



**FOUNDERS ADVANTAGE CAPITAL CORP.**

**ANNUAL INFORMATION FORM**

**For the fifteen-month financial year ended December 31, 2016**

**Dated April 27, 2017**

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## PRELIMINARY NOTES

Throughout this annual information form ("**AIF**"), Founders Advantage Capital Corp. is referred to as the "**Corporation**". All information contained herein is as at April 27, 2017, unless otherwise stated. All dollar amounts set forth in this AIF are in Canadian dollars, unless otherwise stated. Words importing the singular number only include the plural and vice versa and words importing any gender include all genders.

On September 8, 2016, the Corporation announced that, effective in 2016, its financial year-end will be changed from September 30 to December 31 to align the Corporation's year end with the year-ends of its investee subsidiaries and peer group. To facilitate the change, the Corporation has reported a one-time, fifteen-month transition year covering the period from October 1, 2015 to December 31, 2016. All references herein to the financial year ended December 31, 2016 mean the fifteen-month period from October 1, 2015 to December 31, 2016. Subsequent to the transition year, the Corporation's first full financial year will cover the period from January 1, 2017 to December 31, 2017.

## GLOSSARY OF TERMS

"**ABCA**" means the *Business Corporations Act* (Alberta);

"**AIF**" means this annual information form;

"**ATB**" means Alberta Treasury Branches;

"**ATB Credit Facility**" means the credit facility agreement between the Corporation and ATB, dated July 19, 2016 and amended on December 7, 2016 and March 1, 2017, whereby ATB agreed to provide the Corporation with a \$28.0 million revolving credit facility;

"**Board**" means the board of directors of the Corporation;

"**Club16**" means the Club16 Entities;

"**Club16 Annual Threshold**" means the first \$5.85 million of annual distributions paid by the Club16 LP to its securityholders, with the Corporation receiving 60% of such distributions and the Club16 Minority Securityholders receiving 40% of such distributions;

"**Club16 Class A LP Units**" means the class A limited partnership units of the Club16 LP;

"**Club16 Class B LP Units**" means the class B limited partnership units of the Club16 LP;

"**Club16 Class C LP Units**" means the class C limited partnership units of the Club16 LP;

"**Club16 Entities**" means, collectively, the Club16 LP and the Club16 General Partner;

"**Club16 General Partner**" means Club16 GP Ltd., the sole general partner of the Club16 LP;

"**Club16 GP Shareholders Agreement**" means the shareholder agreement among the Corporation, the Club16 Entities and the Club16 Principals, dated December 20, 2016, which details certain corporate governance matters for the Club16 Entities;

"**Club16 GP Shares**" means the common shares of the Club16 General Partner;

"**Club16 LP**" means Club16 Limited Partnership, a limited liability partnership formed pursuant to the laws of British Columbia;

"**Club16 LP Agreement**" means the amended and restated limited partnership agreement among the Corporation, the Club16 General Partner and TCAC Holdings Ltd., as amended and restated on March [●], 2017, which governs the Club16 LP;

"**Club16 LP Units**" means the Club16 Class A LP Units, the Club16 Class B LP Units and the Club16 Class C LP Units, collectively;

"**Club16 Minority Securityholders**" means: (a) with respect to the Club16 LP, all other securityholders of the Club16 LP other than the Club16 General Partner and the Corporation; and (b) with respect to the Club16 General Partner, all other securityholders of the Club16 General Partner other than the Corporation;

"**Club16 Predecessors**" means Triage Holdings Ltd., L&L Signature Fitness Group Ltd., Club16 Trevor Linden Fitness (Abbotsford) Ltd., Club16 Trevor Linden Fitness (Central City) Ltd., Club16 Trevor Linden Fitness (Coquitlam) Ltd., Club16 Trevor Linden Fitness (Downtown) Ltd., Club16 Trevor Linden Fitness (Maple Ridge) Ltd., Club16 Trevor Linden Fitness (Newton) Ltd., Club16 Trevor Linden Fitness (North Vancouver) Ltd., Club16 Trevor Linden Fitness (South Burnaby) Ltd., SHE'S FIT! Health Club (Langley) Ltd., SHE'S FIT! Health Club (Metrotown) Ltd., SHE'S FIT! Health Club (North Delta) Ltd., SHE'S FIT! Health Club (Surrey) Ltd. and SHE'S FIT! Health Club (White Rock) Ltd.;

"**Club16 Principals**" means L&L Signature Fitness Group Ltd., Chuck Lawson, Trevor Linden, Carl Ulmer and their affiliated entities, which collectively hold their interest in Club16 indirectly through TCAC Holdings Ltd.;

"**Club16 Purchase Agreement**" means the purchase agreement, dated December 20, 2016, among the Corporation, the Club16 LP, the Club16 Predecessors and the Club16 Principals in connection with the Club16 Transaction;

"**Club16 Transaction**" means the acquisition by the Corporation of a 60% interest in the Club16 LP and the acquisition by the Club16 LP of the thirteen Club16 and She's Fit! fitness clubs from the Club16 Predecessors, which was completed on December 20, 2016;

"**Common Shares**" means the class A voting common shares in the capital of the Corporation;

"**Corporation**" means Founders Advantage Capital Corp., a corporation subsisting under the ABCA;

"**CRA**" means Canada Revenue Agency;

"**D+H**" means D+H Experts, a third party web-based mortgage origination program, which is used in connection with approximately 95% of the mortgages placed through mortgage brokers in Canada (making D+H a useful source of data for the mortgage brokerage industry);

"**DLC**" means the DLC Entities;

"**DLC-604 Media**" means 604 Media Inc.;

"**DLC-984 BC**" means 0984511 BC Ltd.;

"**DLC Annual Threshold**" means the first \$14.6 million of annual distributions paid by DLC to its securityholders, with the Corporation receiving 60% of such distributions and the DLC Minority Securityholders receiving 40% of such distributions;

"**DLC Auto Pilot**" means NA Auto Pilot Media Inc.;

"**DLC Canadiana**" means Canadiana Financial Corp.;

"**DLC Class A LP Units**" means the class A limited partnership units of the DLC LP;

"**DLC Class B LP Units**" means the class B limited partnership units of the DLC LP;

"**DLC Class C LP Units**" means the class C limited partnership units of the DLC LP;

"**DLC Commercial**" means Dominion Lending Centres Commercial Inc.;

"**DLC Entities**" means, collectively, the DLC LP, the DLC General Partner, DLC Inc., DLC National, DLC Auto Pilot, DLC Commercial, DLC Canadiana, DLC-MCC, DLC-MA, DLC-984 BC, DLC-604 Media, DLC-Newton Holdco and DLC-Newton;

"**DLC Franchisees**" or "**Franchisees**" means those mortgage brokers that are franchisees of DLC;

"**DLC General Partner**" means Dominion Lending Centres GP Inc., the sole general partner of the DLC LP;

"**DLC GP Shareholders Agreement**" means the shareholder agreement among the Corporation, the DLC Entities and the DLC Principals, dated June 3, 2016, which details certain corporate governance matters for the DLC Entities;

"**DLC GP Shares**" means the common shares of the DLC General Partner;

"**DLC Inc.**" means Dominion Lending Centres Inc.;

"**DLC LP**" means DLC Limited Partnership, a limited liability partnership formed pursuant to the laws of British Columbia;

"**DLC LP Agreement**" means the amended and restated limited partnership agreement among the Corporation, the DLC General Partner and various other entities, dated May 27, 2016, which governs the DLC LP;

"**DLC LP Units**" means the DLC Class A LP Units, the DLC Class B LP Units and the DLC Class C LP Units, collectively;

"**DLC-MA**" means MA Mortgage Architects Inc., a subsidiary of DLC Inc.;

"**DLC-MCC**" means MCC Mortgage Centre Canada Inc., a subsidiary of DLC Inc.;

"**DLC Minority Securityholders**" means: (a) with respect to the DLC LP, all other securityholders of the DLC LP other than the DLC General Partner and the Corporation; and (b) with respect to the DLC General Partner, all other securityholders of the DLC General Partner other than the Corporation;

"**DLC National**" means Dominion Lending Centres National Ltd.;

"**DLC-Newton**" or "**Newton**" means Newton Connectivity Systems Inc. (formerly Marlborough Stirling Canada Limited), an entity owned 70% by DLC-Newton Holdco;

"**DLC-Newton Holdco**" means 10017078 Canada Inc., a wholly-owned subsidiary of DLC Inc.;

"**DLC Principals**" means Gary Mauris, Chris Kayat and their affiliated entities;

"**DLC Purchase Agreement**" means the purchase agreement, dated May 13, 2016, among the Corporation and the DLC Principals in connection with the DLC Transaction;

"**DLC Transaction**" means the acquisition by the Corporation of a 60% interest in DLC, which was completed on June 3, 2016;

"**DSU**" means a deferred share unit issued pursuant to the DSU Plan, with each unit entitling the holder thereof to acquire one Common Share or the cash equivalent at the discretion of the Corporation without the payment of any additional amount or exercise price;

"**DSU Plan**" means the deferred share unit plan of the Corporation, which plan was terminated by the Corporation effective April 4, 2017;

"**EBITDA**" means earnings before income tax, depreciation and amortization;

"**Impact**" means Cape Communications International Inc., and includes its wholly-owned subsidiary Threat4 Ltd. where the context requires;

"**Impact Annual Threshold**" means the first \$2.96 million of annual distributions paid by Impact to its securityholders, with the Corporation receiving 52% of such distributions and the Impact Minority Securityholders receiving 48% of such distributions;

"**Impact Class A Shares**" means the class A voting common shares of Impact;

"**Impact Class B Shares**" means the class B non-voting common shares of Impact;

"**Impact Class C Shares**" means the class C non-voting common shares of Impact;

"**Impact Minority Securityholders**" means all other securityholders of Impact other than the Corporation;

"**Impact Principals**" means Keith Kostek, Gillian Kostek and 0960636 BC Ltd.;

"**Impact Purchase Agreement**" means the purchase agreement dated March 1, 2017 among the Corporation and the Impact Principals in connection with the Impact Transaction;

"**Impact Put Option**" means the right of the Impact Principals to sell the Corporation an additional 22% of Impact for a fixed price of \$5.1 million, at any time between September 30, 2017 and March 31, 2018, provided the trailing twelve month EBITDA for Impact at the exercise date exceeds \$4.0 million;

"**Impact Shareholders Agreement**" means the shareholder agreement among the Corporation, Impact and the Impact Principals, dated March 1, 2017, which details certain corporate governance matters for Impact;

**"Impact Shares"** means collectively, the Impact Class A Shares, the Impact Class B Shares and the Impact Class C Shares, as applicable;

**"Impact Transaction"** means the acquisition by the Corporation of a 52% interest in Impact, which was completed on March 1, 2017;

**"Ivory"** means Ivory Resources Inc., a former subsidiary of the Corporation formed under the laws of Cayman Islands, which was dissolved effective March 30, 2016;

**"Ivory Exploration Services Agreement"** means the exploration services agreement between Ivory and the Ministry of Mines, Industry and Energy for the Government of Equatorial Guinea pursuant to which Ivory funded and carried out an airborne geological survey of the 26,000 square kilometre continental region of Equatorial Guinea;

**"Ivory Settlement Agreement"** means the settlement agreement between Ivory and the Government of Equatorial Guinea whereby Ivory relinquished all its rights and interests under the terms of the Ivory Exploration Services Agreement in exchange for US\$31.5 million in cash;

**"Option"** means a stock option issued pursuant to the Option Plan, with each such option being exercisable for one Common Share upon payment of the applicable exercise price;

**"Option Plan"** means the rolling 10% stock option plan of the Corporation as approved by Shareholders;

**"Preferred Shares"** means the class B preferred shares in the capital of the Corporation;

**"Reid Escrow Agreement"** means the escrow agreement, dated February 23, 2016, among the Corporation, Stephen Reid and Computershare Trust Company of Canada, which provides that the Reid Shares will be released if and when the Corporation's acquired investment opportunities and any other investments made by the Corporation following the closing of the Reid Transaction deliver cumulative EBITDA of not less than \$15 million;

**"Reid Shares"** means the 952,381 Common Shares (post-consolidation) issued to Stephen Reid as part of the Reid Transaction, which are subject to the Reid Escrow Agreement;

**"Reid Share Purchase Agreement"** means the share purchase agreement, dated February 23, 2016, among the Corporation, Stephen Reid and Advantage Investments (Alberta) Ltd. in connection with the Reid Transaction;

**"Reid Transaction"** means the purchase transaction completed by the Corporation on February 23, 2016, the key terms of which provided for: (i) the appointment of Stephen Reid to the Board, and as the President and Chief Executive Officer of the Corporation; (ii) the appointment of James Bell to the Board; and (iii) the acquisition Mr. Reid's related corporation together with certain related proprietary investment opportunities, in consideration for the Reid Shares and the assumption of \$350,000 of debt;

**"Shareholders"** means the holders of the Common Shares;

**"Tax Act"** means the *Income Tax Act* (Canada);

**"Threat4"** means Threat4 Ltd., a wholly-owned subsidiary of Cape Communications International Inc.; and



"TSXV" means the TSX Venture Exchange.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

Statements in this AIF, other than purely historical information, including statements relating to the Corporation's future plans and objectives or expected results, constitute forward-looking statements. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements contained in this AIF include:

- reference to the Corporation's intent to make additional investments in private entities meeting the Corporation's investment criteria;
- the intent of DLC to continue to add additional Franchisees to its network of mortgage brokers;
- mortgage brokers increasing their market share of the total Canadian mortgage market;
- the Corporation's anticipated distributions of free cash flow from its investee entities; and
- the intent of Club16 to transition or expand certain locations.

With respect to forward-looking statements contained in this AIF, the Corporation has made assumptions regarding, among other things:

- the Corporation's ability to execute its investment strategy on acceptable terms, including its ability to identify potential investments and to successfully negotiate the terms of such investments;
- the Corporation's ability to obtain financing on acceptable terms or at all;
- the Corporation's ability to re-finance the ATB Credit Facility on acceptable terms or at all;
- the performance of existing investments in line with the Corporation's expectations;
- the continuation of existing Canadian mortgage lending and mortgage brokerage laws;
- the absence of material decreases in the aggregate Canadian mortgage lending business; and
- that the Corporation's investee entities will distribute free cash flow to their shareholders.

Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended, including those factors described under "Risk Factors" and those additional factors described under "Schedule A – Information Concerning Dominion Lending Centres – Risk Factors Relating to DLC", "Schedule B – Information Concerning Club16 – Risk Factors Relating to Club16" and "Schedule C – Information Concerning Impact Communications – Risk Factors Relating to Impact". There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this AIF and, other than as required by applicable securities laws, the Corporation assumes no obligation to update or revise them to reflect new events or circumstances.

## **NON-IFRS MEASURES**

EBITDA, or earnings before interest, income tax, depreciation and amortization, is a non-IFRS items as it does not have a standardized meaning under IFRS. Management uses EBITDA as a performance and valuation measure. EBITDA is not a substitute for, and should be used in conjunction with, IFRS financial measures. Other companies may calculate EBITDA differently and the Corporation cautions that EBITDA as calculated above may not be comparable to EBITDA as calculated by other issuers.

Non-IFRS measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with IFRS, or other measures of financial performance calculated in accordance with IFRS. The Non-IFRS measures are unlikely to be comparable to similar measures presented by other issuers.

## **CORPORATE STRUCTURE**

### **Names and Incorporation**

The Corporation's name is "Founders Advantage Capital Corp." The registered office of the Corporation is located at 4500 Bankers Hall East, 855 – 2<sup>nd</sup> Street S.W., Calgary, Alberta. The head office of the Corporation is located at Suite 400, 2207 – 4<sup>th</sup> Street S.W., Calgary, Alberta.

The Corporation is a reporting issuer in the Provinces of Alberta, Ontario and British Columbia. The Common Shares are listed on Tier 1 of the TSXV under the symbol "FCF".

### **Corporate History**

The Corporation was incorporated as "Brilliant Mining Corp." pursuant to the ABCA on October 1, 1998.

By articles of amendment filed on July 30, 2001, the Corporation amended its articles by: changing its authorized share capital to an unlimited number of Common Shares and an unlimited number of Preferred Shares; removing the restrictions on the transferability of the shares of the Corporation; changing the minimum and maximum number of directors to 3 and 15; authorizing the directors to appoint up to one-third of the number of directors as additional directors between annual meetings; and authorizing directors to be elected or appointed for terms expiring not later than the close of the third annual meeting of Shareholders following their election.

By articles of amendment filed on September 27, 2006, the Corporation amended its articles to permit meetings of Shareholders to be held at any place within or outside of Alberta as the directors may by resolution determine.

By articles of amendment filed on May 29, 2009, an arrangement involving the Corporation and the Shareholders was effected and the Common Shares were consolidated pursuant to the arrangement on the basis of two Common Shares on a pre-consolidation basis for every one Common Share on a post-consolidation basis.

By articles of amendment filed on November 23, 2011, the Corporation changed its name from "Brilliant Mining Corp." to "Brilliant Resources Inc."

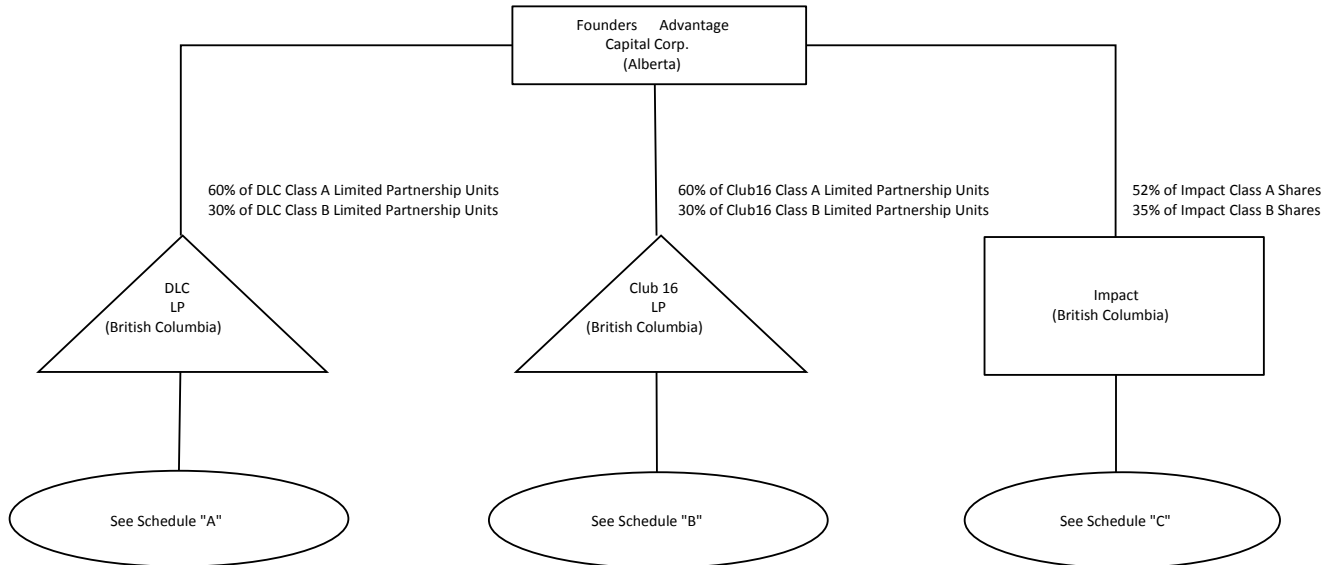
The Corporation underwent a change of business from a junior resource company to an investment issuer that was approved by Shareholders on June 25, 2015 and changed its name to "FCF Capital Inc." by articles of amendment filed on June 25, 2015. The Corporation began trading as a Tier 2 investment issuer on the TSXV on June 29, 2015 and graduated to Tier 1 of the TSXV on December 29, 2015.

By articles of amendment filed on May 16, 2016, the Corporation changed its name from "FCF Capital Inc." to "Founders Advantage Capital Corp."

By articles of amendment filed on May 18, 2016, the Corporation consolidated its issued and outstanding Common Shares on the basis of fifteen (15) Common Shares on a pre-consolidation basis for every one Common Share on a post-consolidation basis. Unless otherwise stated, all Common Share amounts referenced herein are reported on a post-consolidation basis.

## Intercorporate Relationships

As at the date hereof, the corporate structure of the Corporation is as set out below (please see Schedule A for the corporate structure of the DLC Entities; Schedule B for the corporate structure of the Club16 Entities; and Schedule C for the corporate structure of Impact):



## GENERAL DEVELOPMENT OF THE BUSINESS

### Three Year History

#### *Historical*

Over the last three years, the Corporation has transitioned from a junior mining issuer to an investment issuer, and then further transitioned in February 2016 to an investment issuer with a new Board, management team and investment approach.

As the historical corporate information prior to February 2016 is not considered relevant to the Corporation's current operations, the disclosure below summarizes the material events relevant to the Corporation's current operations since February 2016. Please see "Schedule D – Three Year Corporate History for Previous Operations" for the history of the Corporation as a junior mining issuer and as an investment issuer under a different management team, each of which are not considered material to the Corporation's current operations.

#### *Recent Developments and Significant Acquisitions*

On February 3, 2016, the Corporation entered into a letter agreement with Stephen Reid and a corporation that was wholly-owned by Mr. Reid to complete the Reid Transaction, the key terms of which provided for (i) the appointment of Stephen Reid to the Board, and as the President and Chief Executive Officer of the Corporation, (ii) the appointment of James Bell to the Board, and (iii) the acquisition Mr. Reid's related corporation together with certain related proprietary investment opportunities, in consideration for the Reid Shares and the assumption of \$350,000 of debt. The Reid Transaction closed on February 23, 2016.

The Reid Shares are being held in escrow pursuant to the Reid Escrow Agreement and will be released if and when the acquired company's investment opportunities and any other investments made by the Corporation following the closing of the Reid Transaction deliver cumulative EBITDA of not less than \$15.0 million.

On the closing of the Reid Transaction, Mr. Reid was appointed to the Board and retained as the President and Chief Executive Officer. Mr. Bezanson resigned as Interim CEO and was appointed Executive Vice-President, Capital Markets. Ms. Wolfe stepped down as Executive Chair of the Board but remained as a director of the Corporation until April 16, 2016. Mr. John Williamson and Mr. John Hawkrigg stepped down from the Board on the closing of the Reid Transaction and Mr. Bell was appointed as a director of the Corporation.

On March 8, 2016, the Corporation announced the appointment of Mike Matishak as Chief Financial Officer of the Corporation to replace Vincenzo Chiofalo.

On April 14, 2016, the Corporation completed a brokered and non-brokered private placement of 13,709,315 subscription receipts (post-consolidation) for aggregate gross proceeds of \$28.8 million. Each subscription receipt was issued at a price of \$2.10 (post-consolidation) and each subscription receipt was to automatically convert into one Common Share on the completion by the Corporation of an acquisition having a purchase price of not less than \$50.0 million (the "**Eligible Transaction**"). As noted below, the Eligible Transaction was completed on June 3, 2016, whereby the proceeds were released to the Corporation and each subscription receipt was converted to one Common Share.

On April 16, 2016, Messrs. J.R. Kingsley Ward, Anthony Lacavera and Ron Gratton were appointed to the Board to fill the vacancies created by the resignations of each of Courtenay Wolfe, Allan Bezanson and John Hawkrigg.

On April 25, 2016, the Corporation announced the appointment of James Bell as General Counsel and Corporate Secretary of the Corporation.

On May 13, 2016, the Corporation announced it had entered into an arm's length purchase agreement to complete the DLC Transaction. The DLC Transaction was completed on June 3, 2016 for aggregate consideration of \$88.1 million from the Corporation (less \$1.6 million due from the DLC Principals), which was satisfied by the issuance of 4,761,905 Common Shares, having a price of \$5.60 on the date the transaction closed (compared to \$2.625 per share on the date the transaction was announced) and a cash payment of \$61.4 million. The cash portion of the purchase price included available cash, the net proceeds from the subscription receipt offering and a bridge loan for \$20.0 million. The DLC Transaction provides the Corporation with 60% of any distributions paid by DLC up to the DLC Annual Threshold, with the DLC Minority Securityholders receiving 40% of any distributions paid by DLC up to the DLC Annual Threshold. To the extent that any distributions are paid in a year in excess of the DLC Annual Threshold, DLC Minority Securityholders who remain active in the business will receive 70% of such excess distributions with the Corporation receiving the remaining 30% of such excess distributions. The DLC Transaction constituted a "significant acquisition" for the Corporation as defined by applicable securities laws and the Corporation filed a business acquisition report in the prescribed form on August 17, 2016, in respect of the DLC Transaction.

On May 16, 2016, the Corporation held an annual and special shareholders meeting at which shareholders approved the following items: (i) the election of each of Messrs. Stephen Reid, J.R. Kingsley Ward, Peter McRae, James Bell, Anthony Lacavera and Ron Gratton as directors of the Corporation; (ii) the appointment of KPMG LLP as auditors of the Corporation; (iii) the confirmation of the Corporation's amended and restated by-laws; (iv) the approval of the consolidation of the Common Shares on the basis

of one Common Share on a post-consolidation basis for every 15 Common Shares on a pre-consolidation basis; (v) the approval of the change of the Corporation's name to "Founders Advantage Capital Corp."; (f) the approval of the Option Plan; and (g) the approval of the acquisition by the Corporation of all or a portion of the outstanding securities and/or assets of a suitable business with an aggregate acquisition price to the Corporation of not less than \$50.0 million.

On May 20, 2016, the Corporation announced that Darren Prins had been appointed to replace Mike Matishak as Chief Financial Officer of the Corporation and that Mr. Matishak had been appointed Senior Vice-President, Special Projects. After successfully transitioning the Chief Financial Officer role to Mr. Prins, Mr. Matishak ceased employment with the Corporation on August 20, 2016.

On June 20, 2016, the Corporation appointed Gary Mauris, President and Chief Executive Officer of DLC, to the Board.

On July 6, 2016, the Corporation completed a brokered (bought deal) and non-brokered private placement of 8,322,335 Common Shares, at a price of \$4.00 per share, for aggregate gross proceeds of \$33.3 million.

On July 19, 2016, the Corporation entered into the ATB Credit Facility. The borrowings from the ATB Credit Facility were used to repay the \$20.0 million bridge loan which had previously been used by the Corporation to complete the DLC Transaction and the balance for working capital and general corporate purposes. The borrowings under the ATB Credit Facility bear interest at a floating rate equal to the prime rate as set by ATB from time to time plus a margin of 3.00% - 3.75% (initially 3.00%). The ATB Credit Facility is secured by a pledge of the Corporation's majority interest in DLC, Club16 and Impact as well as a general security agreement over all of the Corporation's assets.

On September 8, 2016, the Corporation announced that, effective in 2016, its financial year-end will be changed from September 30 to December 31 to align the Corporation's year-end with the year-ends of its investee subsidiaries and peer group. Management anticipates this will simplify accounting, reduce costs and allow for greater comparability with the Corporation's peer group. To facilitate the change, the Corporation will report a one-time, fifteen-month transition year covering the period from 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.

On September 26, 2016, the Corporation announced that the Board of Directors of the DLC General Partner resolved to distribute monthly cash distributions of \$900,000 to its securityholders commencing in October, 2016 (60% of which will be received by the Corporation).

On October 13, 2016, the Corporation announced that DLC received approval to increase its revolving credit facility by \$4.0 million to fund the onboarding or acquisition of additional mortgage brokerage firms and mortgage brokers.

