly basis. These fees are charged to franchisees for management of the advertising fund, and are also used to fund ongoing advertising expenses. The advertising revenues are recognized each month as amounts become due from franchisees based on the terms of the franchise agreement.

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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Volume bonus revenue relates to agreements made with certain lenders and suppliers to earn bonuses based on the volume of mortgages funded or broker activity. Volume bonus revenue is recognized on an accrual basis as the volume or activity thresholds are fulfilled.

#### *Brokering of mortgages*

Commission income relates to income earned on the brokering of mortgages within the corporately owned mortgage franchise, and is earned when the mortgage deal has closed.

#### **k) Share-based payments**

##### *Share options*

The Corporation issues share-based compensation awards to directors, employees, and consultants. The fair value of the share-based compensation, as at the share option grant date, is measured using an option-pricing model and is recognized over the vesting period as compensation expense. When share options are exercised, the proceeds received, together with any amounts in contributed surplus are recorded in share capital. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards expected to vest and recognizes the impact in the consolidated statement of income and comprehensive income, with a corresponding adjustment to contributed surplus.

In cases where share options issued do not contain any service conditions, the fair value of the share options are immediately recognized as an expense in the consolidated statement of income and comprehensive income on the date of the grant.

##### *Deferred share units*

A deferred share unit ("DSU") plan was previously established for the Corporation's directors. The DSUs settle in cash or through the issuance of the Corporation's common shares at the sole option of the Corporation when the individual ceases to be a director of the Corporation. The DSUs are expensed immediately upon issuance. Share-based compensation expense is recognized at the market value of the Corporation's common shares at the grant date, with a corresponding increase in contributed surplus. Upon redemption of the DSUs for the Corporation's common shares, the amount previously recognized in contributed surplus is recorded as an increase to share capital.

##### *Warrants - equity settled transactions*

The Corporation occasionally issues warrants to brokers and finders participating in private placement offerings. These share-based payment arrangements, where the Corporation receives goods or services in exchange for its own equity instruments, are accounted for at fair value of the goods and services received at the date of receipt of the goods or services. If the fair value of the goods or services received cannot be reliably measured, the value of the warrants are used, and are measured using the Black-Scholes option pricing model.

The fair value of the warrants issued to brokers is recognized as share issuance cost, and netted against share capital, with a corresponding credit to contributed surplus. Upon exercise of the warrants, consideration paid by the warrant holder together with amounts previously recognized in contributed surplus are recorded in share capital.

#### **l) Shares held in escrow**

The Corporation has issued shares held in escrow as a part of a compensation arrangement for accounting purposes. The arrangement requires certain performance conditions be met prior to their release from escrow. The fair value of the escrowed shares are recognized as share-based payments, with a corresponding credit to contributed surplus, over the period in which management estimates the performance conditions being met. Upon release from escrow, the amounts previously recognized in contributed surplus are recorded as an increase to share capital. The Corporation revises its estimated period over which the compensation expense is recorded if subsequent information indicates this period differs from previous estimates. Any change is accounted for prospectively as a change in estimate.

#### **m) Current and deferred taxes**

Current taxes are recognized with respect to amounts expected to be paid or recovered under the tax rates enacted at the end of the reporting period. Deferred tax is recognized on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated statement of financial position. Deferred tax liabilities are generally recognized for all taxable temporary differences.

## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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Deferred tax assets are recognized to the extent that it is probable that future profit will be available against which the deductible temporary differences can be utilized, and are reviewed at the end of the reporting period and reduced to

the extent that it is no longer probable that sufficient profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are presented as non-current, and are offset when there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated using tax rates that have been enacted at the end of the reporting period, and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax expense or recovery is recognized in income except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity, in which case the income tax is also recognized in other comprehensive income or equity, respectively.

### n) Use of estimates and judgments

The preparation of these interim financial statements requires management to make certain estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. Those include estimates that, by their nature, are uncertain and actual results could differ materially from those estimates. The impacts of such estimates may require accounting adjustments based on future results. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

The areas which require management to make significant estimates, judgments and assumptions in determining carrying values include:

#### *Business combinations*

The Corporation uses significant judgement to conclude whether an acquired set of activities and assets are a business, and such differences can lead to significantly different accounting results. The acquisition of a business is accounted for as a business combination. If an acquired set of activities and assets does not meet the definition of a business, the transaction is accounted for as an asset acquisition.

The Corporation accounts for business combinations using the acquisition method. Significant judgement is required in applying the acquisition method when identifying and determining the fair values of the acquired company's assets and liabilities. The most significant assumptions, and those requiring the most judgement, involve the fair values of intangible assets and residual goodwill, if any. Valuation techniques applied to intangible assets are generally based on an estimate of the total expected future cash flows.

Significant assumptions include, the determination of future revenues, cash flows, discount rates and market conditions at the date of the acquisition. The excess acquisition cost over the fair value of identifiable net assets is recorded as goodwill.

#### *Intangible assets*

Management has concluded that the DLC brand name has an indefinite useful life. This conclusion was based on a number of factors, including the Corporation's ability to continue to use the brand and the indefinite period over which the brand name is expected to generate cash flow. Therefore, the determination that the brand has an indefinite useful life involves judgement, which could have an impact on the amortization charge recorded in the consolidated statement of income.

For each class of intangible assets with finite lives, management must decide the period over which it will consume the assets' future economic benefits. The determination of a useful life period involves the judgement of management, which could have an impact on the amortization charge recorded in the consolidated statement of income.

#### *Impairment of goodwill and intangible assets*

Goodwill and indefinite life intangible assets are not amortized. Goodwill and indefinite life intangible assets are assessed for impairment on an annual basis, or when indicators of impairment are identified, by comparing the carrying amount of the asset to its recoverable amount, which is calculated as the higher of the assets' fair value less cost of disposal or its value in use. The value in use is calculated using a discounted cash flows analysis, which requires management to make a number of significant assumptions, including those related to future operating plans, discount rates and future growth rates.

Finite life intangible assets are assessed for indicators of impairment at the end of each reporting period. If indicators of impairment exist, the Corporation assesses whatever the carrying amount of the asset is considered recoverable.

# Founders Advantage Capital Corp.

## Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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### *Share-based payments*

When share-based awards are granted, the Corporation measures the fair value of each award and recognizes the related compensation expense over the vesting period. Management makes a variety of assumptions in calculating the fair value of share-based compensation. An option pricing model is used in determining the fair value, which requires estimating the expected volatility, interest rates, expected life of the awards granted and forfeiture rates. Consequently, share-based compensation expense is subject to measurement uncertainty.

