Founders Advantage Capital Corp.

FCF-TSXV
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Diversified Financials

March 1, 2017
Company Report - Initiation of Coverage

Outperform 2
C$4.50 target price

Current Price (Feb-24-17)	C$3.40
Total Return to Target	34%
52-Week Range	C$6.70 - C$1.65
Suitability	High Risk/Income

Market Data

Market Capitalization (mln)	C$130
Current Net Debt (mln)	-C$7
Enterprise Value (mln)	C$184
Shares Outstanding (mln, f.d.)	37.7
10 Day Avg Daily Volume (000s)	45
Dividend/Yield	C$0.05/1.5%

Key Financial Metrics

	2016E	2017E	2018E	2019E
EV/Normalized EBITDA	28.1x	5.8x	3.0x	1.9x
Price-to-Book Ratio	1.2x	1.1x	1.0x	0.9x
Payout Ratio (calculated on DCFPS)	NA	46%	31%	41%
Net New Investment (mln)	C$94	C$82	C$80	C$100
Net Debt/Trailing Normalized EBITDA	2.8x	2.5x	1.8x	1.6x
BVPS				C$2.87

Company Description

Founders Advantage Capital Corp. is an investment company targeting majority positions in privately held companies that feature limited cyclicality, high free cash flow generation, an established growth trajectory and ongoing participation of founding management. Its differentiated investment structure is designed to appeal to founding shareholders of successful growth companies that are seeking to partially monetize their holdings while retaining operating control of the businesses that they founded.

Differentiated Offering, Differentiated Opportunity; Initiating with an Outperform

Recommendation

Founders Advantage Capital (FA Capital) is a recently-established investment company focused on taking majority positions in private, mid-sized (i.e., annual EBITDA of $5-$40 million) and growth-oriented businesses. Its differentiated ownership structure offers founding management of investee companies the opportunity to earn a disproportionate share of future cash flow growth and capital appreciation of their businesses. FA Capital's model has established early momentum with three investments announced to date at a weighted-average 2017E EV/EBITDA multiple of 6.5x and from which we anticipate a weighted-average 2017E distribution yield of 9.6%. We believe its model is highly scalable with inherent operating leverage and anticipate additional, largely equity-funded investment activity to support increased diversification, profitability, DCPS, dividend payouts and investor interest over the period of our forecasts. With a total projected one-year return of 34% to our $4.50 target price, we initiate coverage of FA Capital with an Outperform rating.

Analysis

- **Off to a Running Start** – FA Capital announced three investments in 2016 at an aggregate cost of $106 million including majority positions in Canada's leading mortgage broker, a growing chain of value-oriented health clubs in B.C., and a specialty electronic equipment manufacturer. Our forecasts anticipate two additional investments per year through 2019E valued at between $30 million - $50 million each and generally funded with a mix of 70% equity and 30% cash and debt.
- **A "Win-Win" Formula** – In this report, we illustrate how founding shareholders might benefit economically despite selling to FA Capital at a discounted up-front valuation, and how FA Capital might generate attractive investment IRRs despite giving up a disproportionate share of distribution growth and capital appreciation.
- **We Anticipate Steep Cash Flow (and Dividend) Growth in Early Years** – Our forecasts call for DCPS to steadily grow from nil in 1Q17E to $0.11 for 2017E, by 191% to $0.32 in 2018E and by 38% to $0.44 in 2019E driven by the addition of new distribution-yielding investments, distribution growth from existing investments and improving operating leverage. We expect dividend growth to outpace DCPS growth over time given its potential to eventually expand its payout ratio (i.e., from 29% in 2H17E) once it becomes less reliant on internal cash generation to fund growth.

Valuation

Our $4.50 target price is based on a forward EV/EBITDA valuation that values 2018E Attributable EBITDA from investments at a multiple of 9.0x, below the 9.6x current average forward EV/EBITDA multiple of its more established and higher-yielding diversified investment company peer group.

Normalized EBITDA (mln)	1Q Mar	2Q Jun	3Q Sep	4Q Dec	Full Year	Distributable CFPS	EPS
2016E	C$(1.9)E	C$0.4E	C$5.9E	C$2.7E	C$6.5E	NA	C$(0.38)
2017E	4.0	8.3	9.5	9.7	31.5	0.11	0.04
2018E	10.8	16.5	16.4	18.4	62.1	0.32	0.20
2019E	17.9	24.8	24.7	27.7	95.2	0.44	0.30

Source: Thomson One, Raymond James Ltd. Note: 2016E represents the 15-month period ending Dec-2016.

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A Middle-Market Investment Company with a Difference

- **Introducing Founders Advantage Capital** – Founders Advantage Capital (FA Capital) is a recently-established investment company with a differentiated approach to investing designed to appeal to founding shareholders of successful growth companies that are seeking to partially monetize their holdings while retaining operating control of the businesses that they founded. It aims to take majority positions in companies with EBITDA run rates of between $5-$40 million, generally seeking exposure to companies that feature limited cyclicality, high free cash flow generation, an established growth trajectory and ongoing participation of founding management in managing the continued growth of their companies. We estimate that initial distributions from its three announced acquisitions will represent a weighted-average after-tax yield on investment of 9.6%.

- **A Differentiated Investment Model Designed to Appeal to Entrepreneurs** – The differentiating aspect of its investment structure is that it is designed to allow founding owners of investee companies to retain minority stakes while participating disproportionately in future cash flow growth that they help to generate. This is accomplished by entitling founders to a majority of any distributable cash flow generated in excess of a specified threshold that approximates run rate cash flow at the time of FA Capital's initial investment. We believe there is a favourable selection bias inherent in FA Capital's investment model as it is designed to appeal to business owners that have visibility on continued growth and the desire to see it materialize.