On November 2, 2016, the Corporation announced it had entered into an arm's length agreement to complete the Club16 Transaction. The Club16 Transaction was completed on December 20, 2016 for cash consideration of \$20.5 million from the Corporation. In addition, the Corporation paid an additional \$1.5 million on March 20, 2017 in respect of certain post-closing adjustments, resulting in an aggregate purchase price of \$22.0 million. The Club16 Transaction provides the Corporation with 60% of any distributions paid by Club16 up to the Club16 Annual Threshold, with the Club16 Minority Securityholders receiving 40% of any distributions paid by Club16 up to the Club16 Annual Threshold. To the extent that any distributions are paid in a year in excess of the Club16 Annual Threshold, Club16 Minority Securityholders will receive 70% of such excess distributions with the Corporation receiving

30% of such excess distributions. The Club16 Transaction did not constitute a "significant acquisition" for the Corporation as defined by applicable securities laws.

On November 4, 2016, the Corporation announced that the Board resolved to implement a dividend policy whereby the Corporation will pay an annual dividend of \$0.05 per Common Share (payable quarterly) in 2017 and, in subsequent years, the quarterly dividend will be linked to distributable free cash received from investee entities (whereby the Corporation intends to pay up to 80% of the free cash flow it receives). The first quarterly dividend (\$0.0125 per Common Share) was declared on March 15, 2017 to Shareholders of record as at March 31, 2017.

On December 7, 2016, the ATB Credit Facility was amended to extend the maturity date from December 31, 2016 to June 30, 2017.

On December 13, 2016, DLC acquired a 70% interest in Newton, a mortgage lending industry software and service provider, for an aggregate cash purchase price of \$4.2 million.

On December 22, 2016, the Corporation announced it had entered into an arm's length agreement to complete the Impact Transaction. The Impact Transaction was completed on March 1, 2017 for cash consideration of \$12.0 million from the Corporation plus an additional \$0.7 million for working capital adjustments (to be paid within six months). The Impact Transaction provides the Corporation with 52% of any distributions paid by Impact up to the Impact Annual Threshold, with the Impact Minority Securityholders receiving 48% of any distributions paid by Impact up to the Impact Annual Threshold. To the extent that any distributions are paid in a year in excess of the Impact Annual Threshold, Impact Minority Securityholders will receive 65% of such excess distributions with the Corporation receiving 35% of such excess distributions. As part of the Impact Transaction, the Impact Put Option was granted to the Impact Principals which allows them the option to sell an additional 22% interest in Impact to the Corporation for an additional fixed price of \$5.1 million. The Impact Transaction did not constitute a "significant acquisition" for the Corporation as defined by applicable securities laws.

On March 1, 2017, the ATB Credit Facility was amended to increase the available borrowings from \$22.0 million to \$28.0 million.

## **DESCRIPTION OF THE BUSINESS**

The Corporation is a public investment company that employs a long-term investment approach. The Corporation has developed an investment approach to create long-term value for its Shareholders and partner entrepreneurs (investees) by pursuing controlling equity interest acquisitions of cash flow positive middle-market privately held entities. The Corporation seeks to win mandates by appealing to the segment of the market which is not aligned with traditional private equity control, royalty monetizations or related structures. The Corporation's innovative platform offers disproportionate incentives (contractually) for growth in favour of the partner entrepreneurs. This unique platform is designed to appeal to entrepreneurs who believe in the growth of their businesses and who want the added ability to continue operating the business with a long-term partner.

The Reid Transaction, whereby the Corporation adopted a new investment model and implemented a new management team, was a transformational event for the Corporation as it enabled the Corporation to pursue a new long-term equity investment approach with a management team experienced in private company investing.

Since completing the Reid Transaction, the Corporation liquidated its previously held public securities (the Corporation continues to hold its investment in Vital Alert Communication Inc., see Schedule "D");

completed two private placements to fund its new investment model; and completed the DLC Transaction, the Club16 Transaction and the Impact Transaction. As the Corporation has three investments at this time, the disclosure below regarding the business of the Corporation should be read in conjunction with the disclosure of the business of DLC, Club16 and Impact set out in Schedules A, B and C, respectively.

### **Investment Strategy**

The Corporation employs a long-term equity investment approach. The Corporation seeks to acquire controlling equity interests in cash flow positive middle-market privately held entities that are founder operated. Characteristics of the Corporation's target investees are as follows:

- Located in North America;
- Industry agnostic provided it is non-resource and non-commodity based;
- Founder-operated with an experienced and dedicated management team;
- Founders seeking only partial liquidity and continued operational involvement;
- History of growing and stable positive free cash flow;
- Opportunity for growth;
- Low capital expenditure requirements;
- Minimal debt;
- Resistant to general economic impacts; and
- Developed accounting and financial reporting processes.

The Corporation's innovative platform offers disproportionate incentives (contractually) for growth in favour of our partner entrepreneurs. This unique platform is designed to appeal to entrepreneurs who believe in the growth of their businesses and who want the added ability to maintain operational involvement with a long-term equity partner.

Although each investment will be unique and negotiated independently, a key element of the Corporation's investment model is control of the private entity. The Corporation seeks to rely on the experience and expertise of the partner entrepreneur but also requires the ability to effect positive change on the investee entity in the event the investment does not perform as expected and to maintain oversight on key strategic decisions.

As the Corporation seeks to deploy long-term capital, the Corporation does not seek to impose mandatory liquidity requirements as part of its investment approach. The Corporation seeks to benefit from anticipated distributions of free cash flow from its investee entities.

Notwithstanding the core investment model set out above, the Corporation may also invest in debt or equity securities, royalties, preferred shares or such other investments that provide the Corporation with positive cash flow.

### **Investment Identification and Evaluation Process**

Potential investments are sourced by the Corporation through various channels, including personal networks, capital forums, investment banks, accounting firms, law firms and various other industry participants. Management of the Corporation actively markets the Corporation's unique investment model in an effort to maintain a pipeline of potential investment opportunities.



All investments considered by the Corporation will be subject to rigorous legal and financial due diligence, analysis and evaluation, and all major prospective investments and dispositions will be reviewed by both management and the Board.

### **Monitoring and Reporting**

The Corporation's Chief Financial Officer is primarily responsible for the reporting process whereby the performance of each of the Corporation's investments is monitored. Quarterly financial and other progress reports are gathered from each investee, which forms the basis for the quarterly review of the Corporation's investment portfolio by management and the Board. Any deviations from expected financial performance by investee entities will be investigated by management and/or the Board.

### **Employees**

As at December 31, 2016, the Corporation had 13 employees.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The Corporation has authorized capital consisting of an unlimited number of Common Shares and an unlimited number of Preferred Shares. As of April 27, 2017, there were 38,128,606 Common Shares issued and outstanding as fully paid and non-assessable and no Preferred Shares issued and outstanding.

All of the Common Shares rank equally as to dividends, voting powers and participation in assets and in all other respects. Each Common Share carries one vote per share at meetings of the Shareholders, to receive dividends if and when declared by the Board from time to time and to receive any remaining assets of the Corporation upon dissolution. There are no indentures or agreements limiting the payment of dividends and there are no conversion rights, special liquidation rights, pre-emptive rights or subscription rights attached to the Common Shares.

## **DIVIDENDS**

On July 7, 2015, the Corporation paid a return of capital to its Shareholders of \$0.145 per share outstanding at that time totaling \$21,648,654. See "Schedule D – Three Year Corporate History for Previous Operations – Change of Business".

On November 4, 2016, the Corporation announced that the Board resolved to implement a dividend policy, whereby the Corporation will pay an annual dividend of \$0.05 per Common Share (payable quarterly) in 2017 and, in subsequent years, the quarterly dividend will be linked to distributable free cash received from investee entities (whereby the Corporation intends to pay up to 80% of the free cash flow it receives). The first quarterly dividend (\$0.0125 per Common Share) was declared on March 15, 2017 to Shareholders of record as at March 31, 2017.

Subject to the requirements of the ABCA, there are no restrictions which could prevent the Corporation from paying dividends.

## **MARKET FOR SECURITIES**

The Common Shares are listed on the TSXV under the symbol "FCF".

## **Trading Price and Volume**

The following table sets out the high and low trading prices and aggregate volume of trading of the Common Shares on the TSXV for the following periods (as reported by the TSXV).

<b>Period<sup>(1)</sup></b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume (Shares)</b>
October 2015	0.12	0.11	2,768,775
November 2015	0.11	0.09	1,731,990
December 2015	0.13	0.11	1,905,135
January 2016	0.15	0.11	2,742,435
February 2016	0.20	0.13	6,466,140
March 2016	0.17	0.15	2,489,775
April 2016	0.20	0.11	5,603,340
May 2016 <sup>(2)</sup>	6.70	2.62	1,038,711
June 2016	6.10	4.15	474,549
July 2016	4.75	4.12	1,318,152
August 2016	4.75	3.66	1,868,191
September 2016	4.15	3.60	591,100
October 2016	3.97	3.07	911,500
November 2016	4.05	2.92	1,562,000
December 2016	4.10	3.62	838,100

**Notes:**

- (1) Share prices and volumes prior to May, 2016 have not been adjusted to reflect the 15:1 Common Share consolidation completed on May 18, 2016.
- (2) Share prices and volumes for May, 2016 have been adjusted to reflect the 15:1 Common Share consolidation completed on May 18, 2016.

**Prior Sales**

During the financial year ended December 31, 2016 and the period thereafter up to April 27, 2017, the Corporation issued the following securities:

<b>Date</b>	<b>Type of Transaction</b>	<b>Number and Type of Securities</b>	<b>Price<sup>(1)</sup></b>	<b>Proceeds</b>
February 23, 2016	Common Shares	14,285,714 Common Shares <sup>(2)(3)</sup>	\$0.14 <sup>(2)</sup>	Consideration for Reid Transaction
February 23, 2016	Grant of Options	13,158,678 Options <sup>(2)(4)</sup>	\$0.20 <sup>(2)</sup>	N/A
February 23, 2016	Grant of DSUs	649,451 DSUs <sup>(2)</sup>	\$0.14 <sup>(2)</sup>	N/A
April 14, 2016	Subscription Receipts	205,639,725 Subscription Receipts <sup>(2)</sup>	\$0.14 <sup>(2)</sup>	\$28,789,561
June 3, 2016	Common Shares	13,709,315 Common Shares	N/A	Issued on conversion of Subscription Receipts
June 3, 2016	Common Shares	4,761,905 Common Shares	\$5.60 <sup>(5)</sup>	Share consideration for DLC Transaction
July 6, 2016	Common Shares	8,322,335	\$4.00	\$33,289,340
July 7, 2016	Grant of Options	1,802,500 Options	\$4.40	N/A
December 1, 2016	Grant of Options	150,000 Options	\$4.00	N/A
January 4, 2017	Exercise of DSUs	74,749 Common Shares	\$3.86	N/A

<u>Date</u>	<u>Type of Transaction</u>	<u>Number and Type of Securities</u>	<u>Price<sup>(1)</sup></u>	<u>Proceeds</u>
January 12, 2017	Exercise of DSUs	133,933 Common Shares	\$3.62	N/A
March 2, 2017	Exercise of Broker Warrants	1,300	\$2.10	\$2,730
March 10, 2017	Exercise of Broker Warrants	24,375 Common Shares	\$2.10	\$51,188
April 3, 2017	Exercise of DSUs	179,907 Common Shares	\$3.36	N/A

**Notes:**

- (1) Represents the exercise price of Options and the ascribed issue price of DSUs.
- (2) Amounts not adjusted to reflect the 15:1 Common Share consolidation completed on May 18, 2016.
- (3) The Reid Shares are subject to the Reid Escrow Agreement.
- (4) The Options granted concurrent with the Reid Transactions do not vest until the Reid Shares are released from escrow.
- (5) Represents the closing price of the Common Shares on June 3, 2016, the closing date of the DLC Transaction. On the date the DLC Transaction was announced, the Common Shares were given an ascribed value of \$2.625 per share.

### **ESCROW ARRANGEMENTS**

The following table includes all securities subject to escrow arrangements as at the date hereof (reflecting the Reid Shares being held in escrow pursuant to the terms and conditions of the Reid Escrow Agreement:

<u>Designation of Class</u>	<u>Number of Common Shares held in escrow</u>	<u>Percentage of Class</u>
Common Shares	952,381	2.5%

### **DIRECTORS AND OFFICERS**

**Name, Occupation and Security Holding**

As of April 27, 2017, the name, province or state, and country of residence, position or office held with the Corporation and principal occupation for the immediately preceding five (5) years of each of the directors and executive officers of the Corporation are as follows:

<b>Name and Jurisdiction of Residence</b>	<b>Position with the Corporation</b>	<b>Principal Occupations for Prior Five Years</b>	<b>Year first became Officer or Director</b>	<b>Number of Common Shares, Options and DSUs beneficially owned, controlled or directed</b>
<b>Stephen Reid</b> Alberta, Canada	President & Chief Executive Officer  Director	President and Chief Executive Officer and Director of the Corporation (February, 2016 to present).  Senior Vice President of Business Development of Alaris Royalty Corp. (July, 2008 to March, 2015).	2016	2,132,140 Common Shares  745,018 Options
<b>Darren Prins</b> Alberta, Canada	Chief Financial Officer	Chief Financial Officer of the Corporation (June, 2016 to present).  Chief Financial Officer of Timmins Gold Corp. (August, 2011 to May, 2016).	2016	23,250 Common Shares  200,000 Options
<b>James Bell</b> Alberta, Canada	Chief Operating Officer, General Counsel and	General Counsel and Corporate Secretary of the Corporation (April, 2016 to present) and Chief Operating Officer of the Corporation (November, 2016	2016	81,263 Common Shares

Name and Jurisdiction of Residence	Position with the Corporation	Principal Occupations for Prior Five Years	Year first became Officer or Director	Number of Common Shares, Options and DSUs beneficially owned, controlled or directed
	Corporate Secretary  Director	to present).  General Counsel and Corporate Secretary of Olympia Financial Group Inc. and Olympia Trust Company (February, 2010 to April, 2016).		218,893 Options
<b>Allan Bezanson</b> Alberta, Canada	Executive Vice President, Capital Markets	Executive Vice President, Capital Markets of the Corporation (February, 2016 to present).  Interim CEO of the Corporation (April, 2015 to February, 2016).  Managing Partner of Cornerstone Capital Partners (February, 2010 to October, 2014).  President of Oballan Capital (January, 1998 to present).	2013	366,372 Common Shares  396,666 Options
<b>Amardeep S. Leekha</b> Alberta, Canada	Sr. Vice President, Capital Markets and Investments	Sr. Vice President, Capital Markets and Investments of the Corporation (March, 2016 to present).  Investment Banking, Scotiabank (2013 to 2016).  Sr. Credit Manager, Risk Management and Associate Director of Corporate Banking, ATB Financial (2007 to 2010).	2016	29,685 Common Shares  150,000 Options
<b>Harpreet Padda</b> Alberta, Canada	Sr. Vice President, Investments	Sr. Vice President, Investments of the Corporation (June, 2016 to present).  Vice President, Bank of America Merrill Lynch (2014 to 2016).  Associate Director, ATB Financial (2012 to 2014).  Investment Banking, BMO Capital Markets (2011 to 2012).  Investment Banking, CIBC World Markets (2009 to 2011).	2016	26,994 Common Shares  100,000 Options
<b>Michelle Chambers</b> Alberta, Canada	Sr. Vice President, Finance	Sr. Vice President, Finance of the Corporation (April, 2017 to present).  Controller of the Corporation (2016 to 2017).  Global Reporting Lead, Talisman Energy Ltd. (2014 to 2015).  Financial Accounting Lead, Total E&P Canada Ltd. (2013 to 2014).  Corporate Controller, FairWest Energy Corporation (2012 to 2013).	2017	10,000 Common Shares  50,000 Options
<b>J.R. Kingsley Ward</b> <sup>(1)(2)(3)</sup> Ontario, Canada	Chairman  Director	Managing Partner of VRG Capital Corp. (2011 to present).  Chairman and President of Vimy Ridge Group Ltd. (January, 1991 to present).	2016	774,166 Common Shares  100,000 Options

Name and Jurisdiction of Residence	Position with the Corporation	Principal Occupations for Prior Five Years	Year first became Officer or Director	Number of Common Shares, Options and DSUs beneficially owned, controlled or directed
<b>Anthony Lacavera</b> Ontario, Canada	Director	Chairman of Globalive Capital Inc. (1998 to present).	2016	1,207,381 Common Shares 100,000 Options
<b>Ron Gratton</b> <sup>(1)(2)(3)</sup> Alberta, Canada	Director	President of Strathdale Investment Management Ltd., a private investment company (2010 to present) and Chartered Accountant.	2016	90,000 Common Shares 100,000 Options
<b>Peter C. McRae</b> <sup>(1)(2)(3)</sup> Ontario, Canada	Director	Director of the Corporation (April, 2015 to present). Chairman of Freedom International Brokerage Company (December, 2015 to present); President and CEO of Freedom International Brokerage Company (1994 to December, 2015).	2015	99,005 Common Shares 100,000 Options
<b>Gary Mauris</b> British Columbia, Canada	Director	President and Chief Executive Officer of DLC (2006 to present).	2016	2,522,952 Common Shares 100,000 Options

**Notes:**

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.

The term of office of each of the directors expires at the next annual meeting of Shareholders.

As of April 27, 2017, all of the directors and officers of the Corporation, as a group, beneficially own, directly or indirectly, or exercise control or direction over 7,363,208 Common Shares representing approximately 19.3% of the 38,128,606 Common Shares issued and outstanding.

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or executive officer of the Corporation is, at the date of this AIF, or has been, within ten (10) years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Corporation) that:

- (a) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days, that was issued while that person was acting in such capacity; or
- (b) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days that was issued after such person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in such capacity.

No director or executive officer of the Corporation or Shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

- (a) is at the date of this AIF, or has been, within ten (10) years before the date of this AIF, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten (10) years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the its assets.

No director or executive officer of the Corporation or Shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation has been subject to:

- (a) any penalties or sanction imposed by a court or regulatory body relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in considering an investment decision.

### **Conflicts of Interest**

There are potential conflicts of interest to which some of the directors, officers, insiders and promoters of the Corporation will be subject in connection with the operations of the Corporation. All of the directors, officers, insiders and promoters are engaged in and will continue to be engaged in corporations or businesses which may be in competition with the business of the Corporation. Accordingly, situations may arise where some or all of the directors, officers, insiders and promoters will be in direct competition with the Corporation. Conflicts, if any, will be subject to the procedures and remedies as provided under the ABCA. See also "Risk Factors – Potential Conflicts of Interest".

### **RISK FACTORS**

The following is a brief discussion of those factors which may have a material impact on, or constitute risk factors in respect of, the Corporation's future business or financial performance.

**In particular, the Corporation is indirectly affected by the risk factors applicable specifically to DLC, Club16 and Impact. See additional risk factors for each such entity disclosed in Schedules A, B and C, respectively.**

#### **Risks Relating to Our Business**

##### *Short Operating History*

The Corporation has only a short record of operating as an investment issuer. As such, the Corporation is subject to all of the business risks and uncertainties associated with any new business enterprise,

including the risk that the Corporation will not achieve its financial objectives as estimated by management or at all. Furthermore, past successes of management or the Board does not guarantee future success.

#### *Available Opportunities and Competition for Investments*

The Corporation's business plan depends upon, among other things: (i) the availability of appropriate investment opportunities; (ii) the Corporation's ability to identify, select and acquire successful investments; and (iii) the Corporation's ability to generate or obtain funds for future investments. The Corporation expects to encounter competition from other entities having similar investment objectives, including institutional investors and strategic investors. These groups may compete for the same investments as the Corporation, will likely have a longer operating history and may be better capitalized, have more personnel and have different return targets. As a result, the Corporation may not be able to compete successfully for investments. In addition, competition for investments may lead to the price of such investments increasing, which may further limit the Corporation's ability secure investments on acceptable terms or to generate desired returns.

There can be no assurance that the Corporation will have access to a sufficient number of suitable investment opportunities or that such investments can be made within a reasonable period of time. There can also be no assurance that the Corporation will be able to complete investments at acceptable prices or on acceptable terms. Identifying attractive opportunities is difficult, highly competitive and involves a high degree of uncertainty. Potential returns will be diminished to the extent that the Corporation is unable to find and make a sufficient number of investments.

#### *Concentration of Investments*

Other than as described herein, there are no restrictions or limits on the amount or proportion of the Corporation's funds that may be allocated to any particular investment. The Corporation may participate in a limited number of investments and, as a consequence, its financial results may be substantially adversely affected by the unfavourable performance of a single investment. Completion of one or more investments may result in a highly-concentrated investment in a particular company, geographic area or industry resulting in the performance of the Corporation depending significantly on the performance of such company, geographic area or industry.

Currently, all of the Corporation's investments are comprised of its investments in DLC, Club16 and Impact. For a description of specific risks relating to these entities, please see Schedules A, B and C.

#### *Ability to Secure Adequate Financing*

The Corporation will have ongoing requirements for capital to support its growth and may seek to obtain additional funds for these purposes through public or private equity, or through the incurrence of indebtedness. There are no assurances that the Corporation will be able to secure additional funding on acceptable terms or at an acceptable level. The Corporation's liquidity and operating results, and its ability to make additional investments, may be adversely affected if its access to capital markets or other sources of financing is hindered, whether as a result of a downturn in market conditions generally or to matters specific to the Corporation.

#### *Dependence on Management and Directors*

The Corporation will be dependent upon the efforts, skill and business contacts of key members of management and the Board for, among other things, the information and investment opportunities they



are able to generate. Accordingly, the Corporation's success may depend upon the continued service of these individuals to the Corporation. The loss of the services of any of these individuals could have a material adverse effect on the Corporation's revenues, net income and cash flows and could harm its ability to secure investments, maintain or grow its assets and raise funds.

From time to time, the Corporation will also need to identify and retain additional skilled management to efficiently operate its business. Recruiting and retaining qualified personnel is critical to the Corporation's success and there can be no assurance of its ability to attract and retain such personnel. If the Corporation is not successful in attracting and training qualified personnel, the Corporation's ability to execute its business strategy could be affected, which could have a material and adverse impact on its profitability, results of operations and financial condition.

#### *Investment Evaluation*

The due diligence process undertaken by the Corporation in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, the Corporation will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment and will be required to rely upon the accuracy and completeness of information supplied by potential investees. When conducting due diligence, the Corporation may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment and the Corporation will be required to rely in part on such advisors' assessment of potential liabilities and risks associated with each investment.

The due diligence investigation that is carried out by the Corporation and its advisors with respect to any investment opportunity may not reveal or highlight all relevant risks or liabilities associated with the investment. Unforeseen risks or liabilities may have a material and adverse impact on the Corporation's liabilities, profitability, results of operations and financial condition.

#### *Transaction and Legal Risks*

The Corporation may be exposed to transaction and legal risks, including potential liability under securities laws or other laws and disputes over the terms and conditions of investment arrangements. The Corporation may face legal challenges with seeking remedies under investment agreements, or in administering investments without dispute. These risks are often difficult to assess or quantify and their existence and magnitude often remains unknown for substantial periods of time. The Corporation may incur significant legal and other expenses in defending against litigation involved with any of these risks and may be required to pay substantial damages for settlements and/or adverse judgments. Substantial legal liability or significant regulatory action against the Corporation could have a material adverse effect on its results of operations and financial condition.

#### *Common Shares Sensitive to Market Fluctuations*

The Common Shares are relatively illiquid due to low trading volumes and, as such, the market price of the Common Shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the Common Shares, even if the Corporation is successful in maintaining revenues, cash flows or earnings. This illiquidity and fluctuation

in market price may adversely affect the Corporation's ability to raise additional funds through the issuance of Common Shares, which could have a material and adverse impact on its profitability, results of operations and financial condition.

#### *Trading Price of the Common Shares Relative to NAV*

The Corporation is neither a mutual fund nor an investment fund and, due to the nature of its business and investment strategy and the composition of its investment portfolio, the market price of the Common Shares, at any time, may vary significantly from the net asset value (NAV) of the Common Shares. This risk is separate and distinct from the risk that the market price of the Common Shares may decrease. The extent to which the Common Shares trade at a value different from the NAV of the Common Shares may adversely affect the Corporation's ability to raise additional funds through the issuance of Common Shares, which could have a material and adverse impact on its profitability, results of operations and financial condition.

#### *Potential Conflicts of Interest*

Certain of the directors and officers of the Corporation are or may, from time to time, be involved in other financial investments and professional activities that may on occasion cause a conflict of interest with their duties to the Corporation. These include serving as directors, officers, advisors or agents of other public and private companies, including companies involved in similar businesses to the Corporation or companies in which the Corporation may invest, management of investment funds, purchases and sales of securities and investment and management counselling for other clients. Such conflicts of the Corporation's directors and officers may result in a material and adverse effect on the Corporation's results of operations and financial condition.

#### *Exchange Rate Fluctuations*

A proportion of the Corporation's investments may be made in foreign currencies. Changes in the value of the applicable foreign currency of investment relative to the Canadian dollar could have a negative impact on the Corporation's return on investments and overall financial performance. Further, for investments made in a foreign currency, a subsequent devaluation in the foreign currency may reduce the anticipated returns received by the Corporation relative to the assumed returns upon which the Corporation negotiated its purchase price.

### **Risks Relating to Our Investments**

#### *Exposure to Investment Portfolio Risks*

Given the nature of the Corporation's investment activities, the results of operations and financial condition of the Corporation is dependent upon the financial condition and performance of the businesses comprising the Corporation's investments. The performance of these businesses can be affected by the general market conditions that affect a particular sector and by specific factors which impact the underlying businesses.

#### *Private Issuers and Illiquid Securities*

The Corporation invests in securities of private issuers. The value of these investments may be affected by factors such as investor demand, resale restrictions, general market trends and regulatory restrictions. Fluctuation in the market value of such investments may occur for a number of reasons beyond the control of the Corporation and there is no assurance that an adequate market will exist for investments

made by the Corporation. Many of the investments made by the Corporation will be relatively illiquid and may decline in price if a significant number of such investments are offered for sale by the Corporation or other investors.

#### *No Guaranteed Return*

The Corporation's investments are not currently structured to secure the Corporation a guaranteed return, or any return in the short-term or long-term.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Management knows of no legal proceedings or regulatory actions, contemplated or actual, involving the Corporation, which could materially affect the Corporation, during the Corporation's most recently completed financial year ended December 31, 2016 or during the subsequent period up to the date hereof.

### **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as set out below, none of the directors, executive officers, or person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares, nor any associate or affiliate of the foregoing, have any interest, direct or indirect, in any transaction within the three most recently completed financial years of the Corporation or during the current financial year, or in any proposed transaction that has materially affected or that would materially affect the Corporation, on a consolidated basis.

Stephen Reid, the President and Chief Executive Officer and a director of the Corporation was party to the Reid Transaction as described under "General Development of the Business", however, Mr. Reid only became an officer and director of the Corporation upon completion of the Reid Transaction. As the Reid Transaction was an arm's length acquisition, it is not considered a related party transaction by the Corporation.

Gary Mauris, a director of the Corporation was party to the DLC Transaction as described under "General Development of the Business", however, Mr. Mauris only became a director of the Corporation after completion of the DLC Transaction. As the DLC Transaction was an arm's length acquisition, it is not considered a related party transaction by the Corporation.

### **AUDIT COMMITTEE**

The Audit Committee is a committee of the Board which assists the Board in fulfilling its responsibility for oversight of the financial reporting process. The Audit Committee is also responsible for managing, on behalf of the Shareholders, the relationship between the Corporation and the external auditor.

Pursuant to National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"), the Corporation is required to disclose certain information with respect to its Audit Committee, as summarized below.

#### **The Audit Committee's Charter**

The text of the Corporation's Audit Committee charter is attached hereto as Schedule E to this AIF.

## **Composition of the Audit Committee**

The Audit Committee consists of Peter C. McRae (Chair), Ron Gratton and Kingsley Ward. Messrs. McRae, Gratton and Ward are each independent members, as defined in NI 52-110, and all members of the Audit Committee are financially literate.