### *Deferred taxes*

The determination of the Corporation's income and other tax liabilities requires the interpretation of complex tax regulations. Judgment is required in determining whether deferred tax assets should be recognized on the consolidated statement of financial position. Deferred tax assets require management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each applicable jurisdiction. These estimates and assumptions are subject to uncertainty and if changed could materially affect the assessment of the Corporation's ability to fully realize the benefit of the deferred tax asset.

### **o) Recent accounting pronouncements**

Certain pronouncements are issued by the IASB that are effective for accounting periods beginning on or after January 1, 2018 and have not been applied to these consolidated financial statements. Those which are relevant to the Corporation have been set out below. The Corporation is continuing to evaluate the impact of such standards.

#### *IFRS 9 - Financial Instruments: Classification and Measurement*

A finalized version of IFRS 9 was issued in July 2014 and supersedes all previous versions, replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes impairment requirements for financial assets, the classification and measurement requirements by introducing a fair value through other comprehensive income measurement category for certain simple debt instruments, de-recognition and general hedge accounting. This standard is to be applied retrospectively, and is effective for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Corporation intends to adopt the new standard on the required effective date, and is currently assessing the impact the amendment will have on the consolidated financial statements.

#### *IFRS 15 - Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014, and provides a single comprehensive model to determine how and when an entity should recognize revenue arising from contracts with customers, and is requiring entities to provide users of financial statements with more informative, relevant disclosures. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation intends to adopt the new standard on the required effective date, and is currently assessing the impact the amendment will have on the consolidated financial statements.

#### *IFRS 16 - Leases*

IFRS 16 introduces a single accounting model for leases. The standard requires a lessee to recognize assets and liabilities on its statement of financial position for all leases with a term of more than 12 months. IFRS 16 can be applied through a full or modified retrospective approach for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. The Corporation intends to adopt the new standard on the required effective date, and is currently assessing the impact the amendment will have on the consolidated financial statements.

## **4. ACQUISITIONS**

### **Advantage Investments**

On February 3, 2016, the Corporation entered into an arm's length agreement to purchase 100% of the shares of Advantage Investments. The key terms of the agreement provide for the appointment of Stephen Reid as the Chief Executive Officer of the Corporation and the acquisition of certain investment opportunities, in consideration for 952,381 common shares (with a share price on the closing date of \$2.55 per share) of the Corporation (the "Reid Shares") and the assumption of \$350,000 of liabilities. The Reid Shares are held in escrow and will be released if and when investment opportunities, and any other investments made by the Corporation following the closing of the transaction, deliver cumulative earnings before interest, tax, depreciation and amortization ("EBITDA") to the Corporation of not less than \$15,000,000. The transaction closed on February 23, 2016.

## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

The total consideration paid for Advantage Investments is as follows:

Issuance of 952,381 common shares of the Corporation based on fair value on closing date	\$	2,428,572
Liabilities assumed		350,000
	\$	<b>2,778,572</b>

As a result of the performance condition associated with the Reid Shares, the Corporation has determined that the transaction represented a compensation arrangement for accounting purposes. The total share consideration of \$2,428,572 is amortized as a charge to income as a share-based payment expense over the period in which management estimates the performance condition will be met.

### DLC Limited Partnership

On June 3, 2016, the Corporation acquired a 60% majority and voting interest in DLC, which through its subsidiary is engaged in the business of franchising mortgage brokerage services. The aggregate purchase consideration was \$86,083,664, which included cash of \$61,387,888, 4,761,905 common shares of the Corporation with a fair value of \$26,666,668 as at the closing date, and amounts due from vendors of \$1,970,892. The cash portion of the purchase price was funded by the Corporation's cash on hand, the net proceeds from the Corporation's April 2016 subscription receipts offering, and a \$20,000,000 loan facility.

The Corporation accounted for the acquisition of DLC as a business combination. The acquisition method has been used to account for this transaction, whereby the assets acquired and liabilities assumed have been recorded at their estimated fair values. The purchase price allocation related to the acquisition may be subject to adjustment pending completion of final valuations.

The fair values of the net assets acquired at the date of the transaction are as follows:

<i>Consideration given:</i>		
Issuance of 4,761,905 common shares of the Corporation based on fair value on closing date	\$	26,666,668
Cash consideration		61,387,888
Amount due from vendors		(1,970,892)
	\$	<b>86,083,664</b>
<i>Assets acquired:</i>		
Cash and cash equivalents	\$	6,618,356
Accounts receivables		6,098,783
Notes receivable		206,326
Prepays and deposits		190,014
Capital assets		212,652
Equity investments		603,197
Intangible assets		126,900,000
Goodwill		56,358,051
<i>Liabilities assumed:</i>		
Accounts payable and other liabilities		(6,725,032)
Government agencies payable		(2,593,679)
Deferred revenue		(372,344)
Other liabilities		(444,965)
Loans and borrowings		(12,186,859)
Deferred tax liabilities		(30,077,799)
Non-controlling interest		(58,703,037)
	\$	<b>86,083,664</b>

The excess of the purchase price over the net tangible and identifiable intangible assets acquired and assumed liabilities has been recorded as goodwill. The goodwill recorded primarily reflects the future growth potential of the business. Goodwill has been allocated to the DLC operating segment.

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

Upon the acquisition of DLC, the Corporation recorded a deferred income tax liability of \$30,077,799. Additionally, a deferred income tax recovery was recorded in the amount of \$4,890,595 for the twelve months ended September 30, 2016 that resulted primarily from the Corporation's non-capital losses which had been unrecognized prior to the acquisition of DLC.

Of the \$126,900,000 allocated to intangible assets, \$79,800,000 was allocated to renewable franchise agreements, \$45,700,000 to the brand name and \$1,400,000 to software. All intangible assets are subject to amortization with the exception of brand name, which is considered to have an indefinite life. An indefinite life has been assigned due to the Corporation's assessment of the strength of the brand and the expected future use of the brand name.

The results of operations are included in the Corporation's consolidated income and comprehensive income for the period since the acquisition date. From the closing date of the acquisition on June 3, 2016 to September 30, 2016, DLC contributed revenues of \$13,381,923 and earnings before income tax of \$8,060,084 to the Corporation's results. If the acquisition occurred on October 1, 2015, management estimates that revenue and net income would have been increased by approximately \$16,700,000 and \$3,200,000 respectively.