- **An Investment Process That Creates Value From the Outset** – The competition for investment in the type of high-quality private companies sought by FA Capital can be intense, and the differentiating aspects of its offering (i.e., vs. private equity, royalty and other types of capital providers) enable it to compete on terms other than price in circumstances where price maximization is not a vendor's only criteria. Within its target market of growth-oriented entrepreneurs that wish to remain engaged in the management of their companies, we believe that the unique attributes of FA Capital's investment structure should generally enable it to make investments at lower entry valuations than might be achievable for those businesses if sold in their entirety. In this respect, we believe that FA Capital is able to create value through the investment process considering the potential to achieve price optimization upon eventual monetization of its investments.

- **Momentum Has Been Established Early** – In its first year in existence, FA Capital has already made three investments at an aggregate cost of $106 million while advancing due diligence on a number of other potential targets in its deal pipeline. Subject to continued funding availability, we expect FA Capital will continue to make new investments with an eventual goal of building a large and diversified portfolio of free cash-flowing investments supportive of a growing and high-payout dividend model. Our forecasts anticipate two additional investments per year through 2019E valued at between $30 million - $50 million each and generally funded with a mix of 70% equity and 30% cash and debt.

- **We Anticipate Steep Cash Flow (and Dividend) Growth in Early Years** – Our forecasts call for distributable cash flow per share to steadily grow from nil in 1Q17E to $0.11 in 2017E and then by 191% in 2018E (to $0.32), and by 38% in 2019E (to $0.44) driven by the addition of new distribution-yielding investments, distribution growth from existing investments and improving operating leverage from a largely fixed corporate expense base. In our opinion, this highly cash-generative and scalable business model should be supportive of similarly high dividend growth over time, particularly given its potential to eventually expand its payout ratio (i.e., from 29% in 2H17E) once it becomes less reliant on internal cash generation to fund growth.

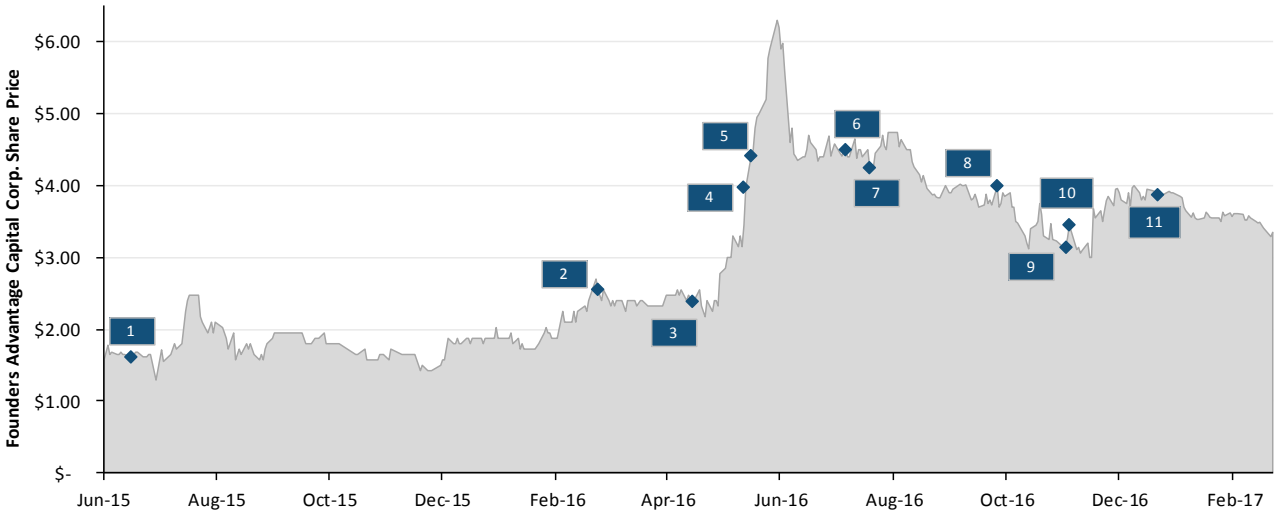
- We initiate coverage of FA Capital with an Outperform rating and $4.50 target price based on a forward EV/EBITDA valuation that values 2018E Attributable EBITDA from investments at 9.0x, as discussed at page 40.

Company Background – Off to a Running Start in Year One

FA Capital in its current form was established in Feb-2016 with the hiring of Stephen Reid to serve both as a Director and as President and CEO of the company. It had previously existed as an essentially dormant but publicly-traded resource company (Brilliant Resources Inc.) until Jun-2015, at which point it converted into an investment company (then known as FCF Capital Inc.) that featured limited capitalization and investment activity until Mr. Reid came aboard.

We summarize highlights from FA Capital's brief history in Exhibit 1:

Exhibit 1: Highlights from FA Capital's History



Event (#)	Date	Event Details
1	Jun-2015	Adopted the new name FCF Capital Inc. upon transforming from a junior resource company (previously named Brilliant Resources Inc.) to an investment issuer.
2	Feb-2016	Undertook the "Reid Transaction", involving the appointment of Stephen Reid to the Board and as President & CEO of the company and the acquisition of Mr. Reid's related corporation (with proprietary investment opportunities) in exchange for $2 million of FCF shares (still held in escrow) and the assumption of $350,000 in debt.
3	Apr-2016	Completed a private placement of 13,709,315 subscription receipts for gross proceeds of $28.8 million priced at $2.10/receipt. These receipts converted to common shares upon completion of the DLC transaction in Jun-2016.
4	May-2016	Announced an investment in Dominion Lending Centres Inc. (DLC) valued at $73.9 million for an initial 60% interest, for which it paid $61.4 million in cash (partially funded by a $20 million bridge loan) and issued 4.762 million shares to the vendors at an ascribed price of $2.625. When the transaction closed in Jun-2016, shares issued to vendors were valued at $5.60/share, resulting in an aggregate transaction value of $88.1 million.
5	May-2016	Changed its name to Founders Advantage Capital Corp.
6	Jul-2016	Completed an issuance of 8.322 million common shares at a price of $4.00/share for gross proceeds of $33.3 million.
7	Jul-2016	Established a new $22 million credit facility with Alberta Treasury Branches (ATB) bearing an initial rate of Prime plus 3.00%-3.75% which was used to repay its $20 million bridge loan.
8	Sep-2016	Announced that DLC had initiated a monthly cash distribution policy with an initial after-tax cash distribution of $900,000, of which FA Capital would receive $540,000/month ($6.5 million/year) based on its current 60% ownership in DLC.
9	Nov-2016	Announced an investment in Club16 Trevor Linden and She's FIT! health clubs for which it paid $20.5 million for an initial 60% interest. This transaction closed in Dec-2016.
10	Nov-2016	Announced the initiation of a dividend policy with an initial annual dividend (paid quarterly) set at $0.05/share for 2017 and the intention to payout up to 80% of free cash flow from investee companies going forward. The first dividend will be declared in Mar-2017.
11	Dec-2016	Announced an investment in IMPACT Communications, a manufacturer of niche radio communication products, for which it will pay $12.0 million in cash for an initial 52% stake (with a put option that enables the vendor to sell an additional 22% for $5.1 million). This transaction is expected to close by Mar-31-2017.

Source: Founders Advantage Capital Corp., Raymond James Ltd.

The hiring of Mr. Reid in what it refers to as the "Reid Transaction" was the first transformational event for this new company. Mr. Reid was previously an executive at Alaris Royalty Corp. (AD-TSX) from 2008-2015, a company that he co-founded and for which he raised capital and served as SVP of Business Development. That role involved sourcing, cultivating and managing relationships with middle-market companies that accepted financing in exchange for monthly cash distributions representing initial yields of 15%-16%/year. By bringing Mr. Reid aboard, FA Capital immediately gained access to a wealth of potential investment leads and proven experience in the finding, structuring, closing and ongoing management of middle-market investments. His experience with the intricacies, advantages and potential drawbacks of the Alaris investment structure also contributed to the establishment of FA Capital's differentiated investment approach, which has been designed both to provide the defensive attribute of control and to appeal especially to owners of growth businesses that are seeking partial monetization.

The Reid Transaction involved the hiring of Mr. Reid along with the acquisition of a related company that had "proprietary investment opportunities" in exchange for paying off $350,000 of that company's debt and the issuance of $2.4 million of equity in FA Capital (at $2.55/share). These shares are being held in escrow until such time that the company's investments generate cumulative EBITDA of $15 million.

Within three months of the Reid Transaction, FA Capital raised $29 million of equity in a subscription receipt financing and announced its first major investment, the acquisition of a 60% stake in Dominion Lending Centres (DLC), Canada's largest mortgage brokerage, in a transaction valued at $74 million. We discuss the DLC investment beginning at page 16.

In Jul-2016 it established a $22 million credit facility with Alberta Treasury Branches (used to repay a $20 million bridge loan) and raised another $33 million of equity, which was partially used to fund a second investment announced in Nov-2016, a 60% stake in Club16 Trevor Linden Fitness (CLUB16 LP), a health club operator with 13 locations in British Columbia, for $20.5 million. We discuss this investment separately beginning at page 23.

In Nov-2016, the company established a dividend policy, setting the stage for its evolution towards eventually becoming a high-payout dividend grower, which we believe is its primary corporate objective. FA Capital expects to declare its first quarterly dividend of $0.125/share in Mar-2017, and to distribute an aggregate of $0.05/share in 2017. Beyond 2017, it will aim to raise its dividend payments at least in line with the growth of free cash flow received from its investments, with a maximum potential payout ratio of 80% of distributable cash flow.

The company closed the year out by announcing its third investment in late Dec-2016, a 52% stake in IMPACT Communications, a manufacturer and distributor of two-way radio equipment to niche end-markets, for a cash purchase price of $12.0 million. The terms of this transaction deviated from the design of its first two investments in two ways: it provides FA Capital with an initial stake of 52%, lower than its 60% position in other investee companies, and it provides the vendor with a put option enabling it to sell an additional 22% interest to FA Capital for $5.1 million. We discuss this investment beginning at page 30.

While this may seem like a lot of activity for a newly-formed investment company in its first 12 months of operation, ***we suspect that the events listed in Exhibit 1 represent the tip of the iceberg in terms of the total level of investment and capital raising groundwork undertaken by FA Capital's management in that time***. In addition to its three announced deals, the company claims to have several potential investments at varying levels of advanced negotiations, with a much higher number of situations that have either received or remain subject to ongoing consideration.

An Investment Structure Designed to Incentivize Growth

Exhibit 2 contrasts several characteristics of FA Capital's investment structure vs. those of its primary competition for the type of investments it is seeking: private equity and royalty companies.