## **Relevant Education and Experience**

The education and experience of each of the present Audit Committee members that is relevant to the performance of his responsibilities as an Audit Committee member is as follows:

### *Peter C. McRae*

Mr. McRae is a Chartered Accountant, and a graduate of the Director's Education Program of the Institute of Corporate Directors with an ICD.D designation. He is currently the Chairman, and between 1994 and 2015, was the President and CEO, of Freedom International Brokerage Company, Canada's largest Inter-Dealer Broker. Mr. McRae's earlier career involved four years in Abu Dhabi as a Financial Administrator for an engineering firm before joining the investment dealer Wood Gundy in Toronto and subsequently as a bond trader in New York. Mr. McRae was the Chair of both Ryan Gold Corp. and Corona Gold Corporation until their acquisition by Oban Mining Corporation in August, 2015. He is currently a member of the audit committee of Focused Capital Corp.

### *Ron Gratton*

Mr. Gratton is a Chartered Accountant with over 35 years of experience. He is President of Strathdale Investment Management Ltd., a private investment firm. He is also a director of the McCaig family office, which administers the McCaig family's investments including the Trimac group of companies. He is also on the Board of several private companies. From 2000 until 2010, Mr. Gratton was a senior tax partner with PricewaterhouseCoopers LLP. Prior thereto, he held senior roles with Coopers & Lybrand as well as various public and private companies.

### *Kingsley Ward*

Mr. Ward is currently a Managing Partner of VRG Capital Corp., since 2012, and Chairman of the Vimy Ridge Group, since 1991. Mr. Ward has over 25 years of experience in initiating, structuring, and monetizing private equity investments. Mr. Ward is currently Managing Partner of Clarus Securities, an institutional investment dealer; Chairman of Data Group, a business communications firm; Chairman of Jones Brown Holdings Inc., a privately held Canadian insurance brokerage and strategic consultancy firm; and Chairman of Nucro Technics, a pharmaceutical contract support organization. He was a founder and former Director of IPEC (now Flint Energy Services) and was a founder and former Chairman of Pareto Corporation, a marketing services company until its sale in 2011. Mr. Ward serves on, and has served, as Director of a number of other private and public companies. He is a past Director of PLM Group, a commercial printing and direct marketing company. Mr. Ward holds a Bachelor of Commerce and a Bachelor of Arts in Economics.

## **Reliance on Certain Exemptions**

Since the commencement of the Corporation's most recently completed financial year ended December 31, 2016, it has not relied on the exemption in section 2.4 (De Minimis Non-audit Services) or an exemption granted under Part 8 (Exemptions) from NI 52-110. The Corporation is a "venture issuer" as defined in NI 52-110 and has relied on the exemption contained in section 6.1 of NI 52-110, which

exempts it from the requirements of Part 3 (Composition of Audit Committee) and Part 5 (Reporting Obligations) of NI 52-110.

### **Audit Committee Oversight**

The Board has adopted all recommendations of the Audit Committee with respect to the nomination or compensation of an external auditor.

### **Pre-Approval of Policies and Procedures**

If non-audit services to be performed by the external auditor are expected to exceed 5% in aggregate of the total fees that are expected to be paid to the external auditor during the fiscal year, they must be pre-approved by the Audit Committee or by an independent member of the Audit Committee to whom the Audit Committee has delegated authority to grant such pre-approval.

All non-audit services to be performed by the external auditor that are not reasonably expected to exceed 5% in aggregate of the total fees expected to be paid to the external auditor during the fiscal year are deemed by the Audit Committee to have been pre-approved.

All non-audit services that were not recognized as non-audit services at the time of engagement must be brought to the attention of the Audit Committee, or an independent member of the Audit Committee to whom the Audit Committee has delegated authority to grant such pre-approvals, for approval prior to the completion of the audit.

### **External Auditor Service Fees**

The aggregate fees billed by the Corporation's external auditors in the fifteen-month financial year ended December 31, 2016 and the twelve-month financial year ended September 30, 2015 for audit and other services is set forth below.

<b>Year Ended</b>	<b>Audit Fees<sup>(1)</sup></b>	<b>Audit-Related Fees<sup>(2)</sup></b>	<b>Tax Fees<sup>(3)</sup></b>	<b>All Other Fees<sup>(4)</sup></b>
2016	\$519,000	\$66,000	\$47,710	\$340,000
2015	\$104,897	\$10,379	\$18,756	\$Nil

Notes:

- (1) The aggregate fees billed by the Corporation's auditor for audit fees.
- (2) The aggregate fees billed for assurance and related services by the Corporation's auditor that are reasonably related to the performance of the audit or review of the Corporation's financial statements and are not disclosed in the "Audit Fees" column.
- (3) The aggregate fees billed for professional services rendered by the Corporation's auditor for tax compliance, tax advice, and tax planning.
- (4) The aggregate fees billed for professional services rendered by the Corporation's auditor in relation to private placements, prospectus filings and the filing of business acquisition reports.

## **TRANSFER AGENT AND REGISTRAR**

The Corporation's transfer agent and registrar is Computershare Investor Services Inc., at Suite 600, 530 – 8th Avenue S.W., Suite 600, Calgary, Alberta, T2P 3S8.

## **AUDITORS**

The auditors of the Corporation are KPMG LLP, located at 3100, 205 – 5th Avenue S.W., Calgary, Alberta, T2P 4B9. KPMG LLP was first appointed as auditors of the Corporation on April 1, 2016.

## **MATERIAL CONTRACTS**

The Corporation entered into the following material agreements within the year ended December 31, 2016 or subsequent to such date:

- the Reid Share Purchase Agreement, particulars of which are described under "General Development of the Business – Three Year History – Recent Developments and Significant Acquisitions";
- the Reid Escrow Agreement, particulars of which are described under "General Development of the Business – Three Year History – Recent Developments and Significant Acquisitions";
- the DLC Purchase Agreement, particulars of which are described under "General Development of the Business – Three Year History – Recent Developments and Significant Acquisitions" and in Schedule A;
- the ATB Credit Facility, particulars of which are described under "General Development of the Business – Three Year History – Recent Developments and Significant Acquisitions";
- the Club16 Purchase Agreement, particulars of which are described under "General Development of the Business – Three Year History – Recent Developments and Significant Acquisitions" and in Schedule B; and
- the Impact Purchase Agreement, particulars of which are described under "General Development of the Business – Three Year History – Recent Developments and Significant Acquisitions" and in Schedule C.

Copies of each of the foregoing contracts are available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Other than the agreements listed above, there are no contracts of the Corporation (other than contracts entered into in the ordinary course of business) that are material to the Corporation and that were entered into by the Corporation within the most recently completed financial year (or during the period thereafter up to the date hereof) or were entered into prior to the year ended December 31, 2016 and are still in effect.

## **INTERESTS OF EXPERTS**

Grant Thornton LLP, Chartered Professional Accountants, located at 1701 Scotia Place 2, 10060 Jasper Avenue, Edmonton, Alberta prepared the auditor's report for the Corporation's financial statements for the year ended September 30, 2015. As of the date thereof, Grant Thornton LLP advised the Corporation that it was independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Professional Accountants of Alberta. Grant Thornton LLP ceased to be the Corporation's auditor effective March 31, 2016.

KPMG LLP, Chartered Professional Accountants, located at Suite 3100, 205 – 5th Avenue SW, Calgary, Alberta were appointed the successor auditor of the Corporation effective April 1, 2016. KPMG LLP have confirmed that they are independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

## **ADDITIONAL INFORMATION**

Additional information on the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Corporation's information circular for its most recent annual meeting of Shareholders that involved the election of directors filed on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional financial information is provided in the Corporation's financial statements and the management discussion and analysis for its most recently completed financial year.

**SCHEDULE A**  
**INFORMATION CONCERNING DOMINION LENDING CENTRES**

**THE BUSINESS OF DLC**

**General History and Developments**

The mortgage broker franchise business of DLC is carried on under the "Dominion Lending Centres", "Mortgage Architects" and "The Mortgage Centre" brands. The mortgage lending industry software and service business of DLC is carried on under the name "Newton Connectivity Systems" (formerly Marlborough Stirling Canada Limited). For a description of the legal entities comprising DLC, see "The DLC Transaction and the DLC Entities – The DLC Entities".

*Dominion Lending Centres*

DLC Inc. is a corporation incorporated under the federal laws of Canada on October 29, 2004. The head office of DLC Inc. is at 2215 Coquitlam Avenue, Port Coquitlam, British Columbia, V3B 1J6. DLC Inc. is the franchisor for the mortgage brokerage business that engages in business under the trade names "Dominion Lending Centres" and "Dominion Lending".

DLC Inc. has offered and engaged in the mortgage brokerage business as a franchisor since January 2006. DLC Inc. is a direct wholly-owned subsidiary of the DLC LP, which has its head office located at 2215 Coquitlam Avenue, Port Coquitlam, British Columbia, V3B 1J6.

As at December 31, 2016, DLC Inc. has 178 Franchisees.

*Mortgage Architects*

MA is a corporation incorporated under the federal laws of Canada on November 10, 2015. The head office of MA is at 2215 Coquitlam Avenue, Port Coquitlam, British Columbia, V3B 1J6. MA also has corporate offices at 5675 Whittle Road, Mississauga, Ontario, L4Z 3P8; 14567 - 118 Ave, Edmonton, Alberta, T5L 2M7; and 3030 Le Carrefour Blvd., Laval, Quebec, H7T 2P5. MA is the franchisor for the mortgage brokerage business that engages in business under the trade name "Mortgage Architects".

MA has offered franchises and engaged in the mortgage brokerage business as a franchisor since December 31, 2015; however, it acquired its mortgage brokerage business and all of its head office staff from Mortgage Architects Inc. on December 31, 2015, which ran the business since 2006 and offered franchises associated with the business since April 1, 2012. MA is a wholly-owned subsidiary of DLC Inc.

As at December 31, 2016, MA has 159 Franchisees.

*The Mortgage Centre*

MCC is a corporation incorporated under the provincial laws of British Columbia on June 6, 2013 with its head office located at 2215 Coquitlam Avenue, Port Coquitlam, British Columbia, V3B 1J6. MCC conducts its operational activities through a divisional office located at 5675 Whittle Road, Mississauga, Ontario, L4Z 3P8. MCC is the franchisor for the mortgage broker business that engages in business under the name "The Mortgage Centre".



MCC has offered franchises and engaged in the mortgage brokerage business as a franchisor since February 11, 1993. MCC was formerly a division of FirstLine Trust, which was acquired by CIBC Mortgages Inc. on October 31, 1995. DLC Inc. acquired MCC from CIBC Mortgages Inc. on June 24, 2013. MCC is a wholly-owned subsidiary of DLC Inc.

As at December 31, 2016, MCC has 106 Franchisees.

*Newton Connectivity Systems Inc. (formerly Marlborough Stirling Canada Limited)*

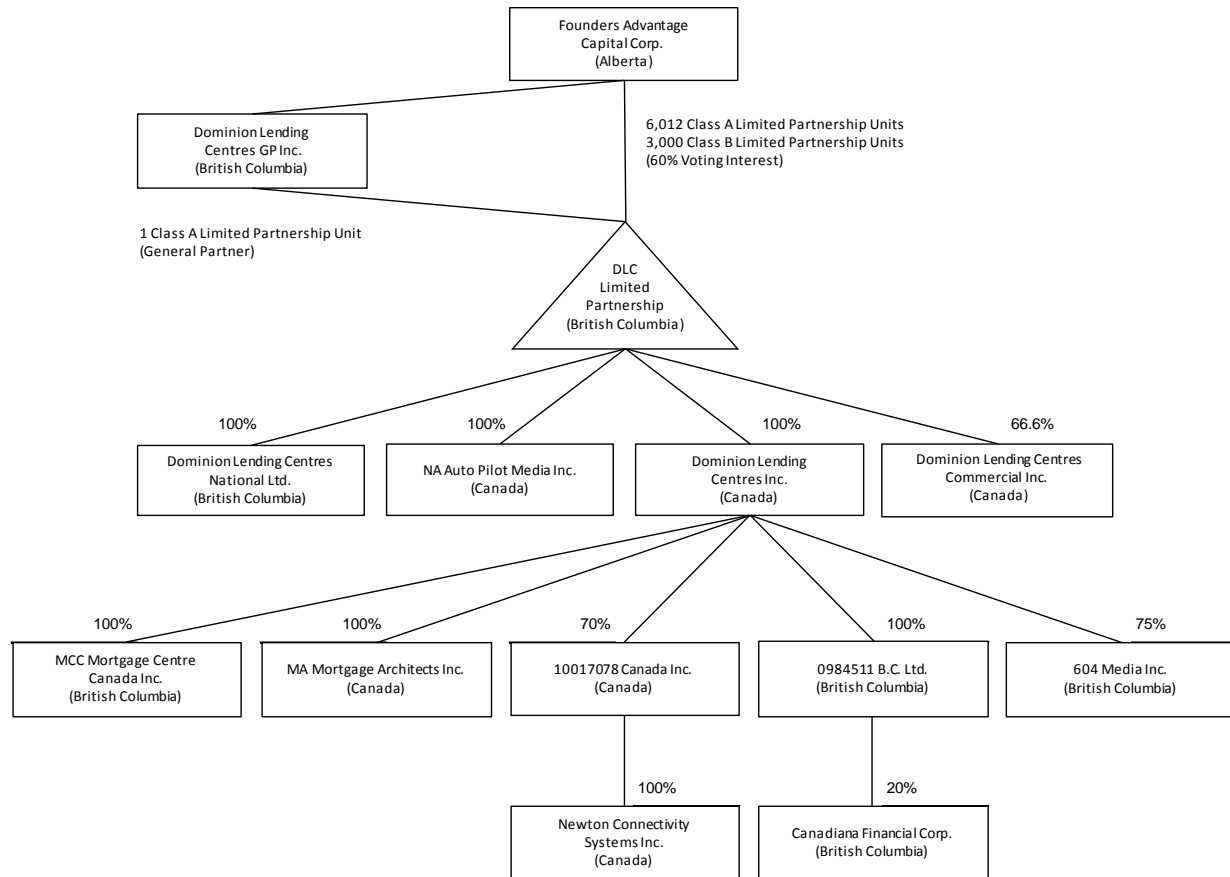
DLC-Newton Holdco, which is a 70%-owned subsidiary of DLC, acquired a 100% interest in Newton on December 13, 2016. Newton is a corporation formed by the amalgamation of Plexus Systems Design Ltd. and Marlborough Stirling (Canada) Holdings Ltd. on January 31, 2001. Plexus Systems Design Ltd. was incorporated on July 25, 1985 and Marlborough Stirling (Canada) Holdings Ltd. was incorporated on September 21, 2000 both under the provincial laws of British Columbia. On May 16, 2003, the company filed a continuation of business under the *Canada Business Corporations Act* changing its legal jurisdiction to Canada with its head office located at Suite 1000, 200 Yorkland, Toronto, Ontario, M2J 5C6. On February 1, 2017, the Company changed its name to Newton Connectivity Systems Inc.

Newton provides software and services to the Canadian mortgage lending industry under the following three product lines: Velocity (formerly MorWEB), Omega, and Optimus. Velocity offers web-based mortgage origination functionality designed specifically for mortgage brokers. Omega is a multi-channel data capture software that allows for the processing of mortgage applications (including underwriting, risk assessment, offer production and funds disbursement). Optimus is a post-completion software service offering payment processing, reporting and arrears management, property tax management and securitization.

Newton is one of two providers that have been approved to provide a connectivity platform between Canadian lenders and mortgage brokers. In consideration for the Newton services, Canadian lenders pay Newton fees based on the funded volume of mortgages. To date, a single competitor has dominated the lender connectivity marketplace and Newton has had a small percentage of the marketplace. DLC anticipates it can increase Newton's market share by having more DLC mortgage brokers use the Newton platform.

## Intercorporate Relationships

As at the date hereof, the corporate structure of the DLC Entities is as follows:



### Note:

- (1) DLC National, DLC Auto Pilot, DLC Commercial, DLC-984 BC, DLC Canadiana, DLC-604 Media and 10017078 Canada Inc. are not considered material.

## The Canadian Mortgage and Mortgage Brokerage Industry

According to the Bank of Canada, in July, 2016, the Canadian mortgage market was approximately \$1.4 trillion in outstanding balances. The market is dominated by Canada's chartered banks, with approximately \$1.0 trillion of such balances, as well as a few other dominant regional lenders. Mortgage lenders typically offer a range of products, with options for fixed or variable rates, varying terms and amortization periods, as well as differing ancillary terms for pre-payment, incentives or other matters. Interest rates are typically renegotiated every five (5) years.

While mortgage lenders post both fixed and variable interest rates at which the lender offers mortgages of varying terms, typically most lenders are willing to negotiate interest rates lower than those posted, a practice referred to as "discounting". The practice began in Canada in the early 1990s and is considered the norm in today's mortgage market. The practice of discounting permits mortgage lenders to improve their ability to price discriminate and offer different rates to different borrowers based on their willingness

to pay. Price discrimination allows lenders to increase their profits through negotiating different rates with individual borrowers instead of offering a blanket reduction in rates.

The advent of price discrimination in the Canadian mortgage market has increased the importance of the mortgage broker in the lending negotiation process. In return for a fee (paid by the lending institution), the mortgage broker is typically able to negotiate a better rate than the consumer, or to efficiently reduce the time and effort required to be applied by the consumer to achieve similar results.

Mortgage brokers are provincially regulated and subject to training and licensing requirements. See "Government Regulation" for details. However, there are relatively few barriers to entry in the mortgage brokerage market. Nevertheless, the ability of a given mortgage broker to erode lender price discrimination and secure rates at the lower end of the range at which lenders are prepared to lend is dependent upon a number of factors. While experience and negotiating ability are relevant factors, a key factor in the potential success of a mortgage broker in securing advantageous rates is the bargaining power of the mortgage broker, which varies directly with the volume of mortgages the broker is able to place with lenders.

### **DLC Target Market**

DLC's overall aim has been to increase organic (non-acquisition related) market share by 1%-2% per year and to achieve 5% growth on the number of mortgages funded annually. DLC has accomplished its organic growth goals by maintaining a consistent, concentrated focus on recruiting mortgage brokerages and agents. DLC has more focused day-to-day recruiters than any other competitor in the industry (13 in total), which results in more rapid growth than its competitors. Secondly, with ongoing concentrated efforts towards recruiting, it has allowed DLC to better know the competitive models that exist and also to continually enhance the DLC offerings in the most effective way to recruit and retain agents. DLC's aim has always been to have the strongest model on which to recruit mortgage brokers and agents, based on offering them a superior value-proposition.

DLC's largest opportunity region is in Ontario as illustrated below (according to data recorded through D+H). Quebec and Atlantic Canada also represent growth opportunities and potential additional market share, although the total dollar volume available in those regions is substantially less in comparison to the Ontario market:

<b>January 1, 2016 to December 31, 2016</b>	<b>Dollar Volume of All Broker Mortgage Submissions to D+H</b>	<b>% of Mortgage Broker Market</b>
<b>British Columbia</b>	\$18,864,313,398	50.5%
<b>Prairie Provinces</b>	\$8,567,510,821	33.7%
<b>Ontario</b>	\$32,705,470,055	31.5%
<b>Quebec</b>	\$2,978,870,603	20.9%
<b>Atlantic Provinces</b>	\$848,092,120	19.0%
<b>CANADA</b>	\$63,964,256,997	35.8%

The table below provides DLC's market share of the mortgage brokerage market in each region of Canada:

January 1, 2016 to December 31, 2016	Regional Market Share <sup>(1)</sup>				Regional Mortgage Broker Firm Rankings <sup>(2)</sup>		
	DLC	MCC	MA	Total	DLC	MCC	MA
<b>British Columbia</b>	39.2%	3.7%	7.6%	50.5%	#1	#7	#3
<b>Prairie Provinces</b>	19.3%	9.2%	5.2%	33.7%	#1	#5	#7
<b>Ontario</b>	14.1%	7.3%	10.1%	31.5%	#3	#5	#4
<b>Quebec</b>	12.0%	8.4%	0.5%	20.9%	#2	#3	#7
<b>Atlantic Provinces</b>	4.7%	4.4%	9.9%	19.0%	#7	#8	#4
<b>CANADA</b>	20.0%	7.0%	8.8%	35.8%	#1	#6	#4

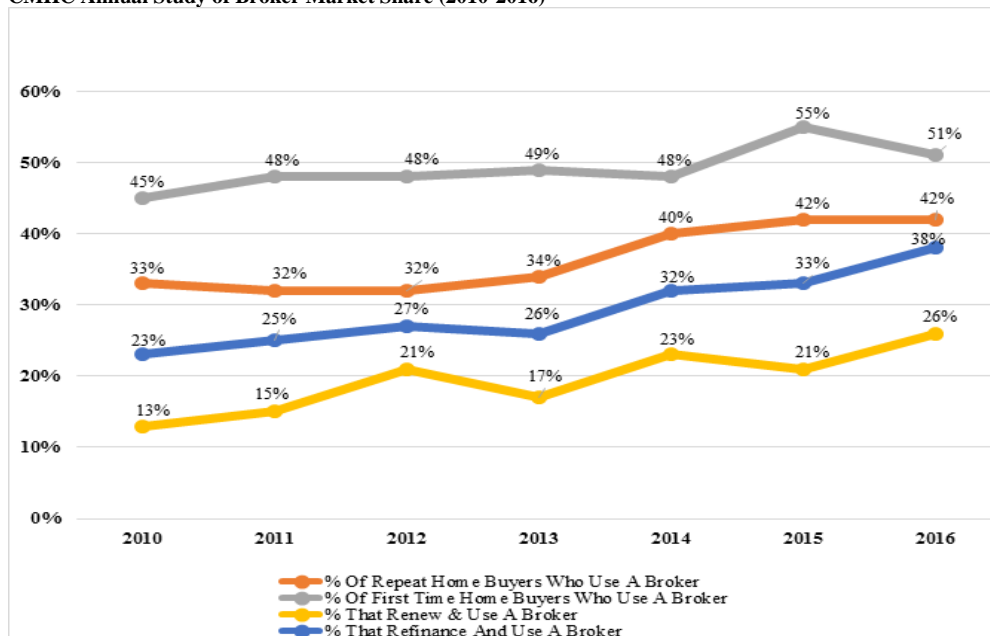
**Notes:**

- (1) Based on total submitted mortgage volumes as recorded through D+H.
- (2) Regional rankings of mortgage brokers as provided by D+H.

**Mortgage Brokerage Market Conditions**

The overall market for mortgage brokers remained strong in 2016 as evidenced by the total submitted mortgage volume recorded through D+H. The use of mortgage brokers by Canadians has increased since 2010 as shown below:

CMHC Annual Study of Broker Market Share (2010-2016)



Management of DLC expects that mortgage brokers will increase their market share in the coming years due to the following factors:

- *Mortgage regulations:* Mortgage regulations have become more stringent since 2008, affecting the number of individuals that can qualify for conventional bank mortgages. As a result, these individuals are turned away from the banks and seek out mortgage brokers for assistance in obtaining a mortgage.
- *Additional Offerings:* As mortgage brokers are provided new products to offer, mortgage brokers will tend to appeal to a larger demographic / population base and also retain clients more effectively.
- *Conditioning & Habits:* Twenty years ago, approximately 5% of the Canadian population used mortgage brokers, as brokers were viewed generally as a last resort to obtaining a mortgage. Over the years, this perception has shifted, and Canadians are now using mortgage brokers to obtain better mortgage rates and to save money. Younger home buyers who used a mortgage broker will likely use one in the future. The generation that was reaching a home-buying age when brokers had little or no market share is aging and continually being replaced by younger, mortgage broker friendly Canadians.
- *The Complexity of Mortgages:* Most consumers are not sufficiently financially literate to ask the right questions when applying for a loan at a bank. As financial products become more complicated, more Canadians seek assistance to understand the complexities and alternatives.
- *Increased Broker Business Sophistication:* As mortgage broker business sophistication increases, we expect the volume of renewal business funded by mortgage brokers to increase.
- *Interest Rates May Increase:* As interest rates have been at historical lows for a significant period, many believe that interest rates will increase in years to come. In a higher interest rate environment, DLC anticipates that a growing proportion of consumers would likely shop for the best mortgage opportunities, driving the more conservative "single-bank" mortgage consumers to use mortgage brokers.

### **Competitive Strengths**

DLC Franchisees compete with other independent and franchised mortgage brokers. However, DLC believes that it offers competitive advantages relative to alternative mortgage broker arrangements as a result of the following:

- DLC and its associated brands have created more significant brand recognition than that of its competition;
- DLC offers coast-to-coast coverage, which assists it in creating brand loyalty Canada-wide, as a result of mortgagees relocating within Canada and being repeat customers;
- DLC's aggregate mortgage volume permits it to negotiate competitive mortgage rates on behalf of its Franchisees;
- DLC has remained relentless about offering the strongest model from which a mortgage broker can build their business. This includes technology offerings, enhanced training, marketing design support and business support.

## **Geographic Distribution of Sales**

DLC has operations in all 13 provinces and territories of Canada. The DLC network includes over 5,000 agents, 443 Franchisees and over 700 locations. DLC seeks to add additional Franchisees on an ongoing basis, both in markets already served by DLC and new markets where DLC does not have a presence.

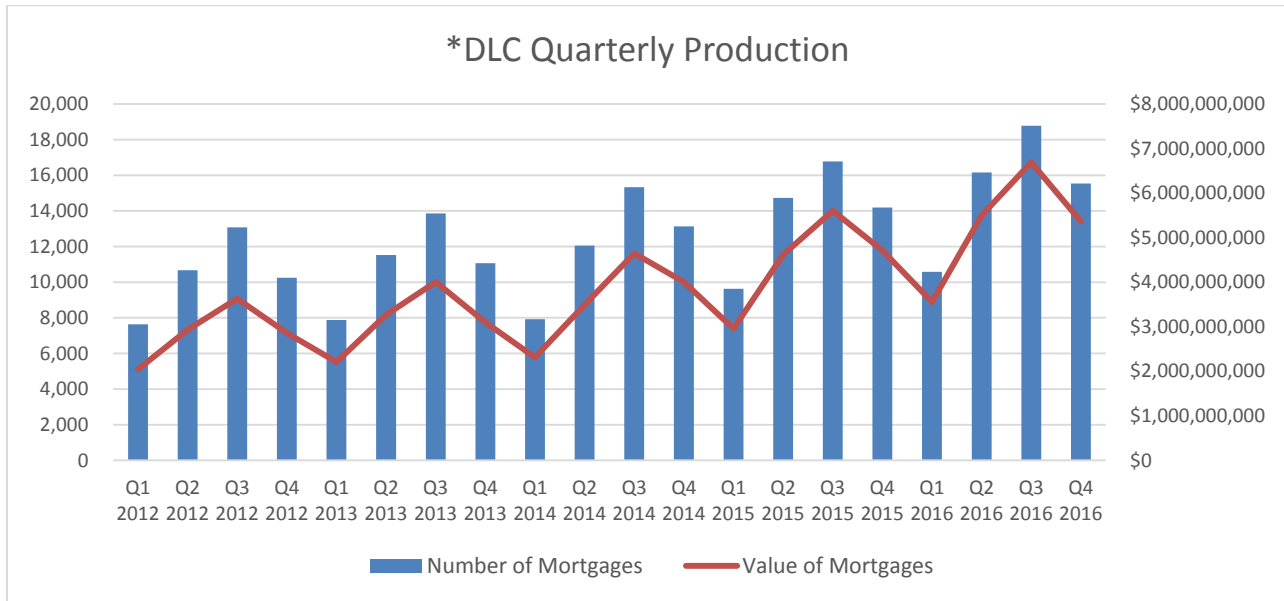
## **Sources of Revenue**

DLC's revenue is comprised of fees earned on the franchising of mortgage brokerage services (including franchising revenue, royalty income, and advertising fees) and commissions generated on the brokering of mortgages. Franchising revenue from mortgage brokerages includes income from royalties, advertising fees and connectivity fee income. Royalty income is based on a percentage of the mortgage related revenues earned by the franchises, and is recognized as the Franchisees earn their commissions and bonuses from lending contracts. Income from advertising fees is collected on a monthly basis from the franchises to fund the costs of advertising brokerage services, and is recognized each month as amounts become due from franchises based on the terms of the Franchise Agreement. Connectivity fee revenue relates to agreements made with certain lenders and suppliers to earn bonuses based on the volume of mortgages funded or broker activity. Connectivity fee revenue is recognized on an accrual basis as the volume or activity thresholds are fulfilled. 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. DLC is entitled to deduct all franchise fees and advertising fees from connectivity fees payable to a Franchisee or its agents. As a result of this model, DLC's credit risk with respect to Franchisees is minimized.