#### 5. TRADE AND OTHER RECEIVABLES

	September 30, 2016	September 30, 2015
Trade accounts receivable	\$ 7,614,856	\$ -
Distributions recoverable	-	537,037
Other receivables	2,833,357	110,653
	<b>\$ 10,448,213</b>	<b>\$ 647,690</b>

Distributions recoverable related to amounts paid of \$537,037 to a brokerage firm as security for the 246,914 common shares that were cancelled in February 2015. Upon confirming to the trustee for the brokerage that the shares were cancelled, the funds were returned to the Corporation in November 2015 (note 13).

Other receivables, as at September 30, 2016, includes \$1,970,892 due from the vendors in the DLC transaction, which relates to sales tax amounts payable by the vendors (being the founders of DLC) for which the Corporation has been indemnified pursuant to the acquisition agreement. An offsetting amount is recorded in accounts payable and accrued liabilities (note 11).

#### 6. INVESTMENTS

	September 30, 2016	September 30, 2015
Auryn Resources Inc. <sup>(i)</sup>	\$ -	\$ 273,996
Polaris Infrastructures Inc. <sup>(ii)</sup>	-	14,592,600
Vital Alert Communications Inc. <sup>(iii)</sup>	2,673,000	-
	<b>\$ 2,673,000</b>	<b>\$ 14,866,596</b>

The Corporation holds securities of private and publicly traded companies which it has classified as available-for-sale assets, carried at fair value, with unrealized gains and losses held as a component of accumulated other comprehensive income in equity, net of deferred taxes. For the twelve months ended September 30, 2016, the Corporation transferred unrealized losses in the amount of \$3,382,404 (2015 - gain of \$3,370,006) from accumulated other comprehensive income to net loss for the period.

- (i) In February 2016, the Corporation sold all of its Auryn shares for net proceeds of \$308,880. The cost base of these shares was \$89,518, leading to a gain of sale of \$219,362.

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

- (ii) On April 30, 2015, the Corporation acquired 2.5 billion subscription receipts of Polaris Infrastructure Inc. ("Polaris"), a company listed on the Toronto Stock Exchange, at a purchase price of \$0.004 per subscription receipt. The subscription receipts entitled the Corporation to receive, upon exchange on May 13, 2015, 1,250,000 post-consolidation common shares of Polaris at a deemed price of \$8 per share. The Corporation subsequently purchased an additional 136,500 common shares of Polaris in the open market.

In February 2016, the Corporation sold its original investment of 1,250,000 common shares of Polaris for net proceeds of \$8,675,345. In May 2016, the Corporation subsequently sold its remaining 136,500 common shares of Polaris for net proceeds of \$1,102,497. The total cost base of these shares was \$11,316,388, leading to a loss on sale of \$1,538,546.

- (iii) On December 23, 2015 the Corporation made an equity investment of \$2,673,000 in Vital Alert Communications Inc. ("Vital Alert"), a Canadian private company. The investment closed on December 23, 2015 and resulted in the Corporation acquiring 25,999,568 voting preferred shares in the capital of Vital (representing 16.67% of the voting shares of Vital on a fully-diluted basis). At the time of the investment, a director of the Corporation was also a director of Vital Alert.

## 7. EQUITY ACCOUNTED INVESTMENT

The Corporation owns a 60% interest in DLC, which in turn owns a 20% interest in Canadiana Financial Corp ("Canadiana"), giving the Corporation an indirect interest of 12% in Canadiana. Canadiana is a privately held entity in the business of providing mortgage facilitation services.

The following table summarizes the financial information of Canadiana:

	September 30, 2016	September 30, 2015
Assets	\$ 3,176,976	\$ -
Liabilities	(161,344)	-
Net assets	3,015,632	-
DLC percentage of ownership	20%	-
<b>Corporation share of net assets</b>	<b>\$ 603,126</b>	<b>\$ -</b>

On June 3, 2016, the date of the DLC acquisition, the investment in Canadiana had a fair value of \$603,197 (note 4). Subsequent to the DLC acquisition, DLC invested an additional \$20,000 in Canadiana, by way of a capital call, and recorded its share of the investee's losses in the amount of \$20,071.

## 8. MINERAL PROPERTIES

As at September 30, 2016, the Corporation no longer holds any mineral properties.

### Republic of Equatorial Guinea, Africa ("Equatorial Guinea")

Through an agreement with the Government of Equatorial Guinea (the "EG Agreement"), the Corporation had certain preferential rights to acquire mineral rights in a continental region of West-Central African Nation Equatorial Guinea.

Although the Corporation had the contractual right to obtain mineral concessions in Equatorial Guinea, it had been unable to exercise these rights, and therefore, determined that the Corporation's ability to derive cash flows was limited. As a result, during 2014 the Corporation determined that the recoverable amount of the assets was \$nil, and recorded an impairment loss equal to the entire carrying value of these mineral properties of \$17,205,413.

Subsequent to recording this impairment loss, on June 12, 2014, the Corporation submitted a Request for Arbitration against the Government of Equatorial Guinea pursuant to the rules of arbitration of the International Chamber of Commerce and the EG Agreement, seeking damages.



## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

On January 22, 2015, the Corporation and the Government of Equatorial Guinea reached an agreement whereby the Corporation would relinquish all its rights and interests under the terms of the EG Agreement in exchange for USD \$31,500,000 in cash payable in three installments. During 2015, the Corporation received all three installments which, upon conversion to Canadian dollars, equaled \$39,585,602. Upon receiving the full payment of the settlement, the Corporation relinquished all of its rights and interests under the EG Agreement and withdrew its Request for Arbitration against the Government of Equatorial Guinea. The receipt of the arbitration settlement resulted in the reversal of the previously recorded impairment loss of \$17,205,413, and a gain on disposal of \$22,380,189.

During the twelve months ended September 30, 2015, the Corporation recorded a total impairment reversal of \$17,205,413 in the statement of income and comprehensive income. An impairment loss on the Michikamau property was also recorded in the amount of \$8,650.

As part of this transaction, the Board of Directors approved a special bonus of \$1,300,000, in the aggregate, which was paid to key officers and directors in April 2015.

#### 9. INTANGIBLE ASSETS

	Franchise agreements	Brand names	Software	Total intangible assets	Goodwill	Total
<b>Carrying value, September 30, 2015</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisitions (note 4)	79,800,000	45,700,000	1,400,000	126,900,000	56,358,051	183,258,051
Additions	737,199	-	-	737,199	-	737,199
Accumulated amortization	(1,080,439)	-	(77,778)	(1,158,217)	-	(1,158,217)
<b>Carrying value, September 30, 2016</b>	<b>\$ 79,456,760</b>	<b>\$ 45,700,000</b>	<b>\$ 1,322,222</b>	<b>\$ 126,478,982</b>	<b>\$ 56,358,051</b>	<b>\$ 182,837,033</b>

All intangible assets included in the table above relate to DLC.