Exhibit 2: Characteristics of Alternative Middle-Market Investment Structures

Characteristics	Founders Advantage Capital	Private Equity Funds	Royalty Companies
Investment Stage	Established middle-market companies with positive free cash flow and strong growth profile	Wide-ranging; typically positive operating cash flow with capacity for leverage	Middle-market companies with positive free cash flow
Investment Structure	Majority ownership / control position	Majority (typically 100% less management interest)	Preferred or debt-like security instrument
Common Equity Ownership Position	Control (51%-80%)	100% ownership (less management interest)	None (or limited)
Investment Liquidity	Public liquidity	Limited liquidity	Typically public liquidity
Ownership Style	Passive	Active	Passive
Board Composition	Majority (>50%; <100%)	Majority (up to 100%)	None (or minority)
Compensation Structure	Management salaries; bonus plan based on performance metrics	Annual management fee on capital deployed; carry on profits	Management salaries; bonus plan based on performance metrics
Investment Horizon	Permanent capital	Limited to life of fund (must force liquidity event)	Permanent capital
Investment Returns	Pro-rata share of distributable cash up to a pre-determined threshold plus a % of distributable cash above threshold	Distributable cash plus management fees; largely driven by liquidity event	Preset annual rate; adjusted for specific operating metrics (typically capped at 5%-6%)
Leverage Structure	Parent company	Target company	Parent company
Target Transaction Leverage	2-3x Debt/Cash Flow at FA Capital corporate level	4-7x Debt/EBITDA	Wide-ranging

Source: Founders Advantage Capital Corp., Raymond James Ltd.

The three most important aspects of the company's investment structure (as circled above), in our opinion, are the following:

1. **The LEVERAGABLE Characteristic: Passive Ownership (With an Option to Become Active)** – This structure provides FA Capital with the best of both worlds as it can choose to be passive while maintaining the option to become active upon demand. By design, FA Capital only intends to invest in businesses that are already performing well under experienced and accomplished management that are heavily incentivized by direct ownership (with disproportionate upside potential) to remain focused in growing distributable cash flow. Under this decentralized operating model, FA Capital's lean corporate management team should be able to focus its ongoing efforts on investment origination and on the oversight of its existing portfolio without having to either be expert in or spend an inordinate amount of time with any particular operating business. As the size of its investment portfolio grows, we expect that this model should result in an increasing level of operating leverage with corporate-level expenses spread across a growing earnings base.

2. **The DEFENSIVE Characteristic: Controlling Common Equity Stakes of 51%-80%** – FA Capital invests directly in the common equity of its investee companies, taking controlling ownership positions of at least 51% with up to 20% remaining in the hands of selling shareholders. The primary benefit of this structure is that it results in FA Capital having control over its investments, a feature not provided when investing higher up in the capital structure (e.g., preferred unit (royalty) or debt) or in truly passive portfolio (i.e., minority) positions.

   In normal course, with founding management continuing to run their businesses on a decentralized basis, we would not expect FA Capital to use its control to exert much influence on the operations of companies in its portfolio. But in the event that any of its investments were to begin underperforming expectations or require proactive direction for any other reason, FA Capital would be in position to assume control in order to influence the

outcome in its own best interest, if required. This is a valuable differentiator vs. typical debt or preferred unit (e.g., royalty) investments, which typically provide for direct influence only once an investee company's cash flows have already deteriorated (i.e., to covenant-breaching levels).

By leaving still-significant equity ownership (i.e., >20%) with the founders of investee companies, FA Capital benefits from the natural incentive that this provides management to remain in their positions and to drive continued growth, a feature that is accentuated by the dual share structure of investments described below.

A related consideration is that by carrying very little debt at the investment level (another feature of FA Capital's investment structure), there is minimal chance that the level or payment of an investee company's distributable cash might be restricted by debt and related covenants, which has been an issue for a few of Alaris' investee "partners" in the past, occasionally resulting in restructured, deferred or discontinued distribution streams.

3. **The APPEALING Characteristic: Disproportionate Sharing of Future Cash Flow Growth –** This is far and away the most unique (to the best of our knowledge) and interesting aspect of FA Capital's investment structure, in our opinion. Through the use of a simple dual-class limited partnership ownership model, FA Capital is able to provide minority shareholders with a disproportionate share (i.e., high relative to their ownership interests) of both future cash flow growth and of proceeds in the event the business is eventually sold. Compared with alternative investment structures, ***we believe this model can be particularly appealing to both management retaining minority ownership positions (because it gives them an opportunity to earn outsized returns on their remaining investment) and to FA Capital (to the extent that it enables it to achieve below-market entry valuations).***

   To illustrate how this tiered sharing of future cash flows is achieved, we refer to the actual ownership structure established for DLC, the company's first investment (Exhibit 3).

Exhibit 3: Ownership Structure of the DLC Limited Partnership

Class of Security in the DLC Limited Partnership	Owned By FA Capital	Owned by Minority Shareholders
DLC General Partner Shares	60 (60%)	40 (40%)
DLC Class A Limited Partner Units Class A LP Units share equally on a pro rata basis all distributable cash of the DLC Limited Partnership for any fiscal year to a maximum of $14.6 million.	6,012 (60%)	3,988 (40%)
DLC Class B Limited Partner Units Class B LP Units share equally on a pro rata basis all distributable cash of the DLC Limited Partnership for any fiscal year in excess of $14.6 million.	3,000 (30%)	7,000 (70%)

Source: Founders Advantage Capital Corp., Raymond James Ltd.

The investment in DLC was set up as a limited partnership which, in turn, owns the operating businesses of DLC. FA Capital and the minority shareholders own 60% and 40%, respectively, of both the DLC General Partner and the DLC Class A LP Units, entitling them to their pro rata share of the partnership's distributable cash up to a threshold of $14.6 million for a fiscal year. Any distributable cash beyond this threshold for a fiscal year will be distributed to holders of the DLC Class B LP Units, the ownership of which is split differently than for the Class A Units. In this case, the minority shareholders of DLC own 70% of the Class B Units with FA Capital owning just 30%.

The result of this structure is that minority investors are entitled to receive a disproportionately high percentage of any future growth in distributable cash flows beyond a specified hurdle level. To the extent that cash flows do, in fact, grow following FA Capital's initial investment, minority investors would also receive a disproportionately large percentage of proceeds upon any future sale of the business.