DLC also may realize a profit or receive rebates, commissions, payments, discounts, allowances or other benefits in connection with products or services purchased, leased or obtained by Franchisees from certain suppliers. DLC is entitled to retain any such rebate, commission, payment, discount, allowance or other benefit for its own use and credit without accounting to the Franchisee for such amounts.

## Cycles or Seasonal Aspects

As a service provider to the Canadian real estate market, DLC sees consistent seasonality trends as illustrated below:



*\*MCC and MA Volumes are not included in this illustration.*

As reflected in the above graph, DLC mortgage volume in terms of both number of mortgages and aggregate mortgage value follow a seasonal trend reflective of home sales seasonality in the Canadian market. Generally, home sales and mortgage sales are lowest during the first quarter (January through March) and highest during the summer months (June through September), with spring and autumn typically experiencing average activity.

On average, approximately 70% of all mortgage brokerage revenues are from new mortgages on home purchases, 15% from mortgage renewals and 15% from mortgage refinancings. Although mortgage brokers are certainly impacted by cyclical fluctuations in home sales, the impact is mitigated by the 30% of their business that is not tied directly to home sales.

Based on historical market data, approximately 60% of mortgage consumers refinance their mortgage before the renewal date. As such, these refinancings lead to more business for mortgage brokers before the traditional 5-year maturity date expires. It also increases the importance for consumers of shopping a mortgage because the penalties for breaking a mortgage can be significant and can vary by type of mortgage and from lender to lender. Consumers are increasingly aware that there is much more to finding the best mortgage than just the mortgage rate. The terms, especially the penalties associated with breaking a mortgage, can be just as important. DLC believes that an independent mortgage professional, that has a vested interest in finding the best mortgage for the consumer, is a valuable asset to the individual.

## **DLC Franchise Arrangements**

### *Brand Licensing, Franchise Fees and Connectivity Fees*

DLC grants franchises to operate a DLC-branded mortgage brokerage business (the "**Franchised Business**") in authorized locations and in accordance with the terms and conditions of standard form franchise agreements (the "**Franchise Agreements**"). Upon entering into the Franchise Agreement, the Franchisee obtains the right to operate under the DLC brand, generally being "Dominion Lending Centres", "Dominion Lending", "Mortgage Architects" or "The Mortgage Centre", as applicable.

In addition to securing brand use, DLC provides Franchisees with methods and know-how for conducting the Franchised Business (the "**System**") including methods of marketing, business management, administration and management. The System also includes methods of preserving the consistency of identity and reputation of the service standards, quality and uniformity of the services offered. All of the components of the System (including the methods and the know-how) are confidential and proprietary to DLC.

The Franchised Businesses typically offer all of the material and expertise required to offer mortgage brokerage services to individuals seeking to finance or refinance their real property. Franchisees broker mortgage products for owners of real property or for the acquisition of real property. Fees and bonuses for the placement of mortgage products are paid directly to Franchisees either by the lender or the customer. Some bonuses are paid directly to DLC from the lenders with the express intention that they be distributed among Franchisees (the "**Shared Bonuses**"), typically on a proportionate basis to the volume of mortgages placed with such lenders by the Franchisees. The Shared Bonuses are distributed by DLC to applicable Franchisees in accordance with the terms of the Franchise Agreement. Other financial incentives that are not intended to be distributed to Franchisees may sometimes be paid directly to DLC, and DLC is entitled to keep all such payments for its own account.

### *Franchise Terms and Renewals*

Franchise Agreements typically provide for an initial term of seven years, as well as two additional consecutive renewal terms of seven years each. DLC has the discretion but not the obligation, to grant additional renewal terms once the first two renewal terms have been exhausted. The renewal of a franchise term is conditional upon: the Franchisee being in full compliance with the Franchise Agreement and all monetary obligations to DLC; the Franchisee being in good standing with respect to its premises leased; the execution of DLC's then current Franchise Agreement; the execution of a general release of DLC up to the effective date of the renewal; compliance with DLC's requirements to satisfy the image, standards, and specifications established by DLC for new franchises; compliance with all applicable laws and maintenance of licenses, registrations, and qualifications in the jurisdictions where the operations are carried out; payment of renewal fees and expenses; and delivery by DLC of any franchise disclosure statement required by applicable law.

DLC may terminate a Franchise Agreement in the event of: bankruptcy or insolvency of the Franchisee or principal; appointment of receiver for the Franchisee or principal; the Franchisee ceasing to carry-on business at the premises or loses rights to the premises; the Franchisee's failure to provide reports, statements or other documents under the Franchise Agreement; the Franchisee or any other franchise representative engaging in conduct detrimental to DLC, its intellectual property or the System; failure by the Franchisee to pay monies owed to DLC or its affiliate within 90 days of receipt of a written request to do so; a purported assignment of the Franchise Agreement without complying with assignment provisions; receipt by the Franchisee of three or more notices of material default within a consecutive 12 month period; failure to cure any other default under the Franchise Agreement within ten (10) business



days' notice; the incapacitation of the principal for a cumulative period of 180 days in any 12 month period where the principal is essential for running of the business; a loss of right to conduct business as a mortgage broker; or failure to meet certain performance criteria for minimum sales volumes.

#### *Franchisee Locations*

DLC's standard form Franchise Agreements do not confer upon the Franchisee any proprietary or exclusive right in or to any territory or market area surrounding the premises of the Franchised Business. However, the Franchisee may not operate the Franchised Business, or solicit mortgage brokerage business, at any other location than its designated territory under the Franchise Agreement, except as specifically consented to in writing by DLC. DLC does not reserve for itself any internet sales, telephone sales, catalogue sales or sales by other means within the prospective Franchisee's territory.

DLC does not have a policy as to how proximate to an existing Franchised Business location that: DLC may establish another Franchised Business or permit another distributor using the DLC brand; a DLC outlet may be established; or DLC may establish other methods of distribution using a DLC brand.

#### *Marketing and Advertising*

DLC grants its Franchisees a non-exclusive license to use and display in the conduct of the Franchised Business the applicable DLC trade name and trademarks under which the Franchisee will conduct the Franchised Business within the applicable territory of the franchise. The Franchisee may not use any intellectual property of DLC as part of its corporate or firm name unless required by applicable regulatory legislation, and then, only in such manner as directed by DLC. While DLC and its affiliates actively seek to protect intellectual property from infringement by others, DLC is under no obligation to the Franchisee to do so, nor is DLC obligated to protect the Franchisee against claims of unfair competition or infringement. The Franchisee must follow DLC's rules when using the DLC intellectual property.

DLC collects advertising fees which are applied by DLC to marketing and advertising programs for the benefit of all Franchisees. DLC's national advertising fund promotes the quality of the DLC brand to consumers through television, print, and online advertising, and educates potential customers about the benefits of using a DLC Franchisee.

Individual advertising and marketing measures on the part of the Franchisee may be carried out, subject to the requirements of the Franchise Agreement, which includes obtaining the prior written approval of DLC. Any costs incurred by the Franchisee in respect of its individual advertising and marketing measures (including the costs of legal advice and representation) are borne by the Franchisee.

#### *Franchisee Training and Support*

New Franchisees are offered a training program which, among other things, gives each Franchisee the knowledge and skills necessary to operate their office and to deliver advice and recommendations on mortgage options to their customers. This two-day training program is at the Franchisee's sole cost and expense.

In addition, DLC periodically makes available to Franchisees optional training by way of seminars, webinars, conferences, computer software, newsletters and bulletins relating to developments in the mortgage broker business. Attendance at the training is optional and the cost of such attendance, including all related travel costs (if any), is at the Franchisee's sole cost and expense.

DLC may introduce software and software applications, either created specifically by DLC or created for DLC by a specified software developer/supplier, for the purposes of facilitating the Franchisee's accounting, management or other information systems. At the request of the Franchisee, DLC will provide the Franchisee with reasonable assistance implementing the DLC software and reasonable training on the use of the DLC software. All costs associated with such implementation and training will be the sole responsibility of the Franchisee.

#### *Information Management Systems*

DLC may from time to time require Franchisees to purchase or lease certain software and software applications in connection with the Franchised Business. DLC generally provides management information systems and resources designed to facilitate the efficient and profitable operation of DLC franchises. These systems include: agent websites; a proprietary intranet that provides Franchisees and mortgage brokers with training resources, sales tools, property valuation systems and other business planning tools; and client relationship management software, which assists DLC mortgage brokers in managing client contacts, customer leads and other marketing information.

#### *Insurance*

DLC Franchisees are required to obtain insurance policies for the operation of the Franchised Business including errors and omissions insurance, fire extended insurance on the leasehold improvements situated at the business premises for the Franchised Business, business interruption insurance, rental insurance, worker's compensation insurance and public liability and indemnity insurance fully protecting DLC and the Franchisee against loss or damage occurring in conjunction with the operation of the Franchised Business.

#### **Government Regulation**

As franchisor, DLC must comply with provincial franchise legislation, which varies province-to-province within Canada. Currently, each of the provinces of Alberta, Manitoba, Ontario, New Brunswick and Prince Edward Island have enacted franchise legislation. Other Canadian provinces also are contemplating such legislation. Principally, the effect of such legislation is to require franchisors such as DLC to prepare and deliver to prospective Franchisees (at least 14 days prior to entering into the franchise or paying any amounts under it) a disclosure document that describes all "material facts", including details concerning the franchise and the Franchisee's rights and obligations under the Franchise Agreement. In certain circumstances, a failure to deliver a disclosure document when required, or a misrepresentation by the franchisor in the disclosure document, may give rise to a right in favour of the Franchisee to terminate the franchise within a specified period, or to sue the franchisor for damages. In addition, franchise legislation generally includes a statutory duty of good faith and fair dealing by both the franchisor and the Franchisee. DLC has implemented standard form disclosure documents and procedures for addressing its obligations under provincial franchise legislation.

In order to operate the Franchised Business as a mortgage broker business, the proposed Franchisee must become and remain duly licensed as a mortgage broker, credit broker or other similar broker in accordance with the applicable legislation, if any, in the province where the Franchised Business is located. In addition, the proposed Franchisee must comply with all federal, provincial and municipal laws that affect a Franchised Business including employment, workers' compensation, insurance, corporate, tax, licensing and similar laws and regulations. Under the Franchise Agreement, it is the proposed Franchisee's responsibility to comply with all applicable law, and to obtain and maintain all necessary permits, licenses, authorizations or other permissions necessary or otherwise required to operate the Franchised Business.

## **Credit Facilities**

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

On June 12, 2013, DLC established a \$6.5 million credit facility that matures on June 12, 2018. The credit facility was for the purpose of financing the acquisition of MCC. 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-EBITDAM ratio of less than 2:1 (EBITDAM is calculated as EBITDA plus management remuneration). On May 31, 2016, the debt-to-EBITDAM covenant was removed and replaced with a covenant requiring a debt-to-EBITDA ratio of less than 2:50:1.

At June 30, 2016, the debt service charge ratio was below the minimum threshold, causing DLC to be in violation of this covenant. Subsequent to the period end, in August, 2016, a compliance waiver was received from the lenders of the facility in respect to this default.

As at December 31, 2016, \$1,820,000 was outstanding on this term loan facility. On April 10, 2017, this facility was repaid in full.

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

On November 20, 2015, DLC established a \$10.3 million term loan facility that matures on December 30, 2021. The loan facility was for the purpose of financing the acquisition of MA. 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-EBITDAM ratio of less than 2:1. On May 31, 2016, the debt-to-EBITDAM covenant was removed and replaced with a covenant requiring a debt-to-EBITDA ratio of less than 2:50:1.

At June 30, 2016, the debt service charge ratio was below the minimum threshold, causing DLC to be in violation of this covenant. Subsequent to the period end, in August, 2016, a compliance waiver was received from the lenders of the facility in respect to this default.

As at December 31, 2016, \$8,575,000 was outstanding on this term loan facility.

### *\$4,500,000 revolving credit facility*

On June 12, 2013, DLC established a \$500,000 revolving credit 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-EBITDAM ratio of less than 2:1. On May 31, 2016, the debt-to-EBITDAM covenant was removed and replaced with a covenant requiring a debt-to-EBITDA ratio of less than 2:50:1.

At June 30, 2016, the debt service charge ratio was below the minimum threshold, causing DLC to be in violation of this covenant. Subsequent to the period end, in August, 2016, a compliance waiver was received from the lenders of the facility in respect to this default.

On October 13, 2016, the revolving credit facility was increased from \$500,000 to \$4.5 million. As at December 31, 2016, \$2,830,000 was outstanding on this revolving credit facility.

## **Employees**

As at December 31, 2016, DLC has a total of 51 employees.

## **THE DLC TRANSACTION AND THE DLC ENTITIES**

### **The DLC Transaction**

On May 13, 2016, the Corporation announced it had entered into an agreement to complete the DLC Transaction. The DLC Transaction was completed on June 3, 2016 for aggregate consideration of \$88.1 million from the Corporation (less \$1.6 million due from the DLC Principals), which was satisfied by the issuance of 4,761,905 Common Shares, having a price of \$5.60 on the date the transaction closed (compared to \$2.625 per share on the date the transaction was announced) and a cash payment of \$61.4 million. The cash portion of the purchase price included available cash, the net proceeds from the subscription receipt offering and a bridge loan for \$20.0 million.

The DLC Transaction provides the Corporation with 60% of any distributions paid by DLC up to the DLC Annual Threshold, with the DLC Minority Securityholders receiving 40% of any distributions paid by DLC up to such DLC Annual Threshold. To the extent that any distributions are paid in a year in excess of the DLC Annual Threshold, DLC Minority Securityholders who remain active in the business will receive 70% of such excess distributions with the Corporation receiving the remaining 30% of such excess distributions.

The DLC Transaction constituted a "significant acquisition" for the Corporation as defined by applicable securities laws and the Corporation filed a business acquisition report in the prescribed form on August 17, 2016 in respect of the DLC Transaction.

### **The DLC Entities**

In order to facilitate the DLC Transaction, the Corporation incorporated DLC General Partner. The Corporation and DLC General Partner then formed the DLC LP. As part of the DLC Transaction, DLC General Partner caused the DLC LP to acquire all of the issued and outstanding securities of DLC Inc., DLC National, DLC Auto Pilot and a 66.6% interest in DLC Commercial. DLC Inc. owns all of the issued and outstanding securities of DLC-MCC, DLC-MA, DLC-984 BC and DLC-Newton Holdco, in addition to a 75% interest in DLC-604 Media. DLC-Newton Holdco owns a 70% interest in Newton.

Upon completion of the DLC Transaction, the corporate structure is as shown under the heading "Intercorporate Relationships" above.

### **The DLC LP and DLC General Partner**

#### *General*

The DLC LP Agreement and the DLC GP Shareholders Agreement are the agreements which govern the Corporation's investment in DLC and related corporate governance matters.

The DLC LP is a limited partnership formed under the laws of British Columbia. The business of the DLC LP is to own and actively manage the securities of the DLC Entities and to conduct any activities incidental thereto. The DLC LP is governed by the DLC LP Agreement.

#### *Partners*

The members of the DLC LP are DLC General Partner, as the sole general partner, and the Corporation and the DLC Minority Securityholders, as the limited partners. The Corporation holds 6,012 DLC Class A LP Units and 3,000 DLC Class B LP Units and the DLC Minority Securityholders hold an aggregate of 3,988 DLC Class A LP Units and 7,000 DLC Class B LP Units. The DLC General Partner holds one DLC Class A LP Unit.

The shareholders of DLC General Partner are the Corporation and the DLC Minority Securityholders. The Corporation holds 60 DLC GP Shares and the DLC Minority Securityholders hold an aggregate of 40 DLC GP Shares.

#### *DLC LP Units*

There are 10,001 DLC Class A LP Units and 10,000 DLC Class B LP Units issued and outstanding. The rights and entitlements of these units with respect to voting, distributions of distributable cash, allocations of income and distributions of proceeds of liquidation of the DLC LP are described in the following description of the DLC LP.

Limited partners are liable for the liabilities, debts and obligations of the DLC LP: (i) only to the extent of the amount contributed by them or agreed to be contributed by them to the DLC LP; or (ii) if they take part in the management of the DLC LP. Subject to applicable law, limited partners will otherwise have no liability in respect of the liabilities, debts and obligations of the DLC LP. The DLC General Partner has unlimited liability for an obligation of the DLC LP unless the holder of such obligation otherwise agrees.

#### *Distributions*

Within 60 days following the end of each quarter, the DLC LP will distribute to the holders of DLC LP Units the distributable cash of the DLC LP, according to each limited partner's interests in the DLC LP.

The holders of DLC Class A LP Units will share equally on a pro rata basis on all distributions declared and paid by the DLC LP in respect of each fiscal year until such time as the sum of all distributions declared and paid on such DLC Class A LP Units equals \$14,600,000 (referred to herein as the DLC Annual Threshold) in such fiscal year, after which the holders of DLC Class A LP Units will not be entitled to any further distributions of any type from the DLC LP in respect of that fiscal year. Once the aggregate distributions declared and paid in respect of a fiscal year exceeds the DLC Annual Threshold, the holders of DLC Class B LP Units share equally on a pro rata basis on any further distributions declared and paid by the DLC LP in respect of such fiscal year.

#### *Liquidation Entitlement*

In the event of a liquidity event of the DLC LP, all outstanding DLC Class A LP Units and DLC Class B LP Units will, immediately prior to the effective time of such liquidity event, be transferred to the DLC LP in exchange for the issuance by the DLC LP of an aggregate of 1,000 DLC Class C LP Units to be allocated amongst each of the limited partners of the DLC LP in accordance with the following formula:

- (i) to the majority partner: (A) the sum of all distributions received by the majority partner or any predecessor majority partner since the date of formation of the DLC LP; divided by (B)

- the sum of all distributions paid by the DLC LP since the date of formation of the DLC LP; multiplied by (C) 1,000; and
- (ii) to each of the limited partners other than the majority partner; (A) the sum of all distributions received by each such limited partner since the date of formation of the DLC LP; divided by (B) the sum of all distributions declared and paid by the DLC LP since the date of formation of the DLC LP to all limited partners other than a majority partner; multiplied by (C) 1,000 less the number of DLC Class C LP Units issued to the majority partner in accordance with (i) above,

provided that in the event no distributions have been declared and paid since the formation of the DLC LP, then one DLC Class C LP Unit will be issued for each DLC Class A LP Unit previously held.

#### *Exchange of DLC LP Units on Change of Employment Status*

If either of the DLC Principals ceases to be employed by DLC for any reason (other than termination by DLC without just cause) then the interest in the DLC LP held by such DLC Principal shall be reduced by three-sevenths of all DLC Class B LP Units owned by such DLC Principal, and that number of DLC Class B LP Units shall be deemed to be surrendered to the DLC LP for no consideration without any further act by the DLC Principal or applicable holder of DLC Class B LP Units.

If DLC Class B LP Units are deemed to be surrendered as set out above, then the DLC LP interest of the Corporation shall be deemed to be increased by an equal number of DLC Class B LP Units for no consideration.

#### *Voting*

On any question submitted to a meeting of limited partners of the DLC LP, any limited partner holding DLC Class A LP Units shall be entitled to one vote for each DLC Class A LP Unit held. The DLC Class B LP Units and DLC Class C LP Units have no right to vote in respect of any matters relating to the DLC LP.

#### *Authority of DLC General Partner*

The DLC General Partner has the authority to manage the business and affairs of the DLC LP, to make decisions regarding the business of the DLC LP and to bind the DLC LP in respect of any such decision. The DLC General Partner is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the DLC LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power vested in the DLC General Partner to manage the business and affairs of the DLC LP includes all authority necessary or incidental to carry out the objectives, purposes and business of the DLC LP, including the ability to engage agents to assist the DLC General Partner to carry out its management obligations and administrative functions in respect of the DLC LP and its business.

The DLC Partnership Agreement provides that all material transactions and agreements involving the DLC LP must be approved by the DLC General Partner's board of directors.

#### *Reimbursement of DLC General Partner*

The DLC General Partner will be reimbursed by the DLC LP for all costs actually incurred by the DLC General Partner in the performance of its duties under the DLC LP Agreement, including costs directly incurred for the benefit of the DLC LP.

### *Limited Liability*

The DLC LP is to operate in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partners of the DLC LP. Limited partners may lose their limited liability in certain circumstances. The DLC General Partner is to indemnify the limited partners against all claims arising from assertions that their respective liabilities are not limited as intended by the DLC LP Agreement unless the liability of such limited partner is not so limited as a result of, or arising out of any act or omission of such limited partner.

### *Transfer of DLC LP Units*

The DLC LP Agreement provides for a general prohibition on the transfer of DLC LP Units prior to June 1, 2021 and thereafter includes "Rights of First Refusal", "Tag-Along Rights" and "Drag-Along Rights" provisions.

### *DLC GP Shareholders Agreement*

The Corporation, the DLC Principals and the DLC Entities are parties to the DLC GP Shareholders Agreement which sets forth certain corporate governance and other matters relating to the DLC General Partner and the DLC Entities.

Board Composition – The DLC GP Shareholders Agreement provides that the composition of the board of directors for each of the corporate DLC Entities shall be comprised of five individuals, with one nominee from Gary Mauris, one nominee from Chris Kayat and three nominees from the Corporation (initially Stephen Reid, Ron Gratton and James Bell).

Special Board Decisions – The DLC GP Shareholders Agreement provides that the following decisions of any board in respect of any member of the DLC corporate group must be approved by a resolution passed either: (i) if the directors are voting at a meeting, by the affirmative vote of not less than 80% of the directors of that Board, regardless of the number of directors present at the meeting, or (ii) if the directors are acting by written resolution, by an instrument signed by all of the directors of that Board:

- until June 1, 2021, incurring any new or additional debt or other borrowings, creating or issuing any debt securities or debt instruments of any member of the corporate group that would result in the DLC LP having a consolidated debt to equity ratio in excess of 2 to 1;
- until June 1, 2021, guaranteeing or agreeing to guarantee the obligations of any person other than the members of the corporate group;
- until June 1, 2021, granting loans to any person other than the members of the corporate group;
- until June 1, 2021, issuing any shares in any one or more of the corporate group;
- creating, altering, cancelling or otherwise changing the dividend policy of the corporate group, or declaring or paying dividends in excess of, or otherwise contrary to, the dividend policy of the corporate group;
- approving or otherwise making a special distribution, or causing the DLC General Partner to approve or otherwise make such special distribution;
- creating, altering, cancelling or otherwise changing any employee stock option for equity in any member of the corporate group or the DLC LP;
- terminating any of the executives or senior management (excluding Gary Mauris and Chris Kayat) of the corporate group; and

- reducing the directors' and officers' insurance coverage.

Special Shareholder Decisions – The DLC GP Shareholders Agreement provides that the following decisions of any of the DLC corporate group must be approved by a resolution passed either: (i) if the vote takes place at a meeting of shareholders, by the affirmative vote of holders of not less than 80% of the voting shares of that company, regardless of the number of shareholders present at the meeting, or (ii) if the shareholders are acting by written resolution, by an instrument signed by holders of not less than 80% of the voting shares of that company:

- until June 1, 2021, acquiring by way of a share or asset transaction (or series of transactions), commencing or investing in a business in a different industry than the business carried-on by the corporate group;
- until June 1, 2021, entering into, or taking steps to enter into, a merger, amalgamation or other form of business combination with any other person;
- until June 1, 2021, granting any encumbrance over all or any portion of the property, assets or undertaking of the DLC LP or any member of the corporate group;
- expanding the business of the corporate group to jurisdictions outside of Canada;
- restructuring any one or more members of the corporate group;
- until June 1, 2021, selling or otherwise transferring any one or more members of the corporate group, or all or substantially all of the assets or undertaking of any one or more members of the corporate group;
- amending the constating documents of any member of the corporate group;
- changing the size of any one or more boards;
- creating and issuing any shares in the capital of any member of the corporate group having preferential or equal treatment as to dividends, returns of capital or sharing of assets on a liquidation as the existing issued and outstanding shares of the member of the corporate group (and in the case of the DLC General Partner, includes creating and issuing any units of the DLC LP having preferential or equal treatment as to distributions, returns of capital or sharing of assets on a liquidation or otherwise as the existing issued and outstanding units of the DLC LP);
- entering into, or taking steps to enter into any non-arm's length transactions with any shareholder; or
- until June 1, 2021, making or taking any steps to make an initial public offering in respect of any one or more of the corporate group or entering into or taking any steps to enter into a reverse takeover arrangement.

Dividends – The DLC GP Shareholders Agreement provides that each board of directors of the corporate group will declare and pay dividends on the issued and outstanding shares of the applicable company based upon the following dividend policy:

- the Board will declare dividends at regular intervals, and at least quarterly, as determined by the Board, subject to the company having distributable cash; and
- the Board shall declare and pay dividends equal to its distributable cash, where "distributable cash" means, for any given period, an amount not less than 95% of the amount determined as at the end of the period by which the aggregate of cash on hand, credit balances with banks and other financial institutions and the realizable value of short term investments of the applicable member of the DLC group exceeds the aggregate amount which, in the opinion of the DLC



General Partner, acting reasonably, is necessary for the orderly payment of current and future operating costs and expenses, capital and non-capital expenses, taxes, debt servicing and repayment requirements, acquisition costs, capital improvements, and any other current and future expenses and liabilities of the applicable member of the DLC group.

Transfer Restrictions – The DLC GP Shareholders Agreement includes restrictions on the transfer of securities of the DLC corporate group.

Liquidity Event – The DLC GP Shareholders Agreement provides that any time on or after June 1, 2021, the DLC Principals may, at their discretion, jointly elect to sell all, but not less than all, of their securities in the DLC General Partner and in the DLC LP that they own pursuant to the following procedure:

- the DLC Principals will give written notice to the Corporation and any other shareholders of the DLC General Partner (the "**Minority Shareholders**") advising them that the DLC Principals are exercising their rights to trigger a sale of all of their securities in the DLC General Partner and in DLC LP (the "**Liquidity Notice**");
- within ten (10) business days of receipt of the Liquidity Notice, the Minority Shareholders may provide written notice to the DLC Principals and the Corporation (the "**Joinder Notice**"), that the Minority Shareholders are exercising their rights to join with the DLC Principals to sell all of their securities in the DLC General Partner and in the DLC LP on the same terms and conditions as the DLC Principals;
- the DLC Principals and the Corporation will cooperate with each other, and negotiate in good faith, for a period of fifteen (15) business days (or such longer or shorter period as may be mutually agreed to by them in writing) (the "**Negotiation Period**") to negotiate the terms and conditions of the sale of all of the DLC Principals' and the Minority Shareholders' securities in the DLC General Partner and in the DLC LP to the Corporation. If they are able to reach an agreement before the expiry of the Negotiation Period, then the parties will sell their securities in the DLC General Partner and in the DLC LP on the terms and conditions so agreed;
- if the DLC Principals and the Corporation are not able to reach an agreement within the time required, then the DLC Principals may give the Corporation and the Minority Shareholders written notice within five (5) business days of the expiry of the Negotiation Period that they are exercising their rights to trigger an auction process for the sale of all of the DLC Group, in which case, the following provisions will apply:
  - the Corporation will forthwith form a committee consisting of the DLC Principals and such other persons as may be determined by the Corporation (the "**Sale Process Committee**"), to manage, oversee and run an auction process for the sale of all of DLC Group, either by way of a sale of all of the securities of the DLC Group, a sale of all of the assets and undertaking of the DLC Group, or by way of a merger, business combination, amalgamation or some other form of transaction, as determined by the Sale Process Committee (the "**Auction**");
  - the Sale Process Committee will act as the main representative of the DLC General Partner and its shareholders (on behalf of the DLC LP) for purposes of making any decisions in respect of the Auction, and for acting as the main point of contact for any consultants, advisors or other professionals engaged in connection with the Auction, and will report on progress to the board of directors of the DLC General Partner and its shareholders on a regular basis;

- the Sale Process Committee will work cooperatively with each other in an effort to make decisions by consensus, failing which, a majority vote of the Sale Process Committee will govern;
- the Sale Process Committee will use reasonable commercial efforts to conclude the solicitation of offers pursuant to the Auction within 12 months of the expiry of the Negotiation Period, and in connection therewith, the Sale Process Committee will make recommendations to the DLC General Partner and its shareholders as to the final structure, terms and conditions (including purchase price) of any proposed sale of the DLC Group under the Auction, and having regard to all of the market conditions and to the Corporation's return on investment in respect of its interest in the DLC Group by virtue of its interest in the DLC LP in arriving at any recommendation (the "**Sale Terms**");
- in the event the Sale Process Committee recommends Sale Terms, the DLC General Partner will cause such meetings of shareholders, directors and limited partners of the DLC General Partner and the DLC LP to be held to approve the Sale Terms, and upon receiving the necessary approvals, the DLC General Partner will cause the DLC LP to sell the DLC group in accordance with the approved Sale Terms; and
- in the event the Sale Process Committee recommends Sale Terms, the shareholders of the DLC General Partner will vote their respective voting shares and will sign such written resolutions of the shareholders of any member of the corporate group in question as may be necessary to vote in favour of the Sale Terms.