#### 10. CAPITAL ASSETS

	Computer equipment	Furniture & equipment	Other	Total
<b>Cost</b>				
Balance at September 30, 2015	\$ -	\$ -	\$ -	\$ -
Acquisitions (note 4)	103,772	55,394	53,486	212,652
Additions	27,876	22,276	82,167	132,319
Disposals	-	(9,253)	(12,476)	(21,729)
Balance at September 30, 2016	131,648	68,417	123,177	323,242
<b>Accumulated amortization</b>				
Balance at September 30, 2015	-	-	-	-
Additions	19,953	4,519	13,826	38,298
Disposals	-	(3,623)	(6,654)	(10,277)
Balance at September 30, 2016	19,953	896	7,172	28,021
Carrying value, September 30, 2015	-	-	-	-
<b>Carrying value, September 30, 2016</b>	<b>\$ 111,695</b>	<b>\$ 67,521</b>	<b>\$ 116,005</b>	<b>\$ 295,221</b>

## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

### 11. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

	September 30, 2016	September 30, 2015
Trade payables	\$ 7,273,541	\$ 171,055
Accrued liabilities	416,346	66,845
Government agencies payable	2,808,750	-
	<b>\$ 10,498,637</b>	<b>\$ 237,900</b>

Government agencies payable relates to corporate taxes payable in the amount of \$334,589, with the remainder of the balance relating to sales tax assessments payable by DLC. As part of the DLC acquisition, the Corporation has been indemnified by the founders of DLC for an amount totaling \$1,970,892 relating to this liability (note 5).

### 12. LOANS AND BORROWINGS

	September 30, 2016	September 30, 2015
<b>Corporate</b>		
\$17,000,000 credit facility	\$ 12,807,428	\$ -
\$5,000,000 credit facility	5,000,000	-
<b>Subsidiaries</b>		
DLC - \$6,500,000 term loan	2,150,000	-
DLC - \$10,300,000 term loan	9,010,555	-
DLC - Vehicle Loan	10,390	-
Total loans and borrowings	28,978,373	-
Less current portion	(20,849,289)	-
	<b>\$ 8,129,084</b>	<b>\$ -</b>

#### Corporate - \$20,000,000 acquisition facility

On May 6, 2016, the Corporation entered into a \$20,000,000 demand non-revolving credit facility ("DLC Acquisition Facility") that matures on the earlier of (i) demand by the lender, or (ii) May 7, 2017, and could be repaid by the Corporation at any time with 105 days' notice to the lender. The DLC Acquisition Facility was for the purpose of financing the acquisition of a 60% interest in DLC. Borrowings under the DLC Acquisition Facility were due on demand and bore interest at a rate equal to the Bank of Montreal Prime Rate plus 9.3% per annum. The DLC Acquisition Facility was secured by a general security agreement with first charge over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions. On July 19, 2016, the DLC Acquisition Facility was repaid in full.

#### Corporate - \$17,000,000 and \$5,000,000 credit facilities

On July 19, 2016, the Corporation entered into a \$17,000,000 revolving acquisition credit facility ("Facility A") and \$5,000,000 non-revolving demand acquisition credit facility ("Facility B") with a Canadian financial institution for the purposes of refinancing the DLC Acquisition Facility, and thereafter to finance future acquisitions and for general corporate purposes.

Pursuant to the terms of the Facility A, the Corporation can borrow up to \$17,000,000 Canadian dollars, or the equivalent amount in U.S. dollars. Canadian dollars borrowings under the Facility A are available by way of prime-based loans and guarantee notes. Loans denominated in Canadian dollars bear interest at the Canadian dollar prime rate, plus an applicable margin of 3.00 to 3.75%, and guarantee notes in Canadian dollars bear interest at an applicable margin of 4.00 to 4.75%. For borrowings denominated in U.S. dollars, the Corporation may elect to have amounts outstanding bear interest at either the U.S. dollar prime rate plus an applicable margin of 3.00 to 3.75%, or a LIBOR rate plus an applicable margin of 4.00% to 4.75%. The applicable margin is determined based on the Corporation's net funded debt to EBITDA ratio, as defined by the Acquisition Facility.

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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The Facility B is available by way of prime-based loans in Canadian dollars and guaranteed notes in Canadian dollars. Loans denominated in Canadian dollars bear interest at the Canadian dollar prime rate, plus an applicable margin of 3.00 to 3.75%, and guarantee notes in Canadian dollars bear interest at an applicable margin of 4.00 to 4.75%. The applicable margin is determined based on the Corporation's net funded debt to EBITDA ratio, as defined by the Facility B.

Facility A and Facility B mature on the earlier of (i) demand by the lender, or (ii) December 31, 2016, and are secured by a general security agreement with first charge over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a fixed charge coverage ratio of not less than 1.4:1, a net funded debt to EBITDA ratio of less than 4.0:1, a minimum cash balance, including forecasted cash flows, of not less than \$10,000,000, and aggregate borrowings of less than 33% of the total consideration paid for an investee subsidiary using the proceeds under both the Acquisition Facility and Demand Facility. As at September 30, 2016, the Corporation was in compliance with all such covenants.

Subsequent to September 30, 2016, the Corporation repaid the Facility A in full.

#### **DLC - \$6,500,000 term loan facility**

On June 12, 2013, DLC established a \$6,500,000 credit facility that matures on June 12, 2018. The credit facility was for the purpose of financing the acquisition of Mortgage Centers Canada Inc., a company in the business of franchising of mortgage brokerage services. Borrowings under the facility bear interest at a rate equal to the prime rate, plus 1.5% per annum. The credit facility is secured by a general security agreement with first charge over the assets of DLC, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 120% and a debt-to-EBITDA ratio of less than 2.5:1. As at September 30, 2016, DLC was in compliance with all such covenants. This facility is held at the DLC subsidiary level.

#### **DLC - \$10,300,000 term loan facility**

On November 20, 2015, DLC established a \$10,300,000 term loan facility that matures on December 30, 2021. The loan facility was for the purpose of financing the acquisition of MA Mortgage Architects Inc., a company in the business of franchising of mortgage brokerage services. Borrowings under the facility bear interest at a rate equal to the prime rate plus 1.5% per annum. The loan facility is secured by a general security agreement with first charge over the assets of DLC, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 120% and a debt-to-EBITDA ratio of less than 2.5:1. As at September 30, 2016, DLC was in compliance with all such covenants. This facility is held at the DLC subsidiary level.