A "Win-Win" Formula

Compared with conventional common equity investment (i.e., straight ownership of a percentage of a company's equity), we believe that this differentiated ownership structure can be appealing to both FA Capital and the founders of investee companies for several reasons summarized in Exhibit 4.

Exhibit 4: Advantages of FA Capital's Unique Ownership Structure

Advantages to FA Capital	Advantages to Founders of Investee Companies
Expands its subset of potential investments (by attracting the founders of companies that might otherwise choose alternative monetization avenues)	Can achieve partial liquidation; do not have to fully liquidate, as might be required if selling to private equity or to an in-market consolidator
Enables investment at lower multiples (as vendors might accept lower entry valuations in exchange for the opportunity for outsized participation in future growth)	Ability to remain involved in the management of the business they've developed, preserve the corporate culture and avoid taking on materially higher leverage
Continuity of management enables FA Capital to take a passive investment stance, requiring minimal investment of time to oversee operations and providing operating leverage to its business model	Ability to participate disproportionately in future cash flow growth
Direct equity ownership (with additional torque to future growth) aligns the interests of investee company management with its own goal of distributable cash flow growth	Ability to participate disproportionately in sale proceeds if the business grows and is eventually sold
By maintaining a majority ownership position, it has the ability to exert control, if required (i.e., in the event that corrective action is required following a period of financial underperformance)	Access to the additional governance, strategic input, transaction support and relationships that FA Capital brings to the partnership

Source: Raymond James Ltd.

Illustrative Economics of the Dual-Class Limited Partnership Structure

To illustrate the economic impact of this dual-class partnership structure to each of FA Capital and minority shareholders both over the holding period of the investment and upon eventual divestiture, we present an example below based loosely on the basic parameters of the investment structure used in each of the company's first two deals but not intended to represent actual forecasts. This illustrative example is based on the following assumptions:

Exhibit 5: Assumptions Used in Our Illustrative Example

An acquisition multiple of 8x EV/EBITDA, assumed debt equal to 0.5x EBITDA and an aggregate acquisition value (100% basis) of $50 million.
FA Capital ownership of 60% of Class A LP units and 30% of Class B LP units.
Trailing EBITDA of $6.67 million at point of acquisition, with distributable free cash flow of $4.93 million (74% of EBITDA) representing the "Threshold Amount" beyond which incremental distributions are payable to Class B unitholders.
Distributable free cash flow growth of 10%/year.
A sale of the investee company five years following FA Capital's initial investment at a sale price equal to 10x EV/EBITDA.

Source: Raymond James Ltd.

We highlight that the "Threshold Amount" in our example equates to an initial distributable cash flow yield of 9.9%, similar to the 9.6% weighted-average after-tax yield we are forecasting for 2017E based on our actual distribution estimates (Exhibit 6). In our forecasts, we assume that the initial distributions for both CLUB16 LP and IMPACT will be set slightly below their respective Threshold Amounts to enable them to self-fund near term capital requirements, with payout ratios expected to rise after the first year of ownership. We assume that the initial distribution level set for DLC in mid-2016 will be maintained throughout 2017E.

Exhibit 6: Initial Distribution Yields Implied by Threshold Amounts

Investment	Acquisition Cost ($mln)	2017E Distribution to FA Capital, Annualized ($mln)	Distributions Taxable at Investee Company Level?	After-Tax Distribution Yield to FA Capital
DLC	73.89	6.48	Yes	8.8%
CLUB16 LP [1]	20.50	3.12	No	11.3%
IMPACT Communications	12.00	1.46	Yes	12.1%
Weighted average:				**9.6%**

Note: (1) CLUB16 LP distributions will be paid out on a pre-tax basis to be taxed at the FA Capital level; we have assumed a 26%

Source: Founders Advantage Capital Corp., Raymond James Ltd.

A. Division of Distributable Free Cash Flow Throughout the Investment Holding Period

Exhibit 7 illustrates the progression of distributions to each of FA Capital and minority investors over a five-year period throughout which the investee company is growing its distributable free cash flow by 10%/year.

In this illustration, we assume that the distributable free cash flow of the investee company is fully paid out each year, mirroring the economic gains to which its owners are entitled. We note that in our actual forecasts for FA Capital, we assume a slight lag between cash flow growth and subsequent distribution growth as we assume monthly distributions will generally be reset at the beginning of the year based on run-rate (i.e., not "forward") cash flows.

Exhibit 7: Division of Distributable Cash Flow Throughout the Investment Holding Period

($ 000's unless otherwise noted)	At Initial Investment	Year 1	Year 2	Year 3	Year 4	Year 5
Distributable Free Cash Flow	4,933	5,426	5,969	6,566	7,222	7,945
> Y/Y Growth of Distributable FCF		*10%*	*10%*	*10%*	*10%*	*10%*
Distribution to Class A LP Unitholders:						
FA Capital (60%)		2,960	2,960	2,960	2,960	2,960
Minority Investors (40%)		1,973	1,973	1,973	1,973	1,973
Total to Class A ("Annual Threshold")		4,933	4,933	4,933	4,933	4,933
Distribution to Class B LP Unitholders:						
FA Capital (30%)		148	311	490	687	903
Minority Investors (70%)		345	725	1,143	1,603	2,108
Total to Class B		493	1,036	1,633	2,289	3,012
Total Distributions for the Period:						
FA Capital		3,108	3,271	3,450	3,647	3,863
Minority Investors		2,319	2,698	3,116	3,576	4,081
Total		5,426	5,969	6,566	7,222	7,945
> Minority Investors as % of Total		*43%*	*45%*	*47%*	*50%*	*51%*
> Y/Y Growth of FA Capital's Distributions			*5%*	*5%*	*6%*	*6%*
> Y/Y Growth of Minority Investors' Distributions			*16%*	*15%*	*15%*	*14%*
Annualized Return on Initial Investment:						
FA Capital ($30 million invested)		10.4%	10.9%	11.5%	12.2%	12.9%
Minority Investors ($20 million invested)		11.6%	13.5%	15.6%	17.9%	20.4%
Cumulative Distributions To-Date:						
FA Capital		3,108	6,378	9,828	13,475	17,338
> As % of Total		*57%*	*56%*	*55%*	*54%*	*52%*
Minority Investors		2,319	5,017	8,133	11,709	15,790
> As % of Total		*43%*	*44%*	*45%*	*46%*	*48%*
Total		5,426	11,395	17,961	25,183	33,128

Source: Founders Advantage Capital Corp., Raymond James Ltd.