#### **DIRECTORS AND OFFICERS**

As at the date hereof, the name, province or state, and country of residence, position or office held with DLC General Partner and principal occupation for the immediately preceding five (5) years of each of the directors and executive officers of the DLC General Partner are as follows:

<b>Name and Jurisdiction of Residence</b>	<b>Position with DLC General Partner</b>	<b>Principal Occupations for Prior Five Years</b>	<b>Year first became Officer or Director of DLC</b>
<b>Gary Mauris</b> British Columbia, Canada	President and Chief Executive Officer  Director	President and Chief Executive Officer of DLC (2006 to present).	2006
<b>Chris Kayat</b> British Columbia, Canada	Executive Vice President  Director	Executive Vice President of DLC (2006 to present).	2006
<b>Geoff Hague</b> British Columbia, Canada	Controller	Controller of DLC (January, 2014 to present).	2014
<b>Stephen Reid</b> Alberta, Canada	Director	President and Chief Executive Officer and Director of the Corporation (February, 2016 to present).  Senior Vice President of Business Development of Alaris Royalty Corp. (July, 2008 to March, 2015).	2016
<b>James Bell</b> Alberta, Canada	Director	Chief Operating Officer, General Counsel and Corporate Secretary of the Corporation (April, 2016 to	2016

		present). General Counsel and Corporate Secretary of Olympia Financial Group Inc. and Olympia Trust Company (February, 2010 to April, 2016).	
<b>Ron Gratton</b> Alberta, Canada	Director	President of Strathdale Investment Management Ltd., a private investment company (2010 to present) and Chartered Accountant.	2016

## **RISK FACTORS RELATING TO DLC**

The following is a brief discussion of those factors which may have a material impact on, or constitute risk factors in respect of, DLC's business, assets or financial performance (which risk factors are in addition to the risk factors impacting the Corporation). To the extent DLC's business, assets or financial performance are negatively impacted, this may have a material adverse effect on the Corporation's investment in DLC and the Corporation's business, assets or financial performance.

### **Canadian Real Estate Market**

The performance of DLC is dependent upon the number of mortgage brokers working in DLC's franchise network and the volume of mortgages brokered by such brokers. The number of mortgage brokers is in turn ultimately dependent on the health of the Canadian real estate market and the level of transactions therein, particularly in the residential segment. The Canadian real estate market is affected by changes in general and local economic conditions such as: inflation, interest rates, employment levels, availability and cost of financing for home buyers, competitive and market demand dynamics in key markets, the supply of available new or existing homes for sale, and overall housing prices. Any change in such factors may put downward pressure on the Canadian real estate market, the number of mortgage brokers or the aggregate dollar value of mortgages brokered by them, any of which factors which could negatively impact the DLC Franchisees and their ability to pay franchise fees to DLC.

### **General Economic Variables**

DLC's business, and the business of the Franchisees and their mortgage brokers, are sensitive to general market and economic conditions in Canada and worldwide. These conditions include, among others, short-term and long-term interest rates, inflation, fluctuations in debt and equity capital markets, levels of unemployment, consumer confidence and the general condition of the Canadian, North American and world economies. The Canadian residential real estate market also depends upon the strength of Canadian financial institutions, which are sensitive to changes in the general macroeconomic environment. Lack of available credit or lack of confidence in the financial sector could materially and adversely affect DLC's business.

A host of factors beyond DLC's control could cause fluctuations in these conditions, including the political environment and acts or threats of war or terrorism which could have a material adverse effect on DLC's business.

### **Franchisee Bad Debts**

DLC Franchisees may suffer difficulties in paying their franchise fees and other obligations to DLC in a timely manner or at all, including interest on unpaid amounts. Accounts receivable, and the allowance for doubtful accounts, may be significant. If Franchisees were to default to a material extent on their franchise fees or other obligations, this could have a material adverse impact on DLC.

## **Adding DLC Franchises / Closure of DLC Franchises**

DLC's ability to grow its revenue depends in part upon DLC's ability to execute upon its growth strategy and maintain and grow its network of franchises (and the ability of Franchisees to increase the number of mortgage brokers working at their franchises). If DLC is unable to attract qualified franchisees and Franchisees are unable to attract new mortgage brokers, DLC may be adversely affected. The growth of DLC's franchise network and the number of mortgage brokers is somewhat dependent upon available mortgage brokers in desirable locations and attracting new mortgage brokers.

The closure, failure or downsizing of a franchise office will reduce DLC's revenues. Closure of a franchise office could be the result of, among other things, an aging Franchisee being unable to sell or transfer his or her existing business to a new owner, a downturn in the economy or the closure or bankruptcy of a large industry in the city or town where the broker-owner operates. Any one of the above-mentioned factors could result in the exit of mortgage brokers to competitors thus reducing DLC's revenues generated from mortgage fees.

## **Dependence on Key Executives and Succession**

DLC's senior executives are instrumental in setting its strategic direction, operating its business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could materially adversely affect DLC's business until a suitable replacement is found.

The DLC Principals have been in the mortgage brokerage business for many years. If appropriate management succession arrangements are not put in place, DLC could be adversely affected by the loss of the services of one or more of its principals.

## **Lack of Control Over Franchisees**

Franchisees are independent business operators and their mortgage brokers are independent contractors, and, as such, neither are DLC's employees, and DLC does not exercise control over their day-to-day operations. Franchisees may not successfully operate a mortgage brokerage business in a manner consistent with industry standards, or may not affiliate with effective mortgage brokers. If the Franchisees or their mortgage brokers were to provide diminished quality of service to customers, DLC's image and reputation may suffer materially and adversely affect DLC's results of operations. Additionally, Franchisees and their mortgage brokers may engage or be accused of engaging in unlawful or tortious acts. Such acts, or the accusation of such acts, could harm DLC's image, reputation and goodwill.

## **Maintaining DLC's Brand**

DLC's results of operations and ability to grow are dependent in part upon its ability to maintain and enhance the value of the DLC brand and consumers' connection to the DLC brand and positive relationships with the Franchisees. DLC believes it has built the reputation of the DLC brand on highly personalized relationships between the mortgage broker and their customers. Any incident that erodes consumer affinity for DLC could significantly reduce its value and damage the DLC business.

For multi-location franchise businesses such as DLC, the negative impact of adverse publicity relating to one broker, office or a limited number of franchises may extend far beyond the broker, office or franchise involved to affect some or all of DLC's other mortgage brokers, offices or franchises. The risk of

negative publicity is particularly great because DLC is limited in the extent to which its franchises and mortgage brokers can be regulated on a real-time basis.

### **Changes to Mortgage Underwriting Standards**

During the past several years, many lenders have tightened their underwriting standards. Underwriting standards could be further tightened as a result of changes in regulations, including regulations enacted to increase guarantee fees of federally insured mortgages and/or to reduce the maximum loan limits on mortgage guarantees by the Canada Mortgage and Housing Corporation. More stringent mortgage underwriting standards could adversely affect the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes, which would adversely affect the residential real estate industry and put downward pressure on the number of mortgage brokers operating in the industry, which would adversely affect DLC.

### **Changes in Laws and Regulations**

#### *Changes to Mortgage Regulations*

Mortgage lending rules are regulated by the Government of Canada. In recent years the Canadian government has made various changes to tighten such rules, most recently increasing the minimum down payment amount from 5% to 10% for the portion of the purchase price of homes exceeding \$500,000 and less than \$1.0 million. This change and any further restrictions to mortgage lending rules may adversely affect the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes. This in turn, would adversely affect the residential real estate industry and put downward pressure on the number of mortgage brokers operating in the industry and negatively impact DLC's business.

#### *Changes to Foreign Ownership Laws*

The real estate industry is subject to laws and regulations governing the ownership, leasing, development and taxation of real property. Future changes in federal, provincial, and municipal laws or regulations governing the ownership, leasing, development and taxation of real property, including relating to ownership by non-residents of Canada, could affect the market demand dynamics and the supply of available new or existing homes for sale, which may adversely impact the DLC business.

#### *Changes to Licensing Regulations*

Increases to mortgage broker licence fees and/or the implementation of more stringent educational requirements will result in increased financial investments and time frames required for prospective mortgage brokers to become licensed. If such developments materialize, they will create barriers to entry and put downward pressure on the number of new mortgage brokers, which would adversely impact DLC's business.

### **Complaints and Litigation**

DLC could from time to time be the subject of complaints or litigation from members of the public complaining about poor service, misrepresentation or other legal issues. DLC could also be the subject of complaints or litigation from the Franchisees or their mortgage brokers about franchise contract issues or other operational issues. Regardless of whether any claims against DLC or a Franchisee are valid, or whether either is ultimately held liable, claims may be expensive to defend and may divert time and money away from operations and hurt DLC and/or the Franchisees' performance. A judgment in excess

of DLC's or the Franchisees' insurance coverage for any claims could materially and adversely affect their respective financial condition and results of operations. Adverse publicity resulting from such allegations may materially affect revenue to brokers and franchise fees, whether the allegations are true or not, and whether DLC or a Franchisee is ultimately held liable.

### **Information Technology and Systems**

DLC's business and the business of the Franchisees, including their ability to attract mortgage brokers, increasingly depends upon the use of sophisticated information technologies and systems, including technology and systems (mobile and otherwise) utilized for communications, marketing, productivity tools, lead generation, records of transactions, business records (employment, accounting, tax, etc.), procurement, call center operations and administrative systems. The operation of these technologies and systems is dependent, in part, upon third-party technologies, systems and services, for which there are no assurances of continued or uninterrupted availability and support by the applicable third-party vendors on commercially reasonable terms. DLC and the Franchisees also cannot assure that they will be able to continue to effectively operate and maintain their information technologies and systems. In addition, DLC's information technologies and systems are expected to require refinements and enhancements on an ongoing basis, and DLC expects that advanced new technologies and systems will continue to be introduced. DLC may not be able to obtain such new technologies and systems, or to replace or introduce new technologies and systems as quickly as its competitors or in a cost-effective manner. Also, DLC may not achieve the benefits anticipated or required from any new technology or system, and DLC may not be able to devote financial resources to new technologies and systems in the future.

### **Breach of Privacy Laws / Release of Confidential Information**

DLC and the Franchisees maintain significant private and confidential information regarding their customers and depends on its operations and systems to keep all such information confidential. The intentional or unintentional release of customers' confidential private information by either DLC or its Franchisees could materially and adversely affect their respective financial condition and results of operations.

### **Online Product Competition**

Internet-based mortgage brokerage businesses are becoming more prevalent in the United States. While none have commenced operations in Canada to date, innovation in the space is constant, and disruptive business models could draw consumers away from traditional mortgage brokerages and put downward pressure on the number of mortgage brokers operating in the industry, which would adversely affect DLC.

**SCHEDULE B  
INFORMATION CONCERNING CLUB16**

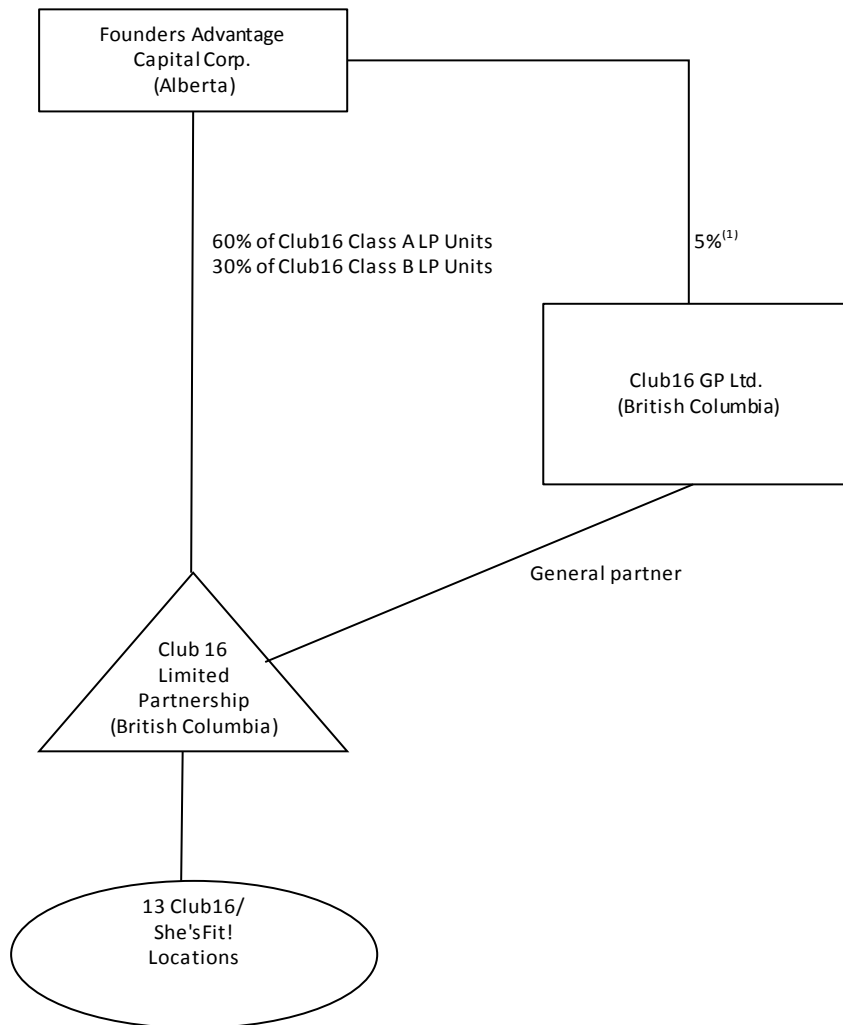
**THE BUSINESS OF CLUB16**

**General History and Developments**

Club16 has a business model that management believes is unique in the fitness industry, having removed the barriers of high membership costs, fixed contracts, and preconceived judgements of having to be fit to be a member of a gym. Club16 has grown its membership base to more than 80,000 members across its 13 locations in the Greater Vancouver Area.

**Intercorporate Relationships**

As at the date hereof, the corporate structure of the Club16 Entities is as follows:



**Note:** (1) The Corporation's interest in Club16 GP may, at the option of the Corporation for nominal consideration, increase to 60% on or after August 21, 2017.

## **The Gym, Health & Fitness Clubs Industry**

According to IBIS World, gym, health, and fitness clubs earned \$3.1 billion in revenues in Canada in 2016, which grew 3.4% annually from 2011 to 2016. The fitness and health club industry continues to strengthen as a result of consumer trends toward a healthier lifestyles and reducing obesity rates, which continue to increase every year. In 2016, there were roughly 6,300 fitness facilities in Canada serving nearly six million members, and based on the Organization for Economic Cooperation and Development ("OECD") Better Life Index, Canada ranks high in measures of well-being, indicating a strong market place for health and fitness organizations.

Club16 grew its number of clubs by 8.3% and its number of members by 21.8% in 2016. Over the next five (5) years, industry sources project that health club industry revenues will grow at an annualized rate of approximately 3%, primarily attributed to an increase in discretionary spending coupled with continued consumer awareness and public initiatives on the health benefits of exercise. Club16 is well-positioned to capitalize on these trends.

### **Club16 Target Market**

Club16 appeals to a large segment of the Greater Vancouver Area population with low-monthly pricing, a high-quality experience, and both ladies only and co-ed facilities. Combined with a non-intimidating and welcoming environment, Club16 is able to attract a broad member demographic based on age, household income, gender, and ethnicity. The member base is over 50% female and members come from both high and low-income households. This broad appeal and ability to attract occasional and first-time gym users enables Club16 to continue to target a large segment of the population.

Due to this unique positioning, Club16 has an addressable market that is significantly larger than the traditional health club industry in the Greater Vancouver Area. The addressable market is approximately 2.2 million people, representing the entire population in the Greater Vancouver Area over 14 years of age.

### **Competitive Strengths**

Club16 competes broadly for consumer discretionary spending related to leisure, sports, entertainment, and other non-fitness activities in addition to the traditional health club market. Management believes the company's success can be attributed to the following strengths:

- *Exceptional value for members.* Both the Regular and Elite memberships are priced significantly below the industry average of \$52 per month and still provide members with a high-quality fitness experience. For \$16 per month, the Regular membership includes unlimited access to one Club16 location. For \$20 per month, Elite members have access to all Club16s with out-of-town guest privileges, which provides an additional opportunity to attract new members. Elite card members also have access to unlimited tanning equipment and other benefits.
- *Distinct club experience.* Bright, clean, large-format clubs offer members a selection of high-quality cardio, circuit- and weight-training equipment that is commonly used by first-time and occasional gym users. Because the clubs are typically 20,000+ square feet and non-essential amenities such as group exercise classes, pools, day care centers and juice bars are not offered, there is more space for equipment.
- *No-judgement policy.* Every member should feel accepted and respected when they walk into a Club16, so the clubs promote a judgement-free atmosphere where members of all fitness levels can enjoy a non-intimidating environment. This "come as you are" approach has fostered a



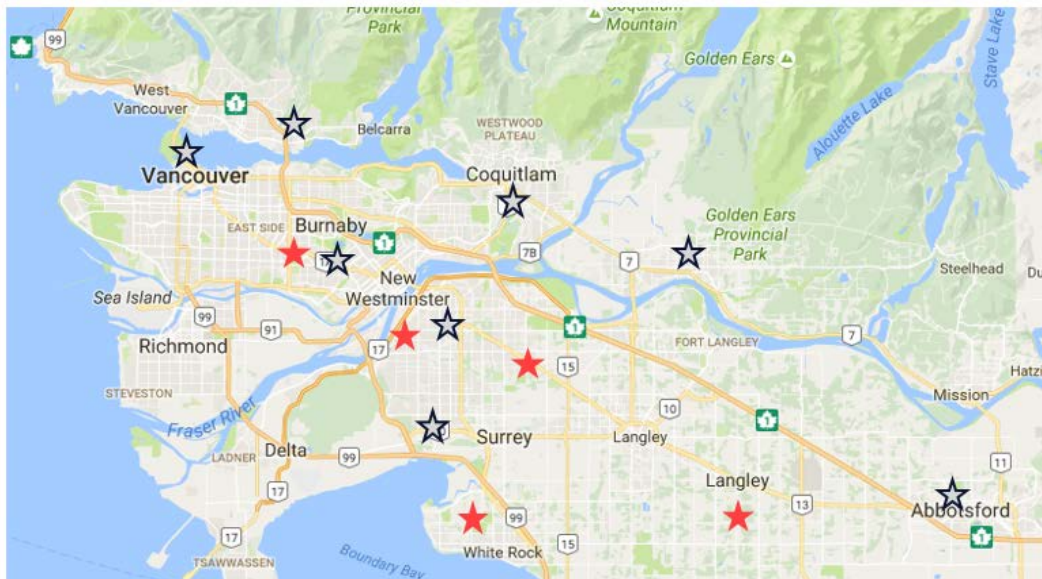
strong sense of community among members, allowing them not only to feel comfortable as they work toward their fitness goals but also to encourage others to do the same.

- *Strong club-level economics.* The club model is designed to generate attractive club-level EBITDA margins, strong free cash flow, and high returns on invested capital. Average club-level EBITDA margins typically increase at each location after opening, driven by a growing membership base as well as an increase in members using personal training services. In 2016, club-level EBITDA margins averaged 38%.
- *Recurring revenue streams.* The Club16 business model provides recurring revenue streams. For the past four years, an average of 85% of revenues were recurring, which included monthly dues and annual enhancement fees.

### Geographic Distribution of Sales

Club16 has 13 locations all operating in the Greater Vancouver Area in the province of British Columbia.

Current Club Locations:



★ Co-Location of Club16 and She's FIT!

★ She's FIT! Location

In 2017, Club16 intends to transition the White Rock She's FIT! location to a new, larger co-ed Club16 facility. Management is also in the process of expanding the Coquitlam location. Both of these initiatives are expected to have a positive impact on revenues and the total number of Club16 memberships.

### Sources of Revenue

Club16's revenue is comprised of membership fees, enrollment fees and annual club enhancement fees. Ancillary revenue sources include price protection insurance, personal training services, healthy transformation meal plans, bicycle rentals, and retail sales.

- Membership fees are collected on a monthly (initial members) or bi-weekly (newly attained members) basis through direct deposit with the amount collected depending on the membership type.
- Upon enrollment, members pay a one-time enrollment fee and an administrative fee for a membership card.
- The annual club enhancement fee is collected through direct deposit on or about May 3 each year from every member enrolled at the time of collection.
- Price protection insurance is offered upon joining and, for a one-time fee, a member is able to lock in their bi-weekly price for the life of their membership.
- Personal training revenues are dependent on members signing up for services which are offered in different levels of packages and number of training sessions.
- Members can sign up for healthy transformation meal planning services, which are personalized meal planning programs that help increase energy, stabilize blood sugars, and burn body fat.
- From spring to early fall, bicycle rentals are offered at the downtown Vancouver location which is located directly on the waterfront path. Fees are collected at the time of the rental.
- Each club has a small retail space that sells work-out clothing, towels, and water bottles.

### **Cycles or Seasonal Aspects**

Club16's results are subject to seasonality fluctuations in that member sign-ups are typically higher in January as compared to other months of the year. In addition, quarterly results may fluctuate because of certain factors, including the timing of club openings and general economic conditions.

### **Government Regulation**

Club16 is responsible for compliance with laws that regulate the relationship between health clubs and their members. British Columbia has consumer protection regulations that limit the collection of monthly membership dues prior to opening, require certain disclosures of pricing information, mandate the maximum length of contracts and "cooling off" periods for members (after the purchase of a membership), set escrow and bond requirements for health clubs, govern member rights in the event of a member relocation or disability, provide for specific member rights when a health club closes or relocates, or preclude automatic membership renewals.

Club16 accepts payments for memberships through electronic fund transfers from members' bank accounts, and, therefore, Club16 is subject to both federal and provincial legislation and certification requirements, including the Electronic Funds Transfer Act, the Consumers Council of Canada, and the Consumer Protection Act of B.C.

The collection, maintenance, use, disclosure, and disposal of individually identifiable data by Club16 is regulated at the provincial level as well as by the Canadian Payments Association. Provincial and federal agencies may also consider, from time to time, new privacy and security requirements that may apply to Club16 and may impose further restrictions on collection, disclosure, and use of individually identifiable information that are housed in Club16's databases.

Fitness clubs in British Columbia are subject to health and safety regulations that apply to health clubs and other facilities that offer indoor tanning services, such as banning young people under the age of 18 from using tanning beds.

Club16 is subject to various laws in Canada governing such matters as minimum-wage requirements, overtime, and other working conditions. A significant number of employees are paid at rates related to the provincial minimum wage, and past increases in the minimum wage have increased labor costs, as would future increases.

Club16's operations and properties are subject to extensive Canadian provincial and local laws and regulations, including those relating to environmental, building, and zoning requirements. The development of properties depends on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic, and other regulations and requirements.

### **Credit Facilities**

#### *\$1,500,000 operating demand loan*

On March 27, 2017, Club16 established a \$1,500,000 operating facility that renews automatically annually. The facility is for the purpose of financing the working capital requirements of day-to-day operations. Borrowings under the facility bear interest at a rate equal to the prime rate plus 1.25% per annum, calculated monthly in arrears and payable on the last day of each month. The credit facility is secured by a general security agreement with a first charge over the assets of Club16, subject to customary terms, conditions, covenants, and other provisions. Financial covenants include the requirement to maintain a debt service coverage ratio greater than or equal to 1.25:1 and a debt-to-EBITDA ratio of less than or equal to 2.25:1.

As at March 31, 2017, no amounts were outstanding on this operating facility.

#### *\$7,000,000 re-advanceable term loan facility*

On March 27, 2017, Club16 established a \$7,000,000 re-advanceable term loan facility. Each drawdown carries a maximum amortization period of 60 months from the date of each drawdown. The credit facility is for the purpose of financing equipment and leasehold improvements to open new fitness facilities. Borrowings under the facility bear interest at a rate equal to the prime rate plus 1.25% per annum, calculated monthly in arrears and blended payments are payable monthly. The credit facility is secured by a general security agreement with first charge over the assets of Club16, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service coverage ratio greater than or equal to 1.25:1 and a debt-to-EBITDA ratio of less than or equal to 2.25:1.

As at March 31, 2017, \$4.1 million was outstanding on this term loan facility.

### **Employees**

As at March 31, 2017, Club16 had a total of 223 employees.

## **THE CLUB16 TRANSACTION AND THE CLUB16 ENTITIES**

### **The Club16 Transaction**

On November 2, 2016, the Corporation announced it had entered into an agreement to complete the Club16 Transaction. The Club16 Transaction was completed on December 20, 2016 for cash consideration of \$20.5 million from the Corporation. In addition, the Corporation paid an additional \$1.5

million on March 20, 2017 in respect of certain post-closing adjustments, resulting in an aggregate purchase price of \$22.0 million.

The Club16 Transaction provides the Corporation with 60% of any distributions paid by Club16 up to the Club16 Annual Threshold, with the Club16 Minority Securityholders receiving 40% of any distributions paid by Club16 up to the Club16 Annual Threshold. To the extent that any distributions are paid in a year in excess of the Club16 Annual Threshold, Club16 Minority Securityholders will receive 70% of such excess distributions with the Corporation receiving 30% of such excess distributions.

The Club16 Transaction did not constitute a "significant acquisition" for the Corporation as defined by applicable securities laws.

### **The Club16 Entities**

In order to facilitate the Club16 Transaction, the Corporation incorporated the Club16 General Partner. The Corporation and the Club16 General Partner then formed the Club16 LP. As part of the Club16 Transaction, the Club16 General Partner caused the Club16 LP to acquire all of the 13 fitness clubs from the Club16 Predecessors.

Upon completion of the Club16 Transaction, the corporate structure is as shown under the heading "Intercorporate Relationships" above.

### **The Club16 LP and the Club16 General Partner**

#### *General*

The Club16 LP Agreement and the Club16 GP Shareholders Agreement are the agreements which govern the Corporation's investment in Club16 and related corporate governance matters.

The Club16 LP is a limited partnership formed under the laws of British Columbia. The business of the Club16 LP is to own and actively manage the Club16 Entities and to conduct any activities incidental thereto. The Club16 LP is governed by the Club16 LP Agreement.