#### **DLC - \$500,000 operating facility**

On June 12, 2013, DLC established a \$500,000 revolving credit facility ("Operating Facility"), as an operating loan to finance working capital and fund acquisitions. Borrowings under the revolving facility are due on demand and bear interest at the bank's prime rate plus 1.5% per annum. The credit facility is secured by a general security agreement with first charge over the assets of DLC, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 120% and a debt-to-EBITDA ratio of less than 2.5:1. As at September 30, 2016, DLC was in compliance with all such covenants. This facility is held at the DLC subsidiary level.

As at September 30, 2016, DLC had not drawn on this operating loan.

## 13. SHARE CAPITAL

### **Share consolidation**

Effective May 18, 2016, the Corporation consolidated its common shares on the basis of one (1) post-consolidation common share for every fifteen (15) common shares outstanding. All figures in the interim financial statements have been adjusted to reflect the 15:1 consolidation. The number of outstanding share options and deferred share units have also been adjusted proportionately. The corresponding exercise prices have increased by the same ratio.

### **Authorized share capital**

The Corporation is authorized to issue an unlimited number of Class A common shares without par value and an unlimited number of Class B preferred shares.

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

A summary of changes in Class A common share capital in the period is as follows:

	Number of Class A common shares		Amount
Balance at September 30, 2014	9,963,644	\$	48,083,836
Shares cancelled <sup>(i)</sup>	(246,914)		-
Shares issued under share option plan	236,667		1,171,500
Deferred share unit distribution	-		(580,000)
Return of capital distribution <sup>(ii)</sup>	-		(21,648,654)
Balance at September 30, 2015	9,953,397		27,026,682
Shares held in escrow - issued to Advantage Investments vendor on closing <sup>(iii)</sup>	952,380		2,428,572
Shares held in escrow <sup>(iii)</sup>	-		(2,428,572)
Subscription receipts	13,709,306		28,789,561
Share issuance costs	-		(2,254,306)
Broker warrants issued	-		(2,178,334)
Issued to DLC vendors on closing (note 4)	4,761,902		26,666,668
Common shares issued	8,322,330		33,289,340
<b>Balance at September 30, 2016</b>	<b>37,699,315</b>	<b>\$</b>	<b>111,339,611</b>

- (i) In February 2015, the Corporation cancelled 246,914 common shares for no consideration. The shares were issued in trust on April 2011, in connection with the Corporation's acquisition of Ivory.
- (ii) In July 2015, the Corporation paid a return of capital distribution of \$2.18 (pre-consolidation \$0.145) per common share outstanding.
- (iii) These shares are issued and outstanding, but are held in escrow until a performance release condition has been met (note 4).

#### Issuance of subscription receipts (April 2016)

On April 14, 2016, the Corporation completed a private placement offering of subscription receipts for total proceeds of \$28,789,561. An aggregate of 13,709,306 subscription receipts (post-consolidation) were issued at a price of \$2.10 per subscription receipt, each of which entitled the holder to acquire one common share of the Corporation upon completion of an acquisition by the Corporation having a purchase price of not less than \$50,000,000. The conditions for the automatic conversion of subscription receipts to common shares were satisfied on June 3, 2016 through the acquisition by the Corporation of DLC (note 4).

The private placement of subscription receipts was completed by way of a brokered and non-brokered offering. The Corporation paid cash commissions equal to 3% of the aggregate gross proceeds of the brokered offering and 3% of the gross proceeds raised by certain dealers as a part of a non-brokered offering. Upon conversion of the subscription receipts to common shares, an additional commission of 3% of the gross proceeds was paid, and a number of broker warrants equal to 6% of the subscription receipts were issued to the same brokers and dealers. Each broker warrant is exercisable for one common share at a price of \$2.10 per share at any time up to 24 months after the date of issuance.

The private placement was completed on an arm's length basis, except for participating officers, directors and employees who purchased 2,945,073 subscription receipts for gross proceeds totaling \$6,184,653.

#### Issuance of common shares (July 2016)

On July 6, 2016, the Corporation completed a brokered and non-brokered private placement of common shares at a price of \$4.00 per common share for a total gross proceeds of \$33,289,340. The Corporation issued an aggregate of 5,027,500 common shares for gross proceeds of \$20,110,000 pursuant to the brokered offering, and 3,294,830 common shares for gross proceeds of \$13,179,340 pursuant to the non-brokered offering. In connection with the brokered offering, the Corporation paid the underwriters a cash commission equal to 6% of the aggregate gross proceeds of the brokered offering, plus expenses and disbursements.

The private placement was completed on an arm's length basis, except for participating officers, directors and employees who purchased 579,750 common shares for gross proceeds totaling \$2,319,000.

## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

### 14. SHARE-BASED PAYMENTS

#### Share options

Under the Corporation's share option plan (the "Plan"), the Corporation may grant share options to its directors, officers, employees, and consultants for up to 10% of the issued and outstanding common shares at the time of the share option grant. The Corporation's directors determine the term and vesting period of the share options at the time of the grant with the maximum term under the Plan being ten years from the grant date. The exercise price of each share option is determined on issuance of the share options, which cannot be less than the market price, less a maximum discount of 15%, as defined by the Exchange.

A summary of share option activity in the periods is as follows:

	Number of share options	Weighted average exercise price
Outstanding share options, September 30, 2014	263,334	\$ 3.00
Forfeited	(6,667)	3.00
Exercised	(236,667)	3.00
Granted	193,333	2.40
Outstanding share options, September 30, 2015	213,333	2.45
Granted	2,679,745	3.94
Forfeited	(20,000)	3.00
<b>Outstanding share options, September 30, 2016</b>	<b>2,873,078</b>	<b>\$ 3.84</b>
<b>Exercisable share options, September 30, 2016</b>	<b>794,166</b>	<b>\$ 3.91</b>

#### Issuance of share options

On February 23, 2016, the Corporation granted 877,245 options with an exercise price of \$3.00 and a fair value of \$1.83 per share option. The share options were granted on closing of the acquisition of Advantage Investments to both former and newly elected directors and management. All share options granted have a five-year term and vest one-third of the grant amount on each of the first, second and third anniversaries of the date of grant provided the Reid Shares are released from escrow (see note 4 for discussion of the acquisition of Advantage Investments). Of the total share options granted, 333,333 relate to the resignation of certain directors and management; as these share options did not contain any future service conditions, the share options were recorded directly to expense on the date of the grant. As at September 30, 2016, none of these share options are exercisable.