Key takeaways from this distributable free cash flow breakdown include the following:

- By design, minority investors enjoy higher growth in their distributions at an average of ~15%/year vs. FA Capital at ~5%/year in this scenario.
- ***After five years, the distributions being paid to minority investors expressed as a yield on invested capital have more than doubled*** to over 20% vs. the 9.9% yield being earned at the outset of this partnership with FA Capital.
- ***By the end of five years, minority investors have earned 48% of cumulative distributions to-date and are earning over half (51%) of total run-rate distributions***, much higher than their 40% ownership stake in the investment.

B. Allocation of Sale Proceeds at Point of Divestiture

In the event that an investment is eventually sold, the ***proceeds on sale will be split based on the cumulative amount of distributions paid to each party over the life of the partnership*** (i.e., from the point of FA Capital's initial investment) and not on their percentage ownership of the investee company. This means that founding managements that grow the cash flows of their companies over the holding period will be rewarded with a bigger piece of the pie when it comes time to sell the business.

This feature of FA Capital's unique ownership structure also helps to maintain alignment between its own interests and those of minority owners throughout the duration of a partnership, as it avoids a scenario where FA Capital might have incentive to sell a business contrary to the best interests of its minority partners. For example, if FA Capital was instead entitled to a fixed 60% of sale proceeds but was receiving a much lower share of distributions, it might have incentive to sell a seasoned investment in order to reinvest into a new partnership in which it would initially earn a higher share of distributions.

In our illustrative example, by the fifth anniversary of FA Capital's initial investment, it will have received 52% of cumulative distributions with the remaining 48% earned by minority investors. If the investee company is sold after five years, as we assume, minority investors would therefore receive 48% of sale proceeds, higher than the 40% share they would be entitled to receive in a more traditional equity investment structure.

In Exhibit 8, we calculate the allocation of sale proceeds to each party assuming a sale transaction multiple of 10x EV/EBITDA, higher than the 8x multiple at which we assume FA Capital initially invested. This assumed appreciation in transaction multiple is consistent with our general expectations that (a) FA Capital's unique investment structure will enable it to invest at below-market valuations and (b) it should be able to achieve full valuations upon divestitures as it will be selling alongside minority investors with a goal of price maximization.

Exhibit 8: Allocation of Sale Proceeds at Point of Divestiture

($000's unless otherwise noted)	Sale Transaction Assumptions
Distributable Free Cash Flow (TTM)	7,945
Distributable FCF as % of EBITDA	74%
EBITDA (TTM)	10,736
EV/EBITDA multiple	10x
Enterprise Value at sale	107,360
Less: Investment-level debt at 0.5x EBITDA	5,368
Sale proceeds	101,992
Allocation of Proceeds Based on Cumulative Distributions:	
> FA Capital's share of proceeds (52%)	53,036
> Minority Investors' share of proceeds (48%)	48,956

Source: Raymond James Ltd.

An important point to make is that even in cases where minority investors are earning the majority of distributable cash flow and their share of cumulative distributions to-date also top 50%, entitling them to the majority of proceeds on a sale of the business, FA Capital would still maintain control of the business by virtue of its 60% stake in the partnership's general partner and Class A LP units.

Another relevant consideration is that in the first few years following FA Capital's initial investment (ranges from 2-5 years; varies by investment), a sale of the investee company would

require the unanimous approval of all shareholders. On the assumptions that (a) only well-performing investments might attract buyer interest and that (b) founding management of such companies might be resistant to a sale while their economics are still improving, we believe this provision in the company's standard investment agreement reduces the likelihood of investments being sold during the initial hold period.

C. The "Advantage Factor"

FA Capital defines the "Advantage Factor" as the incremental return earned by minority investors under its unique ownership structure compared with what they would have earned under a single-class, fixed-percentage ownership structure. In Exhibit 9 we break out both components of the Advantage Factor for our illustrative example, representing the incremental proceeds earned by minority investors over both the investment holding period (i.e., in the form of distributions) and upon a sale of their company.

Exhibit 9: The "Advantage Factor"

($ 000's unless otherwise noted)	Proceeds Under the FA Capital Model	Proceeds at a Flat 40%	Incremental Proceeds	As % of Initial Investment (1)
Advantage #1: Incremental distributions over holding period	15,790	13,251	2,539	10%
Advantage #2: Incremental proceeds at point of divestiture	48,956	40,797	8,159	32%
Aggregate "Advantage Factor" as % of minority investors' initial investment:				42%

Note: (1) Assume initial investment value equal to 40% of $63,333 (i.e., EV of 10x $6,667 EBITDA less debt of 0.5x EBITDA), which values minority investors' initial investment at full fair value rather than at the discounted valuation multiple (i.e., 8x) applied to FA Capital's initial investment.

Source: Founders Advantage Capital Corp., Raymond James Ltd.