#### *Partners*

The members of the Club16 LP are the Club16 General Partner, as the sole general partner, and the Corporation and TCAC Holdings Ltd. (owned by the Club16 Principals), as the limited partners. The Corporation holds 6,000 Club16 Class A LP Units and 3,000 Club16 Class B LP Units and TCAC Holdings Ltd. holds 4,000 Club16 Class A LP Units and 7,000 Club16 Class B LP Units. The Club16 General Partner holds one Club16 Class A LP Unit.

The shareholders of the Club16 General Partner are the Corporation and TCAC Holdings Ltd. The Corporation holds five Club16 GP Shares and the Club16 Minority Securityholder holds 95 Club16 GP Shares; however, the Corporation has the option to acquire an additional 138 Club16 GP Shares for nominal consideration on or after August 20, 2017. Upon the Corporation exercising this option, the Corporation will own 60% of the Club16 GP Shares and the Club16 Minority Securityholder will own 40% of the Club16 GP Shares.

#### *Club16 LP Units*

There are 10,001 Club16 Class A LP Units and 10,000 Club16 Class B LP Units issued and outstanding. The rights and entitlements of these units in the Club16 LP with respect to voting, distributions of distributable cash, allocations of income and distributions of proceeds of liquidation of Club16 LP are described in the following description of the Club16 LP.

Limited partners are liable for the liabilities, debts and obligations of the Club16 LP: (i) only to the extent of the amount contributed by them or agreed to be contributed by them to the Club16 LP; or (ii) if they take part in the management of the Club16 LP. Subject to applicable law, limited partners will otherwise have no liability in respect of the liabilities, debts and obligations of the Club16 LP. The Club16 General Partner has unlimited liability for an obligation of the Club16 LP unless the holder of such obligation otherwise agrees.

#### *Distributions*

Within 60 days following the end of each quarter, the Club16 LP will distribute to the holders of the Club16 LP Units the distributable cash of the Club16 LP, according to each limited partner's interests in the Club16 LP.

The holders of Club16 Class A LP Units will share equally on a pro rata basis on all distributions declared and paid by the Club16 LP in respect of each fiscal year until such time as the sum of all distributions declared and paid on such Club16 Class A LP Units will equal \$5,850,000 (referred to herein as the Club16 Annual Threshold) in such fiscal year, after which the holders of Club16 Class A LP Units are entitled to no further distributions of any type from the Club16 LP in respect of that fiscal year. Once the aggregate distributions declared and paid in respect of a fiscal year exceeds the Club16 Annual Threshold, the holders of Club16 Class B LP Units share equally on a pro rata basis on any further distributions declared and paid by the Club16 LP in respect of such fiscal year.

#### *Liquidation Entitlement*

In the event of a liquidity event of the Club16 LP, all outstanding Club16 Class A LP Units and Club16 Class B LP Units will, immediately prior to the effective time of such liquidity event, be transferred to the Club16 LP in exchange for the issuance by the Club16 LP of an aggregate of 10,000 Club16 Class C LP Units to be allocated amongst each of the limited partners in accordance with the following formula:

- (i) to the majority partner, the greater of 3,000 Club16 Class C LP Units, or (A) the sum of all distributions received by the majority partner or any predecessor majority partner since the date of formation of the Club16 LP; divided by (B) the sum of all distributions paid by the Club16 LP since the date of formation of the Partnership; multiplied by (C) 10,000; and
- (ii) to each of the limited partners other than the majority partner: (A) the sum of all distributions received by each such limited partner since the date of formation of the Club16 LP; divided by (B) the sum of all distributions declared and paid by the Club16 LP since the date of formation of the Club16 LP to all limited partners other than a majority partner; multiplied by (C) 10,000 less the number of Club16 Class C LP Units issued to the majority partner in accordance with (i) above.

#### *Voting*

On any question submitted to a meeting of limited partners, any limited partner holding Club16 Class A LP Units is entitled to one vote for each Club16 Class A LP Unit held. The Club16 Class B LP Units and Club16 Class C LP Units have no right to vote in respect of any matters relating to the Club16 LP.

### *Authority of the Club16 General Partner*

The Club16 General Partner has the authority to manage the business and affairs of the Club16 LP, to make decisions regarding the business of the Club16 LP and to bind the Club16 LP in respect of any such decision. The Club16 General Partner is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Club16 LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances.

The authority and power vested in the Club16 General Partner to manage the business and affairs of the Club16 LP includes all authority necessary or incidental to carry out the objectives, purposes and business of the Club16 LP, including the ability to engage agents to assist the Club16 General Partner to carry out its management obligations and administrative functions in respect of the Club16 LP and its business.

The Club16 LP provides that all material transactions and agreements involving the Club16 LP must be approved by the Club16 General Partner's board of directors.

### *Reimbursement of the Club16 General Partner*

The Club16 General Partner will be reimbursed by the Club16 LP for all costs actually incurred by the Club16 General Partner in the performance of its duties under the Club16 LP Agreement, including costs directly incurred for the benefit of the Club16 LP.

### *Limited Liability*

The Club16 LP is to operate in a manner so as to ensure, to the greatest extent possible, the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. The Club16 General Partner is to indemnify the limited partners against all claims arising from assertions that their respective liabilities are not limited as intended by the Club16 LP Agreement unless the liability of such limited partner is not so limited as a result of, or arising out of any act or omission of such limited partner.

### *Transfer of Club16 LP Units*

The Club16 LP Agreement provides for a general prohibition on the transfer of Club16 LP Units prior to December 20, 2021 and thereafter includes "Rights of First Refusal", "Tag-Along Rights" and "Drag-Along Rights" provisions.

### *Club16 GP Shareholders Agreement*

The Corporation, the Club16 Principals and the Club16 General Partner are parties to the Club16 GP Shareholders Agreement which sets forth certain corporate governance and other matters relating to the Club16 General Partner and the Club16 Entities.

Board Composition – The Club16 GP Shareholders Agreement provides that the composition of the board of the Club16 General Partner is comprised of five individuals, with two nominees of the Club16 Principals, initially Chuck Lawson and Carl Ulmer, and three nominees from the Corporation, initially Stephen Reid, Gary Mauris and James Bell.

Special Board Decisions – The Club16 GP Shareholders Agreement provides that the following decisions of the board of the Club16 General Partner in respect of any member of the Club16 corporate group must be approved by a resolution passed either: (i) if the directors are voting at a meeting, by the affirmative

vote of not less than four of the directors of that Board (provided that at least two of those directors are nominees of the Club16 Principals), regardless of the number of directors present at the meeting, or (ii) if the directors are acting by written resolution, by an instrument signed by all of the directors of that Board:

- incurring any new or additional debt or other borrowings, creating or issuing any debt securities or debt instruments of any member of the corporate group that would result in the Club16 LP having a consolidated debt to equity ratio in excess of 2 to 1;
- guaranteeing or agreeing to guarantee the obligations of any person other than any subsidiaries of the Club16 LP;
- granting loans to any person other than the members of subsidiaries of the Club16 LP;
- issuing any securities of the Club16 General Partner or the Club16 LP;
- creating, altering, cancelling or otherwise changing the dividend policy of the Club16 LP, or declaring or paying dividends in excess of, or otherwise contrary to, the dividend policy of the Club16 LP;
- approving or otherwise making a special distribution, or causing the Club16 General Partner to approve or otherwise make such special distribution;
- creating, altering, cancelling or otherwise changing any employee stock option for equity in any member the Club16 LP;
- borrowing from or lending money to the Club16 LP;
- acquiring by way of a share or asset transaction (or series of transactions), or commencing or investing in, any business;
- terminating any of the executives or senior management of the Club16 General Partner (but excluding any executive or member of senior management that is a director of the Club16 General Partner); and
- reducing the directors and officers' insurance coverage.

Special Shareholder Decisions – The Club16 GP Shareholders Agreement provides that the following decisions relating to Club16 must be approved by a resolution passed either: (i) if the vote takes place at a meeting of shareholders, by the affirmative vote of the holders of not less than 75% of the Club16 GP Shares, regardless of the number of shareholders present at the meeting, or (ii) if the shareholders are acting by written resolution, by an instrument signed by the holders of not less than 75% of the Club16 GP Shares (100% prior to the exercise of the option by the Corporation to acquire additional Club16 GP Shares):

- acquiring by way of a share or asset transaction (or series of transactions), commencing or investing in a business in a different industry than the business carried-on by the Club16 LP;
- entering into, or taking steps to enter into, a merger, amalgamation or other form of business combination with any other person;
- granting any encumbrance over all or any portion of the property, assets or undertaking of the Club16 LP or any member of the corporate group;
- expanding the business of the corporate group to jurisdictions outside of British Columbia;
- selling all or substantially all of the assets or undertaking of any Club16 Entity;
- amending the constating documents of any of the Club16 Entities;

- changing the size of the board of directors of the Club16 General Partner;
- except for Club16 GP Shares issued to the Corporation pursuant to the option agreement, creating and issuing any shares in the capital of any Club16 Entity having preferential or equal treatment as to dividends, returns of capital or sharing of assets on a liquidation as the existing issued and outstanding shares of the member (and in the case of the Club16 General Partner, includes creating and issuing any units of the Club16 LP having preferential or equal treatment as to distributions, returns of capital or sharing of assets on a liquidation or otherwise as the existing issued and outstanding units of the Club16 LP);
- entering into, or taking steps to enter into any non-arm's length transactions with any shareholder; or
- making or taking any steps to make an initial public offering in respect of the Club16 LP or entering into or taking any steps to enter into a reverse takeover arrangement.

Dividends – The Club16 GP Shareholders Agreement provides that the board of the Club16 General Partner may declare and pay dividends at its sole discretion.

Transfer Restrictions – The Club16 GP Shareholders Agreement includes restrictions on the transfer of securities of Club16 Entities.

Liquidity Event – The Club16 GP Shareholders Agreement provides that any time on or after December 20, 2021, the Club16 Principals may, at their discretion, jointly elect to sell all, but not less than all, of their securities in the Club16 General Partner and in the Club16 LP pursuant to the following procedure:

- the Club16 Principals will give written notice to the Corporation advising them that the Club16 Principals are exercising their rights to trigger a sale of all of their securities (the "**Liquidity Notice**");
- the Club16 Principals and the Corporation will cooperate with each other, and negotiate in good faith, for a period of fifteen (15) business days (or such longer or shorter period as may be mutually agreed to by them in writing) (the "**Negotiation Period**") to negotiate the terms and conditions of the sale of all of the securities owned by the Club16 Principals to the Corporation. If they are able to reach an agreement before the expiry of the Negotiation Period, then the Club16 Principals and the Corporation will sell their Club16 securities on the terms and conditions so agreed;
- if the Club16 Principals and the Corporation are not able to reach an agreement within the time required, then the Club16 Principals may give the Corporation written notice within five (5) business days of the expiry of the Negotiation Period that they are exercising their rights to trigger an auction process for the sale of all of Club16, in which case, the following provisions will apply:
  - the Corporation and the Club16 Principals will form a committee of five members consisting of two of the Club16 Principals, two persons appointed by the Corporation and a fifth member appointed by either the Club16 Principals or the Corporation depending on the total entitlement to Club16 Class C LP Units at such time (the "**Sale Process Committee**"), to manage, oversee and run an auction process for the sale of all of the Club16 Entities, either by way of a sale of all of the securities of the Club16 Entities, a sale of all of the assets and undertaking of the Club16 Entities, or by way of a merger, business combination, amalgamation or some other form of transaction, as determined by the Sale Process Committee (the "**Auction**");



- the Sale Process Committee will act as the main representative of the shareholders of the Club16 General Partner and the Club16 General Partner (on behalf of the Club16 LP) for purposes of making any decisions in respect of the Auction, and for acting as the main point of contact for any consultants, advisors or other professionals engaged in connection with the Auction, and will report on progress to the board of directors of the Club16 General Partner and to the shareholders of the Club16 General Partner on a regular basis;
- the Sale Process Committee will work cooperatively with each other in an effort to make decisions by consensus, failing which, a majority vote of the Sale Process Committee will govern;
- the Sale Process Committee will use reasonable commercial efforts to conclude the solicitation of offers pursuant to the Auction within 12 months of the expiry of the Negotiation Period, and in connection therewith, the Sale Process Committee will make recommendations to the shareholders of the Club16 General Partner and to the Club16 General Partner as to the final structure, terms and conditions (including purchase price) of any proposed sale of the Club16 LP under the Auction, and having regard to all of the market conditions and to the Corporation's return on investment in respect of its interest in the Club16 LP in arriving at any recommendation (the "**Sale Terms**");
- in the event the Sale Process Committee recommends Sale Terms, the Club16 General Partner will cause such meetings of shareholders, directors and limited partners of the Club16 General Partner and the Club16 LP to be held to approve the Sale Terms, and upon receiving the necessary approvals, the Club16 General Partner will cause the sale of the Club16 Group in accordance with the approved Sale Terms; and
- in the event the Sale Process Committee recommends Sale Terms, the shareholders of the Club16 General Partner will vote their respective voting shares and will sign such written resolutions as may be necessary to vote in favour of the Sale Terms.

### **DIRECTORS AND OFFICERS**

As at the date hereof, the name, province or state, and country of residence, position or office held with the Club16 General Partner and principal occupation for the immediately preceding five (5) years of each of the directors and executive officers of the Club16 General Partner are as follows:

<b>Name and Jurisdiction of Residence</b>	<b>Position with Club16 General Partner</b>	<b>Principal Occupations for Prior Five Years</b>	<b>Year first became Officer or Director of Club16 or the Club16 Predecessors</b>
<b>Chuck Lawson</b> British Columbia, Canada	President and Chief Executive Officer  Director	President and Chief Executive Officer of Club16 (1993 to present).	1993
<b>Carl Ulmer</b> British Columbia, Canada	Regional Manager  Director	Regional Manager of Club16 (2011 to present).  General Manager of Club16 (2010 to 2011)	2016

<b>Radha Johal</b> British Columbia, Canada	Chief Operating Officer	Chief Operating Officer of Club16 (2002 to present)	2002
<b>Lucie Seba</b> British Columbia, Canada	Chief Financial Officer	Chief Financial Officer of Club16 (2006 to present).	2006
<b>Stephen Reid</b> Alberta, Canada	Director	President and Chief Executive Officer and Director of the Corporation (February, 2016 to present).  President and CEO of Group West Corporation (January, 1996 to Present).  Senior Vice President of Business Development of Alaris Royalty Corp. (July, 2008 to March, 2015).	2016
<b>James Bell</b> Alberta, Canada	Director	Chief Operating Officer, General Counsel and Corporate Secretary of the Corporation (April, 2016 to present).  General Counsel and Corporate Secretary of Olympia Financial Group Inc. and Olympia Trust Company (February, 2010 to April, 2016).	2016
<b>Gary Mauris</b> British Columbia, Canada	Director	President and Chief Executive Officer of DLC (2006 to present).	2016

## **RISK FACTORS RELATING TO CLUB16**

The following is a brief discussion of those factors which may have a material impact on, or constitute risk factors in respect of, Club16's business, assets or financial performance (which risk factors are in addition to the risk factors impacting the Corporation). To the extent Club16's business, assets or financial performance are negatively impacted, this may have a material adverse effect on the Corporation's investment in Club16 and the Corporation's business, assets or financial performance.

### **Ability to Attract and Retain Members**

Club16's target market is people seeking regular exercise and people who are new to fitness. The success of Club16's business depends on the ability to attract and retain members. Club16's marketing efforts may not be successful in attracting members to clubs, and membership levels may materially decline over time, especially at clubs in operation for an extended period of time. Members may cancel their memberships at any time after giving proper advance written notice. Club16 may also cancel or suspend memberships if a member fails to provide payment for an extended period of time. In addition, Club16 experiences attrition and must continually engage existing members and attract new members in order to maintain membership levels. A portion of Club16's member base does not regularly use Club16's clubs and may be more likely to cancel their membership. Some of the factors that could lead to a decline in membership levels include changing desires and behaviors of consumers or their perception of Club16's brand, changes in discretionary spending trends and general economic conditions, market maturity or saturation, a decline in Club16's ability to deliver quality service at a competitive price, an increase in monthly membership dues due to inflation, direct and indirect competition in Club16's industry, and a decline in the public's interest in health and fitness, among other factors. In order to increase membership levels, Club16 may from time to time offer promotions or lower monthly dues or annual fees. If Club16 is not successful in optimizing price or in adding new memberships in new and existing clubs, growth in

monthly membership dues or annual fees may suffer. Any decrease in Club16's average dues or fees or higher membership costs may adversely impact Club16's results of operation and financial condition.

### **Close Proximity of Clubs**

Club16 currently operates 13 clubs in the Greater Vancouver Area and plans to open new clubs in the future. Club16 intends to continue opening new clubs in the Greater Vancouver Area market as part of its growth strategy, some of which may be located in close proximity to existing clubs. Opening new clubs in close proximity to existing clubs may attract some members away from those existing clubs, which may lead to diminished revenues and profitability for Club16 rather than increased market share. In addition, as a result of new clubs opening in existing markets and because older clubs will represent an increasing proportion of Club16's club base over time, Club16's same club sales increases may be lower in future periods than they have been historically.

### **High Level of Competition in the Fitness Industry**

Club16 competes with the following industry participants: other health and fitness clubs; physical fitness and recreational facilities established by non-profit organizations and businesses for their employees; private studios and other boutique fitness offerings; racquet, tennis and other athletic clubs; amenity and condominium/apartment clubs; country clubs; online personal training and fitness coaching; the home-use fitness equipment industry; local tanning salons; businesses offering similar services; and other businesses that rely on consumer discretionary spending. Club16 may not be able to compete effectively in the markets in which it operates in the future. Competitors may attempt to copy Club16's business model, or portions thereof, which could erode Club16's market share and brand recognition and impair Club16's growth rate and profitability. Competitors, including companies that are larger and have greater resources may compete to attract members in Club16's markets. Non-profit organizations in Club16's markets may be able to obtain land and construct clubs at a lower cost and collect membership dues and fees without paying taxes, thereby allowing them to charge lower prices. Luxury fitness companies may attempt to enter Club16's market by lowering prices or creating lower price brand alternatives. Furthermore, due to the increased number of low-cost health and fitness club alternatives, Club16 may face increased competition if it increases prices or if discretionary spending declines. This competition may limit Club16's ability to attract and retain existing members and Club16's ability to attract new members, which in each case could materially and adversely affect Club16's results of operation and financial condition.

### **Protecting Club16's Brand**

Club16's success is dependent in large part upon the ability to maintain and enhance the value of the brand and members' connection to that brand. Brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Incidents that could be damaging to the brand may arise from events that are or may be beyond management's ability to control, such as:

- actions taken (or not taken) by one or more employees relating to health, safety, welfare or otherwise;
- data security breaches or fraudulent activities associated with electronic payment systems and other information systems;
- litigation and legal claims;
- third-party misappropriation, dilution or infringement of Club16's intellectual property;

- regulatory, investigative or other actions relating to Club16's provision of indoor tanning services; and
- illegal activity targeted at Club16 or others.

Consumer demand could diminish significantly if any such incidents or other matters erode consumer confidence in Club16, which would likely result in fewer memberships sold or renewed and, ultimately, lower revenue, which in turn could materially and adversely affect Club16's results of operations and financial condition.

### **Failure to Implement Growth Strategy**

Club16's growth strategy relies in part upon new club development. Club16 may face many challenges in opening new clubs, including:

- availability and cost of financing;
- selection and availability of suitable club locations;
- competition for club sites;
- negotiation of acceptable lease and financing terms;
- securing required domestic or foreign governmental permits and approvals;
- health and fitness trends and acceptance of Club16's offerings;
- employment, training and retention of qualified personnel;
- ability to open new clubs during acceptable timeframes; and
- general economic and business conditions.

New clubs may not be successful or average club membership sales may not increase at historical rates, which could materially and adversely affect Club16's business, results of operations and financial condition.

To the extent Club16 is unable to open new clubs as anticipated, it will not realize the expected revenue growth. Failure to add new clubs would adversely affect Club16's ability to increase revenues and operating income and could materially and adversely affect Club16's business, results of operations and financial condition.

### **Managing Growth**

Over the past several years, Club16 has experienced growth in business activities and operations, including an increase in the number of clubs. Past expansion has placed, and planned future expansion may place, significant demands on Club16's administrative, operational, financial and other resources. Any failure to manage growth effectively could seriously harm the business. To be successful, Club16 will need to continue to implement management information systems and improve operating, administrative, financial and accounting systems and controls. It will also need to train new employees and maintain close coordination among executive, accounting, finance, legal, human resources, risk management, marketing, technology, sales and operations functions. These processes are time-consuming and expensive, increase management responsibilities and divert management attention, and Club16 may not realize a return on its investment in these processes. In addition, management of Club16 believes the culture fostered at its clubs is an important contributor to its success. However, as it expands it may have difficulty maintaining its culture or adapting it sufficiently to meet the needs of its operations. These risks may be heightened as growth accelerates. Failure to successfully execute on the planned

expansion of clubs could materially and adversely affect Club16's results of operations and financial condition.

### **Managing Changes in the Industry**

Changes in the industry affecting gym memberships and payment for gym memberships may place significant demands on administrative, operational, financial and other resources or require Club16 to obtain different or additional resources. Any failure to manage such changes effectively could seriously harm the business. To be successful, Club16 will need to continue to implement management information systems and improve its operating, administrative, financial and accounting systems and controls in order to adapt quickly to such changes. These changes may be time-consuming and expensive, increase management responsibilities and divert management attention, and Club16 may not realize a return on its investment in these changes.

### **Information Systems**

Club16 relies on information systems, including point-of-sale processing systems in its clubs and other information systems managed by third parties, to interact with members and collect, maintain and store member information, billing information and other personally identifiable information, including for the operation of clubs, collection of cash, legal and regulatory compliance, management of supply chain, accounting, staffing, payment of obligations, credit and debit card transactions and other processes and procedures. Club16's ability to efficiently and effectively manage its clubs depends significantly on the reliability and capacity of these systems, and any potential failure of these third parties to provide quality uninterrupted service is beyond its control.

Club16's operations depend upon its ability, and the ability of its third-party service providers (as well as their third-party service providers), to protect its computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, denial-of-service attacks and other disruptions. The failure of these systems to operate effectively, stemming from maintenance problems, upgrading or transitioning to new platforms, expanding systems, a breach in security or other unanticipated problems, could result in interruptions to or delays in the business and member service and reduce efficiency in operations. If Club16's information systems, or those of its third-party service providers (as well as their third-party service providers), fail and back-up or disaster recovery plans are not adequate to address such failures, revenues and profits could be reduced and the reputation of the brand and the Club16 business could be materially adversely affected.

### **Maintaining Confidentiality and Integrity of Data**

In the ordinary course of business, Club16 collects, transmits and stores member and employee data, including credit and debit card numbers, bank account information, driver's license numbers, dates of birth and other highly sensitive personally identifiable information, in information systems that it maintains and in those maintained by third parties with whom it contracts to provide services. Some of this data is sensitive and could be an attractive target of a criminal attack by malicious third parties with a wide range of motives and expertise. The integrity and protection of member and employee data is critical to Club16.

Despite the security measures Club16 has in place to comply with applicable laws and rules, its facilities and systems, and those of its third-party service providers (as well as their third-party service providers), may be vulnerable to security breaches, acts of cyber terrorism or sabotage, vandalism or theft, computer viruses, loss or corruption of data or programming or human errors or other similar events. Furthermore,

the size and complexity of Club16's information systems, and those of its third-party vendors (as well as their third-party service providers), make such systems potentially vulnerable to security breaches from inadvertent or intentional actions by its employees, or vendors, or from attacks by malicious third parties. Because such attacks are increasing in sophistication and change frequently in nature, Club16 and its third-party service providers may be unable to anticipate these attacks or implement adequate preventative measures, and any compromise of Club16's systems, or those of its third-party vendors (as well as their third-party service providers), may not be discovered and remediated promptly. Changes in consumer behavior following a security breach, act of cyber terrorism or sabotage, vandalism or theft, computer viruses, loss or corruption of data or programming or human error or other similar event affecting a competitor, large retailer or financial institution may materially and adversely affect Club16's business.

Additionally, the collection, maintenance, use, disclosure and disposal of personally identifiable information by Club16's businesses is regulated at the federal and provincial levels as well as by certain industry groups, such as the Canadian Payments Association and individual credit card issuers. Federal, provincial and industry groups may also consider and implement from time to time new privacy and security requirements that apply to Club16's businesses. Compliance with evolving privacy and security laws, requirements and regulations may result in cost increases due to necessary systems changes, new limitations or constraints on Club16's business models and the development of new administrative processes. They also may impose further restrictions on the collection, disclosure and use of personally identifiable information that are housed in one or more of Club16's databases or those of Club16's third-party service providers. Noncompliance with privacy laws, industry group requirements or a security breach involving the misappropriation, loss or other unauthorized disclosure of personal, sensitive or confidential information, whether by Club16 or one of its vendors, could have material adverse effects on Club16's business, operations, brand, reputation and financial condition, including decreased revenue, material fines and penalties, litigation, increased financial processing fees, compensatory, statutory, punitive or other damages, adverse actions against Club16's licenses to do business and injunctive relief by court or consent order.

### **Changes in Payment Legislation**

Club16 accepts payment for memberships through electronic fund transfers from members' bank accounts and, therefore, is subject to federal and provincial legislation and certification requirements governing EFTs. Club16's business relies heavily on the fact that its memberships continue on a month-to-month basis after the completion of any initial term requirements, and compliance with these laws and regulations and similar requirements may be onerous and expensive. Club16's failure to comply fully with these rules or requirements may subject it to fines, higher transaction fees, penalties, damages and civil liability and may result in the loss of Club16's ability to accept EFT payments, which would have a material adverse effect on Club16's business, results of operations and financial condition. In addition, any such costs, which may arise in the future as a result of changes to the legislation and regulations or in their interpretation, could individually or in the aggregate cause Club16 to change or limit its business practice, which may make its business model less attractive to Club16's members.

### **Payment Risks Related to Credit Card and Debit Card Payments**

Club16 accepts payments through credit card and debit card transactions. For credit card and debit card payments, Club16 pays interchange and other fees, which may increase over time. An increase in those fees would require Club16 to either increase the prices for its memberships, which could cause it to lose members or suffer an increase in Club16's operating expenses, either of which could harm Club16's operating results.

If Club16 or any of its processing vendors have problems with Club16's billing software, or the billing software malfunctions, it could have an adverse effect on Club16's member satisfaction and could cause one or more of the major credit card companies to disallow Club16's continued use of their payment products. In addition, if Club16's billing software fails to work properly and, as a result, Club16 does not automatically charge Club16's members' credit cards, debit cards or bank accounts on a timely basis or at all, Club16 could lose membership revenue, which would harm Club16's operating results.

If Club16 fails to adequately control fraudulent credit card and debit card transactions, Club16 may face civil liability, diminished public perception of its security measures and significantly higher credit card and debit card related costs, each of which could adversely affect Club16's business, financial condition and results of operations. The termination of Club16's ability to process payments on any major credit or debit card would significantly impair Club16's ability to operate Club16's business.

### **Construction Costs**

Club16's clubs require significant upfront and ongoing investment, including periodic remodeling and equipment replacement. If Club16's costs are greater than expected, new clubs may need to outperform their operational plan to achieve their targeted return.

In addition, if Club16 is unable to acquire the necessary financing to invest in the maintenance and upkeep of its clubs, including periodic remodeling and replacement of equipment, the quality of its clubs could deteriorate, which may have a negative impact on Club16's brand image and Club16's ability to attract and maintain members, which in turn may have a negative impact on Club16's revenues.

### **Health and Safety Risks**

Use of Club16's clubs poses some potential health and safety risks to members or guests through physical exertion and use of Club16's services and facilities, including exercise and tanning equipment. Claims might be asserted against Club16 for injuries suffered by or death of members or guests while exercising and using the facilities at a club. Club16 may not be able to successfully defend such claims. Club16 also may not be able to maintain Club16's general liability insurance on acceptable terms in the future or maintain a level of insurance that would provide adequate coverage against potential claims. Depending upon the outcome, these matters may have a material adverse effect on Club16's results of operations, financial condition and cash flows.