On July 7, 2016, the Corporation granted 1,802,500 share options to certain directors, officers and employees of the Corporation. The share options are exercisable at a price of \$4.40 per share and have an estimated fair value of \$3.00 per share option. The options have a five-year term, and will vest one-third immediately, and one-third on the first and second anniversary from the date of the grant. As at September 30, 2016, 600,833 of these share options are exercisable.

The fair value of the share options granted during the twelve months ended September 30, 2016 were estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	September 30, 2016	September 30, 2015
Risk-free interest rate	0.59%	3.00%
Expected volatility	100%	125%
Expected life	5 years	10 years
Expected dividend yield	N/A	N/A
Estimated forfeiture rate	2.00%	0.00%

The expected volatility is based on the historical volatility of the underlying share price for a period equivalent to the expected life of the share options. The risk-free rate is based on the Government of Canada yield curve in effect at the time of valuation.

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

The following table summarizes the share options outstanding and exercisable under the Plan as at September 30, 2016:

Grant Date	Share options outstanding	Exercise price	Years to maturity	Share options exercisable
July 15, 2015	193,333	\$ 2.40	8.8	193,333
February 23, 2016	877,245	3.00	4.4	-
July 7, 2016	1,802,500	4.40	4.8	600,833
	<b>2,873,078</b>			<b>794,166</b>

The Corporation recorded a share-based payment expense related to share options for the three and twelve months ended September 30, 2016 of \$2,649,655 and \$3,562,245, respectively (2015 - \$253,525 and \$253,525).

#### Broker Warrants

The following table summarizes the broker warrants outstanding:

	Warrants outstanding	Exercise price
Outstanding broker warrants, September 30, 2015	-	\$ -
Granted	528,691	2.10
<b>Outstanding broker warrants, September 30, 2016</b>	<b>528,691</b>	<b>\$ 2.10</b>

On June 3, 2016, the Corporation issued 528,691 broker warrants with an exercise price of \$2.10, each of which entitles the holder thereof to acquire one common share at a price of \$2.10 per share for a period of 24 months from issuance. These broker warrants were issued as non-cash compensation to brokers and finders in connection with the April 14, 2016 subscription receipts offering. Using the Black-Scholes pricing model, the broker warrants have been valued at \$2,178,334. The Corporation has recognized this amount as share issuance costs, which is netted against share capital.

The fair value of the warrants granted were estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	September 30, 2016	September 30, 2015
Risk-free interest rate	0.51%	-
Expected volatility	100%	-
Expected life	2 years	-
Expected dividend yield	N/A	-
Estimated forfeiture rate	0%	-
Share price on grant date	\$5.60	-

The expected volatility is based on the historical volatility of the underlying share price for a period equivalent to the expected life of the broker warrants. The risk-free rate is based on the Government of Canada yield curve in effect at the time of valuation.

#### Deferred share units

On June 25, 2015, shareholders of the Corporation approved an amended DSU Plan under which the board may elect to pay out DSUs in either cash or common shares of the Corporation to eligible participants of the DSU Plan. The previous DSU Plan required that DSUs be paid out in cash when a participant ceased to be a director of the Corporation and the liability for such payment was fair valued based upon the market price at every period end and recorded as a current liability with the expense adjusted accordingly.

## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

	DSUs outstanding	Deferred share unit liabilities
DSUs outstanding, September 30, 2014	266,667	\$ 220,000
De-recognition of liability due to DSU Plan <sup>(i)</sup>	-	(220,000)
Granted <sup>(iii)</sup>	72,032	-
Adjustment for return of capital distribution <sup>(ii)</sup>	241,667	-
DSUs outstanding, September 30, 2015	580,366	-
Granted <sup>(iv)</sup>	43,297	-
<b>DSUs outstanding, September 30, 2016</b>	<b>623,663</b>	<b>\$ -</b>

- i. Upon shareholder approval of the amended DSU Plan, the 266,667 DSUs granted during fiscal 2014 were revalued based on the share price as at June 25, 2015 of \$3.825 per share versus the \$0.825 per share at September 30, 2014. The revaluation resulted in a \$800,000 DSU compensation expense.
- ii. On July 15, 2015, the Corporation granted 72,032 DSUs to the directors of the Corporation for director fees. The Corporation recognized a DSU compensation expense of \$162,071.
- iii. On July 25, 2015, the Board approved a return of capital to its shareholders of \$0.145 per share outstanding totaling \$21,648,654. On July 22, 2015, the Corporation also granted 241,667 additional DSUs relating to the return of capital distribution for the DSUs outstanding as at June 25, 2015. The Corporation recognized a compensation expense of \$580,000.
- iv. On February 23, 2016, 43,297 DSUs were issued to a director of the Corporation. The DSUs vest immediately upon grant and settle in cash or through the issuance of the Corporation's common shares when the individual ceases to be a director of the Corporation. The DSUs were expensed immediately upon issuance. The Corporation recognized a DSU compensation expense of \$100,000.

The Corporation recorded a share-based payment expense related to DSUs for the three and twelve months ended September 30, 2016 of \$nil and \$100,000, respectively (2015 - \$142,071 and \$962,071).

The Corporation recorded total share-based payment expense of \$3,173,053 and \$5,044,018 for the three and twelve months ended September 30, 2016, respectively (2015- \$395,596 and \$1,215,596). These amounts include share-based payments related to shares held in Escrow of \$523,398 and \$1,381,773 for the three and twelve months ended September 30, 2016.

## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements  
For the three and twelve months ended September 30, 2016 and 2015  
(Unaudited)

### 15. SEGMENTED INFORMATION

The Corporation's operating segments represent the components of the business whose operating results are reviewed regularly by the Corporation's chief operating decision makers, which is made up of the Corporation's senior management.

The Corporation currently has a single operating segment, which consists of business operations conducted through DLC. "Corporate" used in the following segment tables is not a separate segment and is only presented to reconcile to consolidated results, revenue earned and expenses incurred at corporate office of the Corporation (excluding investee).