In aggregate, founding management in our example would have generated incremental cash flow over five years equal to 42% of the value of their initial investment (i.e., the fair value of their 40% stake at the time of FA Capital's initial investment based on an EV/EBITDA multiple of 10x rather than the discounted 8x multiple used to value FA Capital's investment).

A critical observation is that ***the value of this incremental 42% return on initial investment is slightly higher, in absolute terms, than that of the 20% valuation discount that we assumed this company's founders had initially accepted from FA Capital*** due to the attractiveness of its investment structure (i.e., 8x EV/EBITDA vs. a market valuation of 10x). Specifically, the purchase price discount at the outset of FA Capital's involvement equated to 12.6% of the founders' total pre-transaction investment value (i.e., ~20% discount on the 60% stake sold), with the "Advantage Factor" equating to 16.8% of total investment value (i.e., 42% incremental return on the 40% retained stake) on an undiscounted basis, or 13.4% if discounted at 5%/year.

Exhibit 10: Net Economic Impact to Selling Shareholders of FA Capital Option vs. an Outright Sale

Part 1: Up-Front Value Foregone by Selling Shareholders		$ 000's unless otherwise noted
Initial fair value of company (100% basis):		
TTM EBITDA		6,667
EV/EBITDA possible in an outright sale		10x
Initial enterprise value (100% basis) at fair value		66,667
Less: Debt at 0.5x EBITDA		(3,333)
Initial fair value of equity (100% basis)		63,333
Percentage sold to FA Capital		60%
Initial fair value of stake sold to FA Capital		38,000
Actual transaction price of stake sold to FA Capital (at 8x EV/EBITDA)		30,000
Up-front value foregone by selling shareholders		8,000
> As a % of initial fair value of the company (100% basis)		12.6%
Part 2: Incremental Value Achieved Over Five-Year Holding Period		
	Actual Amounts:	**NPV (at 5%):**
Incremental distributions over five year holding period	2,539	2,119
Incremental proceeds at point of divestiture	8,159	6,393
Aggregate NPV of incremental cash received over five years		8,512
> As a % of initial fair value of the company (100% basis)		13.4%

Source: Raymond James Ltd.

While the magnitude of acquisition valuation discounts may differ from the 20% assumption used in our example, the point remains that ***founding management should be willing to accept some degree of up-front discount in exchange for the Advantage Factor they would be in line to earn by continuing to grow their company's cash flows.***

In our example involving 10%/year growth and a sale multiple of 10x EBITDA after five years, the NPV to minority investors is slightly, but not materially, higher than if they had instead chosen to sell their entire business up front at a full market multiple of 10x. It might be argued, therefore, that founding management should be economically indifferent between the two options in this case. The outright sale option might even be preferable for many founders as it would not require their ongoing involvement in management.

In fact, we expect that many business owners looking to monetize their investments and hit the beach would prefer to take the "bird in the hand" (i.e., a higher multiple up front) than pursue "two in the bush" (i.e., partial monetization at a lower multiple up front with subsequent risk/reward tied to future cash flow growth). ***FA Capital's offering is designed to appeal to the "two in the bush" variety of entrepreneur*** – those that prefer to remain engaged in growing their businesses and that envision more than enough remaining growth potential to offset the initial valuation discount they'd be ceding to FA Capital.

By design, therefore, the type of business owners attracted to the FA Capital partnership option will be those that have visibility on continued growth and the desire to see it materialize. This provides a favourable selection bias for FA Capital in the investment origination process, as business owners lacking either confidence in the growth prospects for their businesses or the drive to see it through should naturally be disinterested in partnering with it.

D. Economics to FA Capital Under Various Scenarios

In our illustrative example above, we have described a win-win scenario involving both ~5%/year growth in FA Capital's share of distributable free cash flow (based on 10%/year total growth for the investee company) and 25% multiple expansion between FA Capital's original investment and the sale of the company five years later. While we believe that these represent fair base-case assumptions for illustrative purposes, we expect that actual experience over time will vary from investment to investment, likely featuring a collection of both outperformers and underperformers.

In Exhibit 11 we estimate the IRR to FA Capital under a variety of scenarios involving a range of exit multiple and distributable cash flow growth assumptions. For simplicity's sake, we assume consistent cash flow growth over a five-year hold period.

Exhibit 11: Investment IRR to FA Capital Under Various Scenarios

Exit EV/EBITDA Multiple	Distributable Free Cash Flow Growth per Year (to FA Capital)					
	-5%	0%	5%	10%	15%	20%
6x	0%	5%	10%	16%	21%	26%
7x	2%	8%	13%	18%	24%	29%
8x	4%	10%	15%	21%	26%	32%
9x	6%	12%	18%	23%	29%	34%
10x	8%	14%	20%	25%	31%	37%
11x	10%	16%	22%	27%	33%	39%
12x	12%	17%	23%	29%	35%	41%

Note: IRR calculations assume an initial investment multiple of 8x EV/EBITDA, an initial cash yield of 10%, a five-year hold period and consistent cash flow growth each year.

Source: Raymond James Ltd.

Our observations include the following:

- Our base-case scenario involving an initial free cash flow yield of 10%, an exit multiple of 10x EV/EBITDA (i.e., a 25% premium to the initial investment multiple) and 5%/year distributable cash flow growth to FA Capital results in an IRR of 20% to FA Capital over five years.
- In a scenario involving no multiple expansion or distributable cash flow growth whatsoever, the resulting IRR of 10% would equal the investment's initial free cash flow yield.
- In order for an investment's IRR to turn negative, it would likely need to experience a combination of multiple contraction and consistent cash flow deterioration (e.g., in our schedule, a 5%/year decline in distributable cash flow and a 25% reduction in EV/EBITDA multiple (to 6x) arrives at an IRR of 0%.