### **Key Employees**

Club16 is highly dependent on the services of the senior management team and other key employees at corporate headquarters and at Club16's clubs, and on the ability to recruit, retain and motivate key employees. Competition for such employees can be intense, and the inability to attract and retain the additional qualified employees required to expand Club16's activities, or the loss of current key employees, could adversely affect Club16's operating efficiency and financial condition.

### **Long Term Leases**

Club16 does not own any real property, and all of Club16's clubs are located on leased premises. The leases for Club16's clubs generally have initial terms of ten (10) years and typically provide for two renewal options in five-year increments as well as for rent escalations.

Generally, Club16's leases are net leases that require it to pay its share of the costs of real estate taxes, utilities, building operating expenses, insurance and other charges in addition to rent. Club16 generally

cannot terminate these leases before the end of the initial lease term. Additional sites that Club16 leases are likely to be subject to similar long-term, non-terminable leases. If Club16 closes a club, it nonetheless may be obligated to perform its monetary obligations under the applicable lease, including, among other things, payment of the base rent for the balance of the lease term. In addition, if Club16 fails to negotiate renewals, either on commercially acceptable terms or at all, as each of Club16's leases expire, it could be forced to close clubs in desirable locations. Club16 depends on cash flows from operations to pay its lease expenses and to fulfill its other cash needs. If Club16's business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to it from borrowings under Club16's credit facility or other sources, Club16 may not be able to service its lease expenses or fund its other liquidity and capital needs, which would materially affect Club16's business.

### **Change of Laws**

Club16's operations and properties are subject to extensive Canadian federal, provincial and municipal laws and regulations, including those relating to environmental, building and zoning requirements. Club16's development of properties depends to a significant extent on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements. Failure to comply with these legal requirements could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability, which could adversely affect Club16's business.

### **Indoor Tanning Regulations**

Although Club16's business model does not place an emphasis on indoor tanning, the vast majority of Club16's clubs offer indoor tanning services. The Province of British Columbia has health and safety regulations that apply to health clubs and other facilities that offer indoor tanning services. In addition to regulations imposed on the indoor tanning industry, medical opinions and opinions of commentators in the general public regarding negative health effects of indoor tanning services could adversely impact the value of Club16's premium memberships and Club16's future revenues and profitability. Although the tanning industry is regulated by Canadian provincial government agencies, negative publicity regarding the potentially harmful health effects of the tanning services Club16 offers could lead to additional legislation or further regulation of the industry. The potential increase in cost of complying with these regulations could have a negative impact on Club16's financial results.

The continuation of Club16's tanning services is dependent upon the public's sustained belief that the benefits of utilizing tanning services outweigh the risks of exposure to ultraviolet light. Any significant change in public perception of tanning equipment or any investigative or regulatory action by a government agency or other regulatory authority could impact the appeal of indoor tanning services to Club16's premium members, and could have an adverse effect on Club16's reputation, business, results of operations and financial condition.



**SCHEDULE C  
INFORMATION CONCERNING IMPACT COMMUNICATIONS**

**THE BUSINESS OF IMPACT**

**General History and Developments**

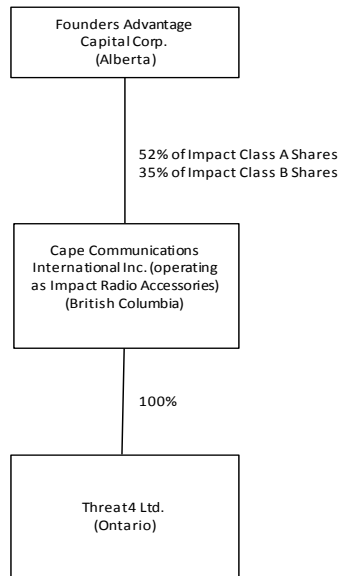
Cape Communications International Inc., which operates under the tradename Impact Radio Accessories ("**Impact**"), is a designer, manufacturer, and retailer of unique radio communication products for public safety, military, security, retail, and hospitality applications. Headquartered in British Columbia, with a distribution center in North Carolina, Impact has grown to be one of the largest aftermarket brands of two-way radio accessories in North America.

Impact began operations refurbishing two-way radios and subsequently became the North American distributors for a U.K. developer of two-way radio accessories and battery chargers. In 2005, the head office was moved from Toronto, Ontario to Kelowna, British Columbia and its corporate focus shifted toward manufacturing its own line of quality two-way radio accessories and selling them at wholesale prices through a network of dealers and retailers across North America, such as BearCom Wireless Worldwide, America's largest two-way radio dealer.

In 2014, Impact acquired all of the issued and outstanding shares of Threat4 which sells two-way radio accessories directly to end-users at retail prices, expanding Impact's reach beyond distributors, and gaining access to new and broader markets.

**Intercorporate Relationships**

As at the date hereof, the corporate structure of Impact is as follows:



**The Two-Way Radio Industry**

The two-way radio accessories market is highly competitive with many companies in the marketplace. This market is vast, ranging from accessories for low-end walkie-talkies to high-end, expensive public

safety equipment. The market is growing between these two extremes for users looking for high-quality and affordable equipment that harnesses the power and range of licensed radio channels. Two-way radios offer instant, private, and cost-effective communication in any environment, anywhere, and any time. Historically an analog medium, digital technology is revolutionizing the industry and offering many new advantages including clearer communication, longer ranges, more reliable coverage, and extended battery life.

Two-way radios are the leading method of two-way communication and many users rely on the technology every day in dozens of industries across North America. The industry is currently experiencing growth and is expected to prolong this growth as devices and accessories continue to advance in complexity. Impact will pursue additional market share from its competitors over the next few years as it brings new and innovative products to market.

### **Impact's Products**

Impact endeavours to manufacture high-quality products offered at competitive prices with hassle-free warranty programs, enhanced with premium customer service. Product lines include surveillance kits, speaker microphones, headsets, throat and bone microphones, replacement parts, and two-way radio chargers. Most products come in three designs which are offered at different price points to meet any budget.

- Surveillance kits come in 1-, 2-, and 3-wire assemblies with noise cancelling technology and are Impact's most popular line of products.
- Speaker microphones are built with heavy duty Kevlar™ reinforced cables with noise cancelling technology and are offered in fully submersible models.
- Headsets are available in a variety of versions to suit all users' needs, whether they are wearing a helmet, looking for something more discreet, or looking for greater hearing protection. Lightweight but rugged headsets are offered in single muff, temple transducer, behind the head, double muff, wireless, and many other formats.
- Throat and bone mics are the premium solution for loud environments. They are built with heavy duty Kevlar™ components, are chemical resistant, and fully submersible.
- Impact manufactures and sells thousands of replacement parts and adapters to make any accessory work with any brand and model of two-way radio.
- Impact produces six, three, and single-bank universal battery chargers that are portable and can plug into electrical outlets or auto chargers. They are adaptable to many different styles of two-way radios, saving the customer the cost of buying a new charger each time the radios are updated.

### **Impact's Target Market**



Impact addresses the communication needs of government agencies, public safety and first-responder agencies, and commercial and industrial customers who utilize private communications networks and manage a mobile workforce. The customer base is fragmented and widespread when considering the many levels of governmental and first-responder decision-makers that use Impact's products across North America.

Impact's sales model focusses on direct sales by the in-house sales team to retailers and distributors which each have their own sales organizations which complement and extend the reach of Impact's products. The sales and business development team is comprised of seven dedicated personnel assigned to specific customer accounts and areas of specialization. In addition to closely monitoring the target markets for new customer opportunities, the sales team builds on existing relationships with customers.

Products are sold both directly and indirectly through channel partners and directly to the end-user (through Threat4), providing Impact with vast customer coverage. Impact's largest distributor is BearCom Wireless Worldwide, representing approximately 22% of gross sales in 2016.

### **Competitive Strengths**

The markets in which Impact operates are highly competitive. Key competitive factors include: performance, features, quality, availability, warranty, price, availability of service, company reputation and financial strength, partner community, and relationships with customers.

Impact believes its success can be attributed to the following strengths:

- A strong reputation with customers and partners through a reliable, quality, and trusted brand helps Impact earn more business and attract customers from competitors.
- Impact's pricing strategy gives it a competitive advantage as it takes the time to design products with pricing in mind but without sacrificing quality.
- Impact works with the top engineers in the business in order to offer leading technology in its product lines.
- Impact's portfolio of products is broad, offering thousands of accessories and adapters that are compatible with every make and model of two-way radio on the market.

### **Geographic Distribution of Sales**

Impact sells its products predominantly in the United States and Canada with marginal sales internationally. Sales in the United States comprise a significant portion of Impact's business, accounting for more than 93% of sales in both 2016 and 2015.

Impact contracts the services of a third-party who provides shipping, receiving, and warehousing services for it out of a distribution centre located in Wilmington, North Carolina, which fulfills orders for both U.S. and international customers. Canadian orders are managed from the Kelowna operation.

### **Sources of Revenue**

All revenue is generated from the sale of Impact's two-way radio accessory products. Approximately 62% of sales are generated from the sale of surveillance kits, 21% is generated from the sale of speaker microphones, 7% is generated from the sales of two-way radio chargers, and 10% is generated from the sale of headsets, replacement parts, and adapters.

## **Cycles or Seasonal Aspects**

Due to customer purchasing patterns and the cyclical nature of the markets Impact serves, sales tend to be somewhat higher in the fourth quarter than in the remainder of the year. Further, large one-time orders can and have occurred at various times throughout the year, causing irregular increases in revenues in some quarters.

## **Government Regulation**

Radio frequencies are subject to extensive regulation both in Canada and the United States. Each country has different regulations and procedures for the approval of wireless communications equipment and the uses of radio spectrum in association with that equipment.

Radio spectrum is required to provide wireless voice, data, and video communications service. The allocation of spectrum is regulated in the U.S. and Canada and limited spectrum space is allocated to wireless services and specifically to public safety users. In the U.S., the Federal Communications Commission ("FCC") and the National Telecommunications and Information Administration ("NTIA") regulate spectrum use by non-federal entities and federal entities, respectively. Similarly, Industry Canada is the regulatory body that defines and implements the rules for use of radio spectrum in Canada. Impact manufactures and markets products for two-way radios in spectrum bands already made available by regulatory bodies. Impact's products are used on devices that operate on both licensed and unlicensed spectrums. The availability of additional radio spectrum may provide new business opportunities. Conversely, the loss of available radio spectrum may result in the loss of business opportunities.

## **Credit Facilities**

As at April 27, 2017, Impact had no outstanding credit facilities.

## **Employees**

As at April 27, 2017, Impact had a total of 21 employees.

# **THE IMPACT TRANSACTION AND THE IMPACT ENTITIES**

## **The Impact Transaction**

On December 22, 2016, the Corporation announced it had entered into an agreement to complete the Impact Transaction. The Impact Transaction was completed on March 1, 2017 for cash consideration of \$12.0 million from the Corporation.

The Impact Transaction provides the Corporation with 52% of any distributions paid by Impact up to the Impact Annual Threshold, with the Impact Principals receiving 48% of any distributions paid by Impact up to the Impact Annual Threshold. To the extent that any distributions are paid in a year in excess of the Impact Annual Threshold, Impact Principals will receive 65% of such excess distributions with the Corporation receiving 35% of such excess distributions.

At closing of the Impact Transaction, Impact had excess working capital of approximately \$1.5 million (above the normal working capital for the business). The Corporation agreed to pay the Impact Principals an additional \$735,000 as a working capital adjustment on or before September 1, 2017.

As part of the Impact Transaction, the Corporation granted the Impact Principals the Impact Put Option, whereby the Impact Principals may elect to sell the Corporation an additional 22% of Impact for a fixed price of \$5.1 million. The Impact Put Option may be exercised at any time between September 30, 2017 and March 31, 2018, provided the trailing twelve month EBITDA for Impact at the exercise date exceeds \$4.0 million. The Corporation has 90 days to complete such acquisition if the Impact Put Option is exercised. In the event the Impact Put Option is exercised, the Corporation would hold a 74% interest in Impact and the Impact Principals would hold a 26% interest. Further, in the event the Impact Put Option is exercised, the Corporation would be entitled to 74% of annual cash distributions up to the Impact Annual Threshold and 65% of annual distributions above the Impact Annual Threshold (with the Impact Minority Securityholders entitled to 26% of annual distributions up to the Impact Annual Threshold and 35% of annual distributions above the Impact Annual Threshold).

The Impact Transaction did not constitute a "significant acquisition" for the Corporation as defined by applicable securities laws.

### **The Impact Entities**

In order to facilitate the Impact Transaction, the Corporation acquired 520 Impact Class A Shares (52%) and 350 Impact Class B Shares (35%) from the Impact Principals.

Upon completion of the Impact Transaction, the corporate structure is as shown under the heading "Intercorporate Relationships" above.

#### *Impact Shares*

There are 1,000 Impact Class A Shares and 1,000 Impact Class B Shares issued and outstanding.

Impact owns all of the issued and outstanding shares of Threat4.

#### *Impact Shareholders*

The Impact shareholders include the Corporation and the Impact Minority Securityholder. The Corporation holds 520 Impact Class A Shares and 350 Impact Class B Shares and the Impact Minority Securityholder holds 480 Impact Class A Shares and 650 Impact Class B Shares.

#### *Impact Shareholders Agreement*

The Corporation, the Impact Principals and Impact Entities are parties to the Impact Shareholders Agreement which sets forth certain corporate governance and other matters relating to Impact Entities.

Board Composition – The Impact Shareholders Agreement provides that the composition of the board of Impact is comprised of three individuals, with one nominee from the Impact Minority Shareholder and two nominees from the Corporation, initially Stephen Reid and James Bell.

Dividends - Within twenty (20) days following end of each quarter, Impact distributes to the holders of Impact Shares the distributable cash of Impact, according to each shareholders' interests in Impact.

The holders of Impact Class A Shares share equally on a pro rata basis on all distributions declared and paid by Impact in respect of each fiscal year until such time as the sum of all distributions declared and paid on such Impact Class A Shares equals \$2,960,000 (referred to herein as the Impact Annual Threshold) in such fiscal year, after which the holders of Impact Class A Shares are not entitled to any

further distributions of any type from Impact in respect of that fiscal year. Once the aggregate distributions declared and paid in respect of a fiscal year exceeds the Impact Annual Threshold, the holders of Impact Class B Shares share equally on a pro rata basis on any further distributions declared and paid by Impact in respect of such fiscal year.

Special Board Decisions – The Impact Shareholders Agreement provides that the following decisions of the board of directors of Impact must be approved by a resolution passed either: (i) if the directors are voting at a meeting, by the affirmative vote of all of the directors of the board, regardless of the number of directors present at the meeting, or (ii) if the directors are acting by written resolution, by an instrument signed by all of the directors of the board:

- incurring any new or additional debt or other borrowings, creating or issuing any debt securities or debt instruments of Impact;
- guaranteeing or agreeing to guarantee the obligations of any person other than any subsidiary of Impact;
- granting loans to any person other than to the subsidiaries of Impact;
- creating, altering, cancelling or otherwise changing the dividend policy of Impact, or declaring or paying dividends in excess of, or otherwise contrary to, the dividend policy of Impact;
- approving or otherwise making a special dividend, or causing Impact to approve or otherwise make such special dividend;
- creating, altering, cancelling or otherwise changing any employee stock option or other equity incentive plan of Impact;
- provided Impact has not suffered a "Significant Reduction in EBITDA" (as defined below), terminating any of the executives or senior management of Impact.

Notwithstanding the foregoing, in the event the Impact Put Option is exercised, references to "all of the directors" in the first paragraph above shall be replaced with the words "a majority of the directors," except in respect of the last item above. "Significant Reduction in EBITDA" means a cumulative reduction in Impact's trailing twelve month EBITDA of more than an aggregate of 30% in three consecutive quarters.

Special Shareholder Decisions – The Impact Shareholders Agreement provides that the following decisions with respect to Impact must be approved by a resolution passed either: (i) if the vote takes place at a meeting of shareholders, by the affirmative vote of holders of not less than 75% of the shareholders holding Impact Class A Shares, regardless of the number of shareholders present at the meeting, or (ii) if the shareholders are acting by written resolution, by an instrument signed by holders of not less than 75% of the Impact Class A Shares:

- acquiring by way of a share or asset transaction (or series of transactions), commencing or investing in a business in a different industry than the business carried-on by Impact;
- entering into, or taking steps to enter into, a merger, amalgamation or other form of business combination with any other person;
- granting any encumbrance over all or any portion of the property, assets or undertaking of Impact or any of its subsidiaries;
- selling all or substantially all of the assets or undertaking of Impact;

- amending the constating documents of Impact or Threat4;
- changing the size of the Impact board;
- creating or issuing any securities of Impact having preferential or equal treatment as to dividends, returns of capital or sharing of assets on a liquidation as the existing issued and outstanding shares of Impact;
- entering into, or taking steps to enter into any non-arm's length transactions with any shareholder.

Transfer of Impact Shares – The Impact Shareholders Agreement provides for a general prohibition of the transfer of Impact Shares prior to March 1, 2022 and thereafter includes "Rights of First Refusal", "Tag-Along Rights" and "Drag-Along Rights" provisions restrictions on the transfer of securities of the Impact.

Liquidity Event – The Impact Shareholders Agreement provides that any time on or after March 1, 2020, Impact Principals may (in the event the Impact Put Option has not been exercised) or the Corporation may (in the event the Impact Put Option has been exercised) (the "**Initiating Party**"), at its discretion, jointly elect to sell all, but not less than all, of its Impact Shares, in which case, the following provisions will apply:

- the Initiating Party will give written notice to the other shareholders, as applicable (the "**Non-Initiating Party**"), and any other shareholders (the "**Non-Controlling Shareholders**") advising them that the Initiating Party is exercising its rights to trigger a sale of all Impact Shares held by the Initiating Party (the "**Liquidity Notice**");
- the parties will cooperate with each other, and negotiate in good faith, for a period of fifteen (15) business days (or such longer or shorter period as may be mutually agreed to by them in writing) (the "**Negotiation Period**") to finalize the terms and conditions of the sale of all of the Initiating Party's Impact Shares to the Non-Initiating Party. If the parties are able to reach an agreement before the expiry of the Negotiation Period, then the Initiating Party will sell their Impact Shares on the terms and conditions so agreed;
- if the parties are not able to reach an agreement within the time required, then the Initiating Party may give the Non-Initiating Party written notice within five (5) business days of the expiry of the Negotiation Period that it is exercising its rights to trigger an auction process for the sale of Impact, in which case, the following provisions will apply:
  - the Impact Shareholders will form a committee of three members consisting of one person appointed by the Impact Minority Shareholders, one person appointed by the Corporation and a third member appointed by the Impact Minority Shareholders (in the event the Impact Put Option has not been exercised) or the Corporation (in the event the Impact Put Option has been exercised) (collectively, the "**Sale Process Committee**"), to manage, oversee and run an auction process for the sale of Impact, either by way of a sale of all of the Impact Shares, a sale of all of the assets and undertaking of Impact, or by way of a merger, business combination, amalgamation or some other form of transaction, as determined by the Sale Process Committee (the "**Auction**");
  - the Sale Process Committee will act as the main representative of the Impact shareholders for purposes of making any decisions in respect of the Auction, and for acting as the main point of contact for any consultants, advisors or other professionals engaged in connection with the Auction, and will report on progress to the Impact board and to the Impact shareholders on a regular basis;

- the Sale Process Committee will work cooperatively with each other in an effort to make decisions by consensus, failing which, a majority vote of the Sale Process Committee will govern;
- the Sale Process Committee will use reasonable commercial efforts to conclude the solicitation of offers pursuant to the Auction within 12 months of the expiry of the Negotiation Period, and in connection therewith, the Sale Process Committee will make recommendations to the Impact shareholders and the Impact board as to the final structure, terms and conditions (including purchase price) of any proposed sale of Impact under the Auction, having regard to the interests of all Impact shareholders (the "**Sale Terms**");
- in the event the Sale Process Committee recommends Sale Terms, Impact will cause such meetings of shareholders and directors, as applicable, to be held to approve the Sale Terms, and upon receiving the necessary approvals, the Impact board will cause the sale of Impact in accordance with the approved Sale Terms; and
- in the event the Sale Process Committee recommends Sale Terms and provided the Sale Terms are consistent for all holders of Impact Shares of a particular class and treat all holders of Impact Shares in an identical manner, the Impact shareholders will vote their respective Impact Class A Shares and will sign such written resolutions of the shareholders as may be necessary to vote in favour of the Sale Terms.

#### *Liquidation Entitlement*

In the event of a liquidity event of Impact, all outstanding Impact Class A Shares and Impact Class B Shares will, immediately prior to the effective time of such liquidity event, be transferred to Impact in exchange for the issuance by Impact of an aggregate of 1,000 Impact Class C Shares to be allocated amongst each of the Impact shareholders in accordance with the following formula:

- (i) to the Corporation the greater of: (A) 350 Impact Class C Shares (in the event the Impact Put Option has not been exercised) or 650 Impact Class C Shares (in the event the Impact Put Option has been exercised); and (B) a number of Impact Class C Shares equal to: (x) the sum of all dividends received by the Corporation since March 1, 2017 (in the event the Impact Put Option has not been exercised) or the sum of all dividends received by the Corporation since the Impact Put Option exercise date (in the event the Impact Put Option has been exercised); divided by (y) the sum of all dividends paid by Impact since March 1, 2017 (in the event the Impact Put Option has not been exercised) or the sum of all dividends paid by Impact since the Impact Put Option exercise date (in the event the Impact Put Option has been exercised); multiplied by (z) 1,000; and
- (ii) to each of the Impact Minority Shareholders a number of Impact Class C Shares equal to: (A) the sum of all dividends received by each such shareholder since March 1, 2017 (in the event the Impact Put Option has not been exercised) or the sum of all dividends received by each such shareholder since the Impact Put Option exercise date (in the event the Impact Put Option has been exercised); divided by (B) the sum of all dividends declared and paid by Impact since March 1, 2017 (in the event the Impact Put Option has not been exercised) or the sum of all dividends paid by Impact since the Impact Put Option exercise date (in the event the Impact Put Option has been exercised) to all Impact shareholders other than the Corporation; multiplied by (C) 1,000 less the number of Impact Class C Shares issued to the Corporation.



## DIRECTORS AND OFFICERS

As at the date hereof, the name, province or state, and country of residence, position or office held with Impact and principal occupation for the immediately preceding five (5) years of each of the directors and executive officers of Impact are as follows:

Name and Jurisdiction of Residence	Position with Impact	Principal Occupations for Prior Five Years	Year first became Officer or Director of Impact
<b>Keith Kostek</b> British Columbia, Canada	Director President and CEO	President and Chief Executive Officer of Impact (2002 to present).	2002
<b>Mark Olsen</b> British Columbia, Canada	Vice-President	Vice-President of Impact (2004 to present).	2013
<b>Ryan Maarschalk</b> British Columbia	Chief Financial Officer	Chief Financial Officer of Impact (2015 to present). Senior accountant at Crowe Mackay (2011 to 2015)	2015
<b>Stephen Reid</b> Alberta, Canada	Director	President and Chief Executive Officer and Director of the Corporation (February, 2016 to present). Senior Vice President of Business Development of Alaris Royalty Corp. (July, 2008 to March, 2015).	2017
<b>James Bell</b> Alberta, Canada	Director	General Counsel and Corporate Secretary of the Corporation (April, 2016 to present) and Chief Operating Officer of the Corporation (November, 2016 to present). General Counsel and Corporate Secretary of Olympia Financial Group Inc. and Olympia Trust Company (February, 2010 to April, 2016).	2017

## RISK FACTORS RELATING TO IMPACT

The following is a brief discussion of those factors which may have a material impact on, or constitute risk factors in respect of, Impact's business, assets or financial performance (which risk factors are in addition to the risk factors impacting the Corporation). To the extent that Impact's business, assets, or financial performance are negatively impacted, this may have a material adverse effect on the Corporation's investment in Impact and the Corporation's business, assets or financial performance.

### *Current Global Economic and Political Conditions*

Global economic and political conditions continue to be challenging for many government and commercial markets, as economic growth has remained low, currency fluctuations have impacted profitability, credit markets have remained tight for certain counterparties and many customers remain dependent on government grants to fund purchases of Impact's products. Falling commodity prices continue to impact government customers in economies dependent on those commodities, and commercial customers in energy and mining related industries. In addition, conflicts in the Middle East and elsewhere have created many economic and political uncertainties that continue to impact worldwide markets. The length of time these adverse economic and political conditions may persist is unknown.

These global economic and political conditions have impacted and could continue to impact the business, financial condition, results of operations, and cash flows in a number of ways, including:

- *Challenges in Budgeting and Forecasting.* It is difficult to estimate changes in various parts of the U.S., including the markets in which Impact participates. Components of budgeting and forecasting are dependent upon estimates of demand for Impact's products and estimates of foreign exchange rates. The prevailing economic uncertainties render estimates of future income and expenditures challenging.
- *Potential Deferment or Cancellation of Purchases and Orders by Customers.* Uncertainty about current and future global economic conditions may cause, and in some cases, has caused, businesses and governments to defer or cancel purchases in response to tighter credit, decreased cash availability and de-prioritization of communications equipment within the budgeting process. If future demand for products declines due to economic conditions, it will negatively impact financial results.
- *Inability to Operate and Grow in the U.S.* There is a risk of intensifying political instability in the U.S. If political instability continues in this market, it could have a significant impact on Impact's ability to grow, which will negatively impact financial results.

#### *Supply of Products from Outsourced Manufacturers*

Impact relies on outsourced manufacturers to supply their products and to design certain components. Impact's ability to meet customers' demands depends, in part, on the ability to timely obtain an adequate delivery of quality products from outsourced manufacturers. The ability to ship products to customers could be delayed or interrupted as a result of a variety of factors relating to outsourced manufacturers, including:

- outsourced manufacturers experiencing delays, disruptions, or quality control problems in their manufacturing operations;
- if such outsourced manufacturers lack sufficient quality control or fail to deliver quality products on time and at reasonable prices, or deliver products that do not meet regulatory or industry standards or requirements;
- lead-times for required materials and components varying significantly and being dependent on factors such as the specific supplier, contract terms and the demand for each component at a given time;
- underestimating inventory requirements, resulting in outsourced manufacturers having inadequate materials and components required to produce Impact's products, or overestimating inventory requirements, resulting in charges assessed by the outsourced manufacturers or liabilities for excess inventory, each of which could negatively affect gross margins;
- if there are significant changes in the financial or business condition of such outsourced manufacturers; or
- failure to effectively manage outsourced manufacturer relationships.

If demand for products increases from current expectations or if suppliers are unable to meet demand for other reasons, including as a result of natural disasters or financial issues, Impact could experience an interruption in supply or a significant increase in the price of supplies, including as a result of having to move to an alternative source, that could have a negative impact on the business as a result of increased cost or delay in or inability to deliver products.

Although Impact believes that its outsourced manufacturers have sufficient economic incentive to perform the manufacturing, the resources devoted to these activities are not within Impact's control, and there can be no assurance that manufacturing problems will not occur in the future. Insufficient supply or an interruption or stoppage of supply from the outsourced manufacturers or the inability to obtain additional manufacturers when and if needed, could have a material adverse effect on the business, results of operations, and financial condition.

#### *Product Quality*

Some of the products sold may have quality issues resulting from the design or manufacture of the product. These issues could be caused by components purchased from manufacturers or suppliers. Often these issues are identified prior to the shipment of the products and may cause delays in shipping products to customers, or even the cancellation of orders by customers. Sometimes, quality issues are discovered in the products after they have been shipped to customers, requiring resolution of such issues in a timely manner that is the least disruptive to customers. Such pre- and post-shipment quality issues can have legal, financial, and reputational ramifications, including: (i) delays in the recognition of revenue, loss of revenue, or future orders, (ii) customer-imposed penalties for failure to meet contractual requirements, (iii) increased costs associated with repairing or replacing products, and (iv) a negative impact on goodwill and brand name reputation.