As at September 30, 2016	ASSETS						LIABILITIES				
	Cash and cash equivalents	Trade and other receivables	Intangible assets	Goodwill	Other assets	Total	Accounts payable and accrued liabilities	Loans and borrowings	Deferred Tax	Other liabilities	Total
DLC	\$ 8,534,048	\$ 10,337,003	\$ 126,478,982	\$ 56,358,051	\$ 1,926,904	\$ 203,634,988	\$ 9,361,804	\$ 11,170,945	\$ 30,595,799	\$ 937,205	\$ 52,065,753
Corporate	27,251,795	111,210	-	-	3,001,946	30,364,951	1,136,833	17,807,428	(5,944,439)	-	12,999,822
<b>Consolidated</b>	<b>\$ 35,785,843</b>	<b>\$ 10,448,213</b>	<b>\$ 126,478,982</b>	<b>\$ 56,358,051</b>	<b>\$ 4,928,850</b>	<b>\$ 233,999,939</b>	<b>\$ 10,498,637</b>	<b>\$ 28,978,373</b>	<b>\$ 24,651,360</b>	<b>\$ 937,205</b>	<b>\$ 65,065,575</b>

For the three months ended September 30, 2016	Revenue	Direct costs	General and administrative	Share-based payments	Acquisition and due diligence costs	Other Expenses	Net income (loss) before tax
Corporate	-	-	1,206,393	3,173,053	857,750	1,244,905	(6,482,101)
<b>Consolidated</b>	<b>\$ 10,642,963</b>	<b>\$ 1,506,591</b>	<b>\$ 3,504,150</b>	<b>\$ 3,173,053</b>	<b>\$ 857,750</b>	<b>\$ 2,139,765</b>	<b>\$ (538,346)</b>

For the twelve months ended September 30, 2016	Revenue	Direct costs	General and administrative	Share-based payments	Acquisition and due diligence costs	Other Expenses	Net income (loss) before tax
Corporate	-	-	4,092,866	5,044,018	2,736,408	2,944,436	(14,817,728)
<b>Consolidated</b>	<b>\$ 13,660,734</b>	<b>\$ 2,110,438</b>	<b>\$ 7,306,895</b>	<b>\$ 5,044,018</b>	<b>\$ 2,736,408</b>	<b>\$ 4,171,922</b>	<b>\$ (7,708,947)</b>

As at and for the twelve months ended September 30, 2015, all assets, liabilities, revenues and expenses were categorized as Corporate.



## Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

### 16. REVENUES

	For the three months ended September 30,		For the twelve months ended September 30,	
	2016	2015	2016	2015
Franchising revenue, mortgage brokerage services	\$ 10,511,537	\$ -	\$ 13,494,927	\$ -
Brokering of mortgages	131,426	-	165,807	-
	<b>\$ 10,642,963</b>	<b>\$ -</b>	<b>\$ 13,660,734</b>	<b>\$ -</b>

The revenues reflect the amounts earned from the June 3, 2016 closing date of the DLC acquisition to September 30, 2016.

The DLC operating segment is subject to seasonal variances that fluctuate in accordance with the normal home buying season. This typically results in higher revenues in the months of June through September of each year, and results in lower revenues during the months of January through March.

### 17. INCOME (LOSS) PER SHARE

	For the three months ended September 30,		For the twelve months ended September 30,	
	2016	2015	2016	2015
Net (loss) income attributable to shareholders	\$ (2,842,354)	\$ (149,886)	\$ (7,383,992)	\$ 35,709,351
Basic weighted average number of shares	36,204,198	9,953,404	19,637,624	9,878,710
Effect of dilutive securities DSUs	-	-	-	118,519
Diluted basic average number of shares	36,204,198	9,953,404	19,637,624	9,997,229
Basic (loss) income per share	\$ (0.08)	\$ (0.02)	\$ (0.38)	\$ 3.61
Diluted (loss) income per share	\$ (0.08)	\$ (0.02)	\$ (0.38)	\$ 3.57

### 18. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital are as follows:

	For the twelve months ended September 30, 2016	For the twelve months ended September 30, 2015
Trade and other receivables	\$ (1,730,848)	\$ (470,783)
Prepaid expenses and deposits	(797,259)	80,051
Accounts payable and accrued liabilities	942,026	13,010
Deferred revenue	156,222	-
Note receivable	(111,989)	-
	<b>\$ (1,541,848)</b>	<b>\$ (377,722)</b>

# Founders Advantage Capital Corp.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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## 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies, and reviews these policies regularly to reflect changes in market conditions and in the Corporation's activities.

The Corporation's financial risk management policies have been established in order to identify and analyze risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Corporation employs risk management strategies to ensure our risks and related exposures are consistent with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, the Corporation's management has the responsibility to administer and monitor these risks.

The Corporation is exposed in varying degrees to a variety of risks from its use of financial instruments, which mainly include cash and cash equivalents, trade and other receivables, loans and borrowings, investments, and trade payables and accrued liabilities. As a result of the use of these financial instruments, the Corporation and its subsidiaries are exposed to risks that arise from their use, including market risk, credit risk and liquidity risk. This note describes the Corporation's objectives, policies and processes for managing these risks and the methods used to measure them.

### **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 are comprised of three types of risk: foreign exchange risk, interest rate risk and price risk.

#### *Foreign exchange risk*

Foreign exchange risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Corporation's exposure to foreign exchange fluctuations is limited to the balances in its USD bank accounts. At September 30, 2016, the USD cash balance is USD \$20,040,175 (\$26,236,392) (2015 - USD \$59,800 (\$79,802)). Management has assessed that the Corporation's exposure to foreign exchange risk at September 30, 2016 is low and monitors foreign exchange rates on an ongoing basis.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its variable rate loans and borrowings. A 1% change in the interest rates on the loans and borrowings would have a \$202,208 impact on net income for the twelve months ended September 30, 2016 (2015 - \$nil).

#### *Price risk - investments*

The Corporation is exposed to price risk with respect to fluctuations in the prices of its investments. The carrying amounts of the Corporation's investments are directly related to the current market prices of its investments.

### **Credit risk**

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations. The Corporation's credit risk is mainly attributable to its cash and cash equivalents and trade and other receivables.

The Corporation has assessed its exposure to credit risk on its cash and cash equivalents and has determined that such risk is minimal as the Corporation's cash and cash equivalents are held with financial institutions in Canada.

One of the primary sources of credit risk to DLC is from its franchisees and agents not repaying receivables owed to DLC. DLC manages its credit risk by performing credit risk evaluations on its franchisees and agents, and by monitoring overdue trade and other receivables. The management of DLC establishes an allowance for doubtful accounts based on the specific credit risk of its customers. As at September 30, 2016, \$248,494 (2015 - \$nil) of the Corporation's outstanding receivables are greater than 90 days outstanding, all of which relates to the DLC operations. The Corporation's maximum exposure to credit risk, as related to certain financial instruments as identified in the table below, approximates the carrying value of the assets of the Corporation's consolidated statement of financial position.

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

	September 30, 2016	September 30, 2015
Cash and cash equivalents	\$ 35,785,843	\$ 12,113,085
Trade and other receivables	10,448,213	647,690
Notes receivable	318,315	-
	<b>\$ 46,552,371</b>	<b>\$ 12,760,775</b>

#### Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they fall due. The Corporation manages this risk by continually monitoring its actual and projected cash flows to ensure there is sufficient liquidity to meet its financial liabilities when they become due.

As at September 30, 2016, material contractual obligations and their maturities were as follows:

	Contractual cash flow	Within 1 year	Within 5 years
Accounts payable and accrued liabilities	\$ 10,498,637	\$ 10,498,637	\$ -
Other current liabilities	250,000	250,000	-
Loans and borrowings	29,551,698	21,422,614	8,129,084
Long-term accrued liabilities	126,932	-	126,932
	<b>\$ 40,427,267</b>	<b>\$ 32,171,251</b>	<b>\$ 8,256,016</b>

#### Determination of fair value

In accordance with IFRS 13, *Fair value measurement*, the Corporation considers the following fair value hierarchy in measuring the fair values of the financial instruments presented in the Corporation's consolidated statement of financial position. The hierarchy reflects the significance of the inputs used in determining the fair values of the Corporation's financial instruments.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides the fair values of the financial assets and liabilities in the Corporation's consolidated statement of financial position, and is categorized by hierarchical levels and their related classifications.

	Carrying value as at September 30, 2016	Fair value as at September 30, 2016		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Financial Assets</i>				
Cash and cash equivalents	\$ 35,785,843	\$ 35,785,843	\$ -	\$ -
Trade and other receivables	10,448,213	10,448,213	-	-
Notes receivable	318,315	318,315	-	-
Investments	2,673,000	-	-	2,673,000
<i>Financial Liabilities</i>				
Loans and borrowings	28,978,373	-	28,978,373	-
Accounts payable & accrued liabilities	10,498,637	10,498,637	-	-
Other financial liabilities	376,932	376,932	-	-

## Founders Advantage Capital Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

The Corporation has an available-for-sale investment in a private enterprise (Vital Alert) that is considered a Level 3 investment. The investment has been recorded at fair value at September 30, 2016. The investment was initially recorded at fair value, which was calculated using a discounted cash flow valuation technique, whereby a 50-70% discount rate was applied. The investment was recently purchased by the Corporation in December 2015.

The fair value of cash, trade and other receivables, note receivable, accounts payable and accrued liabilities approximates their carrying values due to their short-term nature.

As at September 30, 2016, management has determined that the fair value of its loans and borrowings approximates its carrying value as the loans and borrowings are subject to floating interest rates and the Corporation and its subsidiary's credit risk profiles have not significantly changed since obtaining each of the facilities.

## 20. COMMITMENTS

Effective February 23, 2016, the Corporation acquired the shares of Advantage Investments, assuming its obligations under an office sublease that expires November 30, 2016. The obligations total \$7,903 on a monthly basis.

DLC has entered into two separate lease agreements with related companies for the lease of its office space. The leases are for a five-year term, and expire on September 16, 2020. The minimum rental charges under the two leases is \$94,800 and \$84,000 per annum.

The approximate lease payments remaining for the next five years are as follows:

Year	Lease payments
2016	\$ 69,791
2017	212,845
2018	178,800
2019	178,800
2020	119,200
	<b>\$ 759,436</b>

## 21. RELATED PARTY TRANSACTIONS

Related party transactions and balances as at and for the twelve months ended September 30, 2016 are described below.

### *Property leases*

DLC leases office space from companies that are controlled by key management personnel and significant shareholders of DLC. Between the date of acquisition of DLC and September 30, 2016, the total costs incurred under these leases was \$77,600. The lease term maturities range from 2016 - 2020. The expense is recorded within general and administrative expenses and is paid monthly; as such, no amount remains payable within the Corporation's consolidated statement of financial position.

### *Sales tax receivable*

On acquisition of DLC, the Corporation was indemnified against any sales tax amounts assessed based on DLC's past results. As at September 30, 2016, the Corporation has recorded a receivable due from the DLC founders in the amount of \$1,970,892 for the sales tax amounts payable recorded by DLC. This receivable has been recorded in trade and other receivables in the Corporation's consolidated statement of financial position.

### *Loans and advances*

DLC has loans and advances due to companies that are controlled by both significant and minority shareholders of DLC in the amount of \$10,266 as at September 30, 2016. The balance is included in other current liabilities in the Corporation's consolidated statement of financial position. These loans and advances are unsecured, due on demand and are non-interest bearing.

## **Founders Advantage Capital Corp.**

Notes to the Interim Condensed Consolidated Financial Statements

For the three and twelve months ended September 30, 2016 and 2015

(Unaudited)

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DLC has loans and advances due from companies that are controlled by both significant and minority shareholders in DLC in the amount of \$137,413 as at September 30, 2016. The balance is included in trade and other receivables in the Corporation's consolidated statement of financial position. These loans and advances are unsecured, due on demand and are non-interest bearing.

### **22. SUBSEQUENT EVENTS**

#### **DLC - operating facility**

On October 14, 2016, DLC increased its operating facility from \$500,000 to \$4,500,000.

#### **Letter of intent to Acquire 60% Interest in Club16 Trevor Linden Fitness and She's Fit! Health Clubs**

On November 2, 2016, the Corporation announced that it entered into a letter of intent to acquire a 60% majority interest in a limited partnership ("Club16 LP") holding eight (8) Club16 Trevor Linden Fitness Clubs and five (5) She's Fit! Health Clubs. The total cash purchase price for the fitness clubs is \$20,000,000, subject to adjustment. The founders of the fitness clubs will retain a 40% interest in Club16 LP and will continue to manage the day-to-day operations.

The intended acquisition of Club16 LP is part of the Corporation's ongoing business plan to acquire controlling interests in mid-market companies. Completion of the transaction is subject to a number of conditions and is expected to close on December 31, 2016.

#### **Dividend policy**

On November 4, 2016, the Corporation's Board of Directors approved the implementation of a new dividend policy. Starting in 2017, the Corporation will pay an annual dividend of \$0.05 per common share (payable quarterly).