#### *Defective Products*

Impact's products are complex and, accordingly, they may contain defects or errors, particularly when first introduced or as new versions are released. Impact may not discover such defects or errors until after a product has been released and used by end-customers. Defects and errors in products could materially and adversely affect Impact's reputation, result in significant costs, delay planned release dates, and impair the ability to sell products in the future. The costs incurred as a result of correcting any product defects or errors may be substantial and could adversely affect operating margins. While Impact continually tests products for defects and errors and works with customers through post-sales support services to identify and correct defects and errors, defects or errors in products may be found in the future.

#### *Non-Linear Sales Across Quarters*

Impact's revenues are difficult to forecast, are likely to fluctuate significantly throughout the year, and may not be indicative of future performance from quarter to quarter. In addition, operating results may not follow any past trends.

The factors affecting revenue and results, many of which are outside of Impact's control, include:

- competitive conditions in the industry, including strategic initiatives by Impact or their competitors, new products, product announcements and changes in pricing policy by Impact or their competitors;
- market acceptance of Impact's products;
- Impact's ability to maintain existing relationships and to create new relationships with channel partners;
- varying size, timing, and contractual terms of orders, which may delay the recognition of revenue;
- the discretionary nature of purchase and budget cycles of customers and changes in their budgets for, and timing of, equipment purchases;

- strategic decisions by Impact or its competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments, or changes in business strategy;
- general weakening of the economy resulting in a decrease in the overall demand for telecommunications products;
- timing of product development and new product initiatives; and
- the length and variability of the sales cycles for Impact's products.

Delays or reductions in the amount or cancellations of customers' purchases could adversely affect Impact's business, results of operations, and financial condition. Impact must also maintain additional inventory to mitigate the impact of this lack of linearity and meet demand. This could result in carrying excess inventory, which is costly and may result in increased inventory obsolescence over time.

### *Competition*

Impact experiences, and expects to continue to experience, moderate competition from a number of companies. Existing and/or new competitors may announce new products or enhancements that better meet the needs of customers or changing industry standards or deeply discount the price of its products. Further, new competitors or alliances among competitors could emerge. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on Impact's business, financial condition and results of operations. Competitors may also establish or strengthen co-operative relationships with sales channel partners or other parties with whom strategic relationships are held, thereby limiting Impact's ability to promote and sell their products. In addition, competitors may be able to respond more quickly to changes in end-user requirements and devote greater resources to the enhancement, promotion, and sale of their products.

### *New Product Development and Enhancement of Existing Products*

The markets for Impact's products are characterized by moderately changing technology, evolving industry standards, and increasingly sophisticated customer requirements. The introduction of products embodying new technology and the emergence of new industry standards can render existing products obsolete and unmarketable and can exert price pressures on existing products. Impact's success depends on its ability to anticipate and react quickly to changes in technology or in industry standards and to successfully develop and introduce new, enhanced, and competitive products on a timely basis. In particular, the continued acceptance and future success of product offerings will depend on the capacity of those products to handle growing volumes of traffic, their reliability and security, and their cost-effectiveness compared to competitive product offerings. Impact cannot provide assurance that it will successfully develop new products or enhance existing products, that new products and enhanced existing products will achieve market acceptance, or that the introduction of new products or enhanced existing products by others will not render Impact's products obsolete. The inability to develop products that are competitive in technology and price and that meet customer's needs could have a material adverse effect on the business, financial condition, and results of operations.

If a new product does receive market acceptance, it is often necessary to adapt to the supply chain rapidly in order to meet customer expectations and demand. Constraints caused by component suppliers and outsourced manufacturers can slow the pace of new product rollouts, adversely affecting the business, financial condition, and results of operations.

As new products are developed, older products will become obsolete. As sales of these older products are discontinued, Impact must manage the liquidation of inventory, supplier commitments, and customer

expectations. Part of the inventory may be written off, which would increase the cost of sales. In addition, Impact may be exposed to losses on inventories purchased by contracted manufacturers. If Impact or its contracted manufacturers are unable to properly manage the discontinuation of older products and/or if it is not possible to secure customer acceptance of new products, Impact's business, financial condition, and results of operations could be materially and adversely affected.

#### *Uncertainty of Future Revenue Opportunities*

Impact is dependent upon its ability to establish and develop new relationships and to build on existing relationships with channel partners to sell current and future products. Impact cannot provide assurance that it will be successful in maintaining or building on relationships with channel partners. In addition, Impact cannot provide assurance that channel partners will act in a manner that will promote the success of Impact's products and services. Failure by channel partners to promote and support products and services could adversely affect Impact's business, results of operations, and financial condition.

In the fiscal year ended August 31, 2016, Impact's principal channel partner was BearCom Wireless Worldwide. Sales through BearCom accounted for 22% of revenues in the 2016 fiscal year. Sales concentration with BearCom is expected to decrease in the future as the sales team works to broaden Impact's reach and diversify sales through additional channel partners.

Impact's channel partners also sell competitor's products. If some of their competitors offer their products to channel partners on more favorable terms or have more products available to meet their needs, there may be pressure on Impact to reduce pricing, failing which, channel partners may stop carrying Impact's products or de-emphasize the sale of Impact's products in favor of the products of competitors. To the extent that the business depends on channel partners, the failure of channel partners to adopt successful strategies and grow their own businesses could have a material adverse effect on the business, results of operations, and financial condition.

#### *Lengthy and Variable Sales Cycle*

It is difficult to forecast the timing of revenue from sales of products because customers typically invest substantial time, money, and other resources researching their needs and available competitive alternatives before deciding to purchase two-way radio products. Typically, the larger the potential sale, the more time, money, and other resources that will be invested by customers. As a result, it may take many months after the first contact with a customer before a sale is actually completed. In addition, Impact relies on its channel partners to sell its products to end-customers and, therefore, sales efforts are vulnerable to delays at both the channel partner and the end-customer level. During these long sales cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled, including:

- purchasing decisions may be postponed, or large purchases reduced, during periods of economic uncertainty;
- Impact or its competitors may announce or introduce new products or services;
- competitors may offer lower prices on similar products; or
- budget and purchasing priorities of customers may change.

If these events were to occur, sales of Impact's products may be cancelled or delayed, which would reduce revenues.

### *Foreign Currency Fluctuations*

The majority of Impact's revenue and direct cost of sales is earned and incurred in U.S. dollars, while operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the business, financial condition, and operating results.

Impact does not currently engage in transactional hedging but does attempt to hedge or mitigate the risk of currency fluctuations by actively monitoring and managing foreign currency holdings relative to foreign currency expenses.

### *Government Regulation Changes, or Changes in Industry Standards*

Radio frequencies are subject to extensive regulation both nationally and internationally. The emergence or evolution of regulations and industry standards for communications products, through official standards committees or widespread use by operators, could require Impact to modify its products. This may be expensive and time-consuming. Each country has different regulations and procedures for the approval of wireless communications equipment and the uses of radio spectrum in association with that equipment. If new industry standards emerge that Impact does not anticipate, its products could be rendered obsolete.

### *Credit Risk*

Impact is exposed to credit risk for accounts receivable in the event that counterparties do not meet their obligations. Impact attempts to mitigate credit risk to the extent possible by performing credit reviews. Both economic and geopolitical uncertainty can influence the ultimate collectability of these receivable amounts. Failure to collect outstanding receivables could have a material adverse effect on Impact's business, results of operations, and financial condition.

### *Intellectual Property Rights Infringement*

Impact's success depends, in part, upon not infringing on intellectual property rights owned by others. A number of Impact's competitors and other third-parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by Impact in its products. Some of these patents may grant very broad protection to the owners of the patents.

Impact cannot determine with certainty whether any existing third-party patents or the issuance of any third-party patents would require it to alter its technology, obtain licenses, or cease certain activities. Impact may become subject to claims by third-parties that its technology infringes upon their intellectual property rights due to the growth of products in the target markets, the overlap in functionality of these products, and the prevalence of products.

Impact may become subject to these claims either directly or through indemnities against these claims that are routinely provided to customers and channel partners. Litigation may be necessary to determine the scope, enforceability, and validity of such third-party proprietary rights. Regardless of their merit, any such claims could:

- be time consuming to evaluate and defend;
- result in costly litigation;

- cause product shipment delays or stoppages;
- divert the attention and focus of management and technical personnel away from the business;
- subject Impact to significant damages;
- require Impact to enter into costly royalty or licensing agreements to avoid or settle infringement litigation; and
- require Impact to modify, rename, or stop using the infringing technology.

Impact may be prohibited from developing or commercializing certain technologies and products unless a license is obtained from a third-party. There can be no assurance that Impact will be able to obtain any such license on commercially favorable terms, or at all. If Impact does not obtain such a license, the business, results of operations, and financial condition could be materially adversely affected and Impact could be required to cease related business operations. Moreover, license agreements with third-parties may not include all intellectual property rights that may be issued to or owned by the licensors, and future disputes with these parties are possible. Current or future negotiations with third-parties to establish license or cross license arrangements, or to renew existing licenses, may not be successful and Impact may not be able to obtain or renew a license on satisfactory terms, or at all. If Impact cannot obtain required licenses, or if existing licenses are not renewed, litigation could result.

**SCHEDULE D**  
**THREE YEAR CORPORATE HISTORY FOR PREVIOUS OPERATIONS**

**Reconstitution of the Board**

In October, 2013 the Board was reconstituted with the goal of reviewing strategic alternatives to enhance shareholder value and as a result, three existing directors resigned and were replaced with Allan Bezanson, John Hawkrigg and Courtenay Wolfe. The new Board consisted of John Williamson, Allan Bezanson, John Hawkrigg and Courtenay Wolfe, with John Williamson continuing as the Chairman and Chief Executive Officer. During the ensuing fiscal year ended September 30, 2014, Courtenay Wolfe was appointed Chair and the reconstituted Board reviewed all options to enhance value and lower costs. Ultimately, it was determined to restructure operations to shift the focus from a junior resource company towards the settlement of existing contracts and agreements.

**Previous Mining Activities**

The Corporation was initially engaged in the mining industry as a "junior resource company", and most recently had operations in Equatorial Guinea and operations related to the Michikamau Property located in Newfoundland and Labrador.

On May 11, 2011, the Corporation completed the acquisition of Ivory, which had entered into the Ivory Exploration Services Agreement pursuant to which Ivory funded and carried out an airborne geological survey of the 26,000 square kilometre continental region of Equatorial Guinea (the "**Survey**"). Ivory was then to deliver the Survey report in exchange for mining contracts to be granted for areas selected by the Ivory. The Survey report was delivered on October 3, 2012 entitling Ivory to receive mineral rights over an area of approximately 4,000 square kilometres, equivalent to 15% of the continental region of Equatorial Guinea. Concurrently, Ivory notified the Ministry of areas selected for mineral concessions.

Due to the fact that the selected mineral concessions were not granted, on June 12, 2014, Ivory 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 Ivory Exploration Services Agreement. However, on January 22, 2015, Ivory and the Government of Equatorial Guinea agreed upon the terms of the Ivory Settlement Agreement whereby Ivory relinquished all its rights and interests under the terms of the Exploration Services Agreement in exchange for US\$31.5 million in cash and Ivory agreeing to withdraw its Request for Arbitration.

The Corporation now has no operations in Equatorial Guinea.

The Corporation also owned a property situated within the Michikamau in Newfoundland and Labrador (the "**Michikamau Property**"). In the year ended September 30, 2011, the Corporation impaired the full carrying value of the Michikamau Property as there had been no activity on the Michikamau Property within the preceding three years. The Corporation disposed of its interest in the Michikamau Property in August, 2015 for nominal consideration.

**Change of Business**

On April 10, 2015, the Corporation announced that, after a thorough review of the Corporation's resources and strategic options, and given the expertise and skill sets of the Corporation's directors, the Board had determined that the optimal allocation of the Corporation's working capital would be within the framework of an investment company. However, in light of the significant cash position of the Corporation, and after consulting its stakeholders, the Board believed that it was appropriate to also return



\$0.145 per Common Share of capital to the Shareholders. The Corporation's change of business to an investment company would constitute a "Change of Business" under Policy 5.2 of the TSXV and was conditional upon, among other things, the Corporation obtaining TSXV and Shareholder approval. As an investment company, the Corporation's primary focus would be to make investments in equity, debt or other securities of publicly traded companies or private businesses.

On April 10, 2015, the Corporation also announced that Peter McRae joined the Board and would serve as the Chair of the Audit Committee.

On April 15, 2015, the Corporation appointed Vincenzo Chiofalo as the Chief Financial Officer of the Corporation. The former Chief Financial Officer, Sean Mager, agreed to continue to serve the Corporation as a consultant until July 31, 2015 in order to provide for a smooth transition.

In light of the new strategic direction of the Corporation, Courtenay Wolfe and Allan Bezanson were appointed as the Executive Chair and Interim Chief Executive Officer of the Corporation, respectively. In addition, Mr. Williamson agreed to resign as Chief Executive Officer and continued to serve the Corporation as a member of the Board.

On April 20, 2015, the Corporation announced that, consistent with the proposed change of business of the Corporation under the rules of the TSXV, it had conditionally agreed to invest \$10 million in subscription receipts offered by Polaris Infrastructure Inc. ("**Polaris**"). See "Activities as an Investment Company Prior to the Reid Transaction – Polaris Infrastructure Inc." below.

On April 30, 2015, the Corporation submitted to the TSXV an application for a proposed change of business of the Corporation from a junior resource company to an investment company. On June 25, 2015, the Corporation received TSXV and Shareholder approval of such change of business. At the special Shareholders' meeting where the change of business was approved, Shareholders also approved (i) a return of capital to Shareholders of \$0.145 per share, (ii) a change of name of the Corporation to "FCF Capital Inc.", (iii) an amended and restated stock option plan and (iv) an amended and restated deferred share unit plan.

In conjunction with the change of business, the Corporation made an application to the Ontario Securities Commission to become a reporting issuer in Ontario. On July 17, 2015, the Corporation was deemed to be a reporting issuer in Ontario.

On July 7, 2015, as approved at the June 25, 2015 special Shareholders' meeting, the Corporation paid a return of capital to its Shareholders of \$0.145 per share totaling \$21,648,654.

### **Activities as an Investment Company Prior to the Reid Transaction**

#### *Polaris Infrastructure Inc.*

In anticipation of its proposed change of business to an investment company, on April 30, 2015, the Corporation invested \$10.0 million in subscription receipts of Polaris which later converted to 1,250,000 Polaris common shares (at a deemed price of \$8.00 per share). Subsequent to the acquisition of such Polaris shares and prior to the year ended September 30, 2015, the Corporation acquired an additional 90,000 Polaris shares in the open market. Subsequent to September 30, 2015, the Corporation acquired an additional 46,500 Polaris shares. In February, 2016, the Corporation sold 1,250,000 Polaris Shares for net proceeds of \$8.7 million and in May, 2016 sold its remaining 136,500 Polaris Shares for net proceeds of \$1.1 million.

*Vital Alert Communication Inc.*

On December 23, 2015, the Corporation made an equity investment of US\$2.0 million cash in Vital Alert Communication Inc. ("**Vital**"). The Vital investment resulted in the Corporation acquiring 25,999,568 voting preferred shares in the capital of Vital. The Corporation was afforded certain rights under its agreement with Vital, including (i) the right to nominate one director to the board of Vital (with Peter McRae being the nominee), (ii) pre-emptive rights, (iii) a right of first refusal with respect to the issuance of secured debt by Vital, and (iv) the right to be issued additional shares of Vital for no consideration if, within one year, Vital concludes a financing at a price per share lower than the per share price of the Vital investment. The Corporation continues to hold the Vital preferred shares.

**SCHEDULE E**  
**AUDIT COMMITTEE CHARTER**

**FOUNDERS ADVANTAGE CAPITAL CORP.**

**Objectives**

The Audit Committee has been formed by the board of directors (the "**Board**") of Founders Advantage Capital Corp. (together with its subsidiaries, the "**Corporation**") to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- monitor the integrity of the Corporation's financial reporting process and systems of internal controls regarding finance, accounting, and securities laws compliance;
- assist Board oversight of: (i) the integrity of the Corporation's financial statements; and (ii) the Corporation's compliance with securities laws and regulatory requirements;
- monitor the independence, qualification and performance of the Corporation's external auditors; and
- provide an avenue of communication among the external auditors, management and the Board.

The Audit Committee will, at least annually, review and modify this mandate with regards to, and to reflect changes in, the business environment, industry standards on matters of corporate governance, additional standards which the Audit Committee believes may be applicable to the Corporation's business, the location of the Corporation's business and its shareholders and the application of laws and policies.

**Composition**

Audit Committee members must meet the requirements of applicable securities laws and of the stock exchanges on which the securities of the Corporation trade. The Audit Committee will be comprised of three or more directors as determined by the Board. A majority of the Audit Committee members shall be "independent" and each Audit Committee member shall be "financially literate", as those terms are defined in National Instrument 52-110 *Audit Committees* ("**NI 52-110**") of the Canadian Securities Administrators (as set out in Schedule A hereto), and as "financially literate" is interpreted by the Board in its business judgement. In order to be financially literate, a director must be, at a minimum, able to read and understand basic financial statements and at least one member shall have "accounting or related financial management expertise", meaning the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with Canadian generally accepted accounting principles recognized by the Chartered Professional Accountants of Canada from time to time and applicable to publicly accountable enterprises ("**GAAP**").

Audit Committee members shall be appointed annually by the Board. The Board may fill any vacancy in the membership of the Committee at any time. The Chair of the Audit Committee shall be appointed annually by the Board.

**Meetings and Minutes**

The Audit Committee shall meet at least quarterly, or more frequently if determined necessary to carry out its responsibilities.

A meeting may be called by the Chair of the Audit Committee, the Chief Executive Officer of the Corporation (the "**CEO**"), any member of the Audit Committee or the external auditors. A notice of time and place of every meeting of the Audit Committee shall be given in writing to each member of the Audit

Committee at least 24 hours prior to the time fixed for such meeting, unless waived by all members entitled to attend. Attendance of a member of the Audit Committee at a meeting shall constitute waiver of notice of the meeting except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

A quorum for meetings of the Audit Committee shall require a majority of its members present in person or by telephone. If the Chair is not present at any meeting of the Audit Committee, one of the other members of the Audit Committee present at the meeting will be chosen to preside by a majority of the members of the Audit Committee present at that meeting.

Each of the CEO and the Chief Financial Officer shall be available to advise the Audit Committee, shall receive notice of meetings and may attend meetings of the Audit Committee at the invitation of the Chair on a non-voting basis. The Corporation's external auditors shall be invited to attend all meetings of the Audit Committee, on a non-voting basis. Other management representatives shall be invited to attend as necessary on a non-voting basis. Notwithstanding the foregoing, the Chair shall hold *in camera* sessions, without management present, at every meeting of the Audit Committee.

Decisions of the Audit Committee shall be determined by a majority of the votes cast.

The Audit Committee shall appoint a member of the Audit Committee, other officer of the Corporation or legal counsel to act as secretary at each meeting for the purpose of recording the minutes of each meeting. Minutes shall be kept of all meetings of the Committee and shall be signed by the Chair and the secretary of the meeting.

The Audit Committee shall make available to the Board a summary of all meetings and a copy of the minutes from such meetings. Where minutes have not yet been prepared, the Chair shall provide the Board with oral reports on the activities of the Audit Committee. All information reviewed and discussed by the Audit Committee at any meeting shall be referred to in the minutes and made available for examination by the Board upon request to the Chair.

## **Scope, Duties and Responsibilities**

### *Mandatory Duties*

#### Oversight in Respect of Financial Disclosure and Accounting Practices

Pursuant to the requirements of NI 52-110 and other applicable laws, the Audit Committee will:

1. Review the Corporation's audit plan with the external auditors and management.
2. Prior to filing or public distribution, review, discuss with management and the external auditors and recommend to the Board for approval, the Corporation's audited annual financial statements, annual profit or loss press releases, interim financial statements, interim profit or loss press releases, annual information forms, management's discussion and analysis, financial statements required by regulatory authorities, financial information and any profit or loss guidance proposed to be provided to analysts and rating agencies, all audited and unaudited financial statements included or incorporated by reference in prospectuses or other offering documents and all documents which may be included or incorporated by reference into a prospectus which contain financial information within the Audit Committee's mandate, including without limitation, the portions of the management proxy circular for any annual or special meeting of shareholders containing significant financial information within the Audit Committee's mandate. This review

should include discussions with management, and the external auditors of significant issues regarding accounting principles, practices and judgements.

3. Ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in paragraph 2 above and periodically assess the adequacy of those procedures.
4. Be responsible for reviewing the disclosure contained in the Corporation's annual information form as required by Form 52-110F1 *Audit Committee Information Required in an AIF*, attached to NI 52-110. If proxies are solicited for the election of directors of the Corporation, the Audit Committee shall be responsible for ensuring that the Corporation's information circular includes a cross-reference to the sections in the Corporation's annual information form that contains the information required by Form 52-110F1.
5. Ensure the preparation and filing of each annual certificate in Form 52-109F1 and each interim certificate in Form 52-109F2 to be signed by each of the CEO and Chief Financial Officer of the Corporation in accordance with the requirements set forth under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, as amended from time to time ("**NI 52-109**").
6. Oversee the establishment of a procedure to ensure the accuracy of the matters certified by the Corporation's certifying officers as required under NI 52-109 and make reasonable inquiries to ensure that interim and annual filings are true and accurate in all material respects, do not omit to state a material fact or contain any misrepresentations and ensure that all necessary information as required under NI 52-109 is disclosed in the Corporation's interim and annual filings.
7. In consultation with management, and the external auditors, consider the integrity of the Corporation's financial reporting processes and controls and the performance of the Corporation's internal financial accounting staff; discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures; and review significant findings prepared by the external auditors together with management's responses.
8. Meet separately with each of management, and the external auditors to discuss difficulties or concerns, specifically: (i) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management; and (ii) any changes required in the planned scope of the audit, and report to the Board on such meetings.
9. Discuss with management and the external auditors any proposed changes in major accounting policies, standards or principles, the presentation and impact of significant risks and uncertainties and key estimates and judgments of management that may be material to financial reporting.
10. Discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses.
11. Review with management and the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues.

12. Review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management.
13. Confirm through discussions with management and the external auditors that GAAP and all applicable laws or regulations related to financial reporting and disclosure have been complied with.
14. Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future effect on the Corporation's financial statements, and the disclosure of such in the financial statements.
15. Conduct an annual performance evaluation of the Audit Committee.

#### Oversight in Respect of Risk Management

Pursuant to the requirements of NI 52-110 and other applicable laws, the Audit Committee will:

16. Identify and monitor the principal risks that could affect the financial reporting of the Corporation.
17. Monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance.
18. Provide an avenue of communication among the external auditors, management and the Board.

#### Oversight in Respect of Internal Controls

Pursuant to the requirements of NI 52-110 and other applicable laws, the Audit Committee will:

19. Establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential and anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
20. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
21. The Audit Committee will be responsible for ensuring that management regularly evaluates the effectiveness of the Corporation's disclosure controls and procedures and causes the Corporation to disclose its conclusions about the effectiveness of the disclosure controls and procedures in accordance with all applicable legal and regulatory requirements. The terms "annual filings," "interim filings," "disclosure controls and procedures" and "internal control over financial reporting" shall have the meanings set forth under NI 52-109.
22. Monitor the quality and integrity of the Corporation's system of internal controls, disclosure controls and management information systems through discussions with management and the external auditors.
23. Be responsible for monitoring any changes in the Corporation's internal controls over financial reporting and for ensuring that any change that occurred during the Corporation's most recent

interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting is disclosed in the Corporation's most recent annual or interim management's discussion and analysis.

24. Oversee investigations of alleged fraud and illegality relating to the Corporation's finances and any resulting actions.
25. Review and discuss with the CEO and Chief Financial Officer the procedures undertaken in connection with the CEO and Chief Financial Officer certifications for the annual and/or interim filings with applicable securities regulatory authorities.
26. Review disclosures made by the CEO and Chief Financial Officer to the Corporation during their certification process for annual and/or interim financial statements with applicable securities regulatory authorities about any significant deficiencies in the design or operation of internal controls which adversely affect the Corporation's ability to record, process, summarize and report financial data or any material weaknesses in the internal controls, and any fraud involving management or other employees of the Corporation who have a significant role in the Corporation's internal controls.
27. Review or satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted from the Corporation's financial statements and periodically assess the adequacy of those procedures.

#### Oversight in Respect of External Auditors

Pursuant to the requirements of NI 52-110 and other applicable laws, the Audit Committee will:

28. Advise the external auditors of their accountability to the Audit Committee and the Board as representatives of the shareholders of the Corporation to whom the external auditors are ultimately responsible. The external auditors shall report directly to the Audit Committee. The Audit Committee is directly responsible for overseeing the work of the external auditors, shall review at least annually the independence and performance of the external auditors and shall annually recommend to the Board the appointment of the external auditors or approve any discharge of auditors when circumstances warrant.
29. Approve the fees and other compensation to be paid to the external auditors.
30. Pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's external auditors and all related terms of engagement.
31. On an annual basis, review and discuss with the external auditors all significant relationships they have with the Corporation that could impair the auditors' independence and obtain a report describing all relationships between the external auditors and the Corporation.
32. Review the external auditors audit plan and discuss scope, staffing, locations, and reliance upon management and general audit approach.
33. Consider the external auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.

34. Be responsible for the resolution of disagreements between management and the external auditors.
35. Ensure that the external auditors are participants in good standing with the Canadian Public Accountability Board ("**CPAB**") in accordance with National Instrument 52-108 Auditor Oversight and participate in the oversight programs established by the CPAB from time to time and that the external auditors have complied with any restrictions or sanctions imposed by the CPAB as of the date of the applicable auditor's report relating to the Corporation's annual audited financial statements.
36. When there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditor and documentation required pursuant to National Instrument 51-102 Continuous Disclosure Obligations (or any successor instrument) of the Canadian Securities Administrators and the planned steps for an orderly transition period.
37. Review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.

#### Oversight in Respect of Other Items

Pursuant to the requirements of NI 52-110 and other applicable laws, the Audit Committee will:

38. Review with management at least annually the financing strategy and plans of the Corporation.
39. Review the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process.
40. Enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters which are directed to the Committee by any member of the Board, a shareholder of the Company, the external auditors or management.
41. Review and reassess the adequacy of the Audit Committee's mandate at least annually, and submit the mandate to the Board for approval.
42. On at least an annual basis, review, with the Corporation's counsel, any legal matters that could have a significant impact on the Corporation's financial statements, the Corporation's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
43. Perform any other activities consistent with this mandate, the Corporation's by-laws, and other governing law as the Audit Committee or the Board deems necessary or appropriate.
44. Maintain minutes of meetings and periodically report to the Board on significant results of the foregoing activities.



### **Communication, Authority to Engage Advisors and Expenses**

The Audit Committee shall have direct access to such officers and employees of the Corporation, to the Corporation's external auditors and to any other consultants or advisors, as well as to such information respecting the Corporation it considers necessary to perform its duties and responsibilities.

Any employee may bring before the Audit Committee, on a confidential basis, any concerns relating to matters over which the Audit Committee has oversight responsibilities.

The Audit Committee has the authority to engage the external auditors, independent counsel and other advisors as it determines necessary to carry out its duties and to set the compensation for any auditors, counsel and other advisors, such engagement to be at the Corporation's expense. The Corporation shall be responsible for all other expenses of the Audit Committee that are deemed necessary or appropriate by the Audit Committee in order to carry out its duties.

Adopted by the Board of the Corporation on May 16, 2016.