A high-level observation is that over a five-year hold period, an investment's IRR is more sensitive to the level of distributable cash flow growth than to the exit multiple achieved upon sale. In our example, a 25% increase in the exit multiple (i.e., from 8x to 10x) under a 5%/year cash flow growth scenario only impacts the resulting IRR by by 5% (from 15% to 20%). In contrast, it would only take a swing of 5% in the annual cash flow growth assumption to impact the IRR by a similar 5%-6%.

A Three-Tiered Approach to Value Creation

Exhibit 12: Sources of Potential Value Creation in FA Capital's Business Model

Source: Raymond James Ltd.

We believe that the company's business model should be capable of creating value for shareholders in three main ways over time:

1. **Organic Distributable Cash Flow Growth –** By design, FA Capital's investment model targets profitable businesses with growing cash flow profiles and a continuity of incentivized management to facilitate continued growth. As a result, we expect that the distributions paid to FA Capital by investee companies should generally experience growth, even if at a slower pace than enjoyed by minority investors. We think the probability of distribution growth from any given investment should be particularly high in the years immediately following FA Capital's initial investment, when the visibility of near-term growth should be especially strong.

2. **Appreciation in the Value of Investments –** We expect that FA Capital should generally be able to acquire investments at valuations below market value, an up-front valuation concession provided by vendors in exchange for the right to participate disproportionately in future cash flow growth. This increases both the probability and potential size of gains that should be achievable when the time comes to divest of investee companies at full market multiples. Also contributing to potential investment gains would be any cash flow and earnings growth achieved over the holding period (i.e., to which full market valuation multiples would then be applied).

3. **Expansion of FA Capital's Valuation Multiple –** We believe that FA Capital's present valuation reflects its current status as a non-dividend paying investment company with a small number of holdings and a limited track record as a reporting entity. If, as we expect, the company is able to improve the diversification of its portfolio by adding more high-quality investments, establish a track record of cash flow growth from existing investments, and grow its dividend as it evolves towards a high-payout model, we would expect its own valuation to expand to some degree over time. Any resulting reduction in its equity cost of capital combined with increased leverage (i.e., further reducing its overall cost of capital) would enhance the value accretion potential from future investments.

Initially, this value creation may be limited to achieving distributable cash flow growth from existing holdings. While the company has no defined holding period for its investments, we expect that it could be several years before any divestitures are made, making the potential realization of investment gains a medium-term consideration. Recognition of these latent gains in FA Capital's valuation might come sooner, however, once investors become comfortable with the notion that FA Capital is able to invest at discounted valuations such that the fair market value of its investments immediately exceeds their cost.

The establishment of a high, rising and defensive dividend payout underpinned by a reasonably diversified investment portfolio will take some time, with the pace of the company's cash flow maturity dependent upon its ability to both source and fund attractive investments. Assuming the company executes in line with our forecasts, we believe it could take a couple of years for investors to become sufficiently comfortable with the growth and defensiveness of its dividend payout to reward it with a commensurately higher valuation.

The Target: Founder-Managed Companies with High and Sustainable FCF

In Exhibit 13 we summarize the key characteristics that FA Capital is seeking in target investments.

Exhibit 13: Characteristics of Target Investments

Target investment size of $20-$200 million
Target EBITDA of $5-$40 million
Located in Canada and the U.S.
Industry agnostic, as long as 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 positive free cash flow
Opportunity for continued growth
Low capital intensity
Minimal debt
Low correlation to capital markets and the economy

Source: Founders Advantage Capital Corp., Raymond James Ltd.

In order to achieve its own goal of establishing a high, sustainable and growing dividend payout, FA Capital seeks to invest in companies with similar characteristics. First and foremost, it is targeting companies with high, stable and growing free cash flow that are unburdened by high debt and/or capital intensity. It will consider investing in any industry, as long as it is not overly cyclical or resource-oriented and is located in Canada or the U.S., markets that are familiar to management.

A critical requirement for any potential investee company is that it is being operated by founding management that is seeking only partial liquidity and will remain at the helm to steer their company through its next phase of growth. As discussed earlier, we believe that these are the only circumstances in which FA Capital's unique investment model, featuring a discounted acquisition multiple and a dual-class ownership structure, will make economic sense to both the company and investee founders that continue as minority investors.

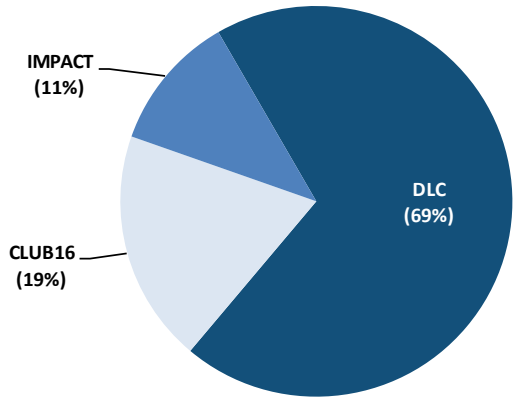
The other notable investment criteria listed in Exhibit 13 have to do with the size of target investments, with ranges designed to facilitate the construction of a balanced portfolio over time. While the value of the company's first two investments have fallen within its target size range, at $73.9 million for DLC (at time of announcement) and $20.5 million for CLUB16 LP, it paid just $12.0 million for its initial stake in IMPACT Communications, below its nominal $20 million minimum investment threshold. We note that the aggregate cost of the IMPACT investment could grow to $17.1 million if the vendor's put option (for an additional 22% stake) is exercised. As the company's funding availability and portfolio size both increase over time, we expect that the average size of its investments will gradually migrate higher.

Investment Review: Early Days in the Quest for Diversification

In addition to targeting companies that individually feature high and stable free cash flow with limited cyclicality, FA Capital aims to further enhance the stability and defensiveness of its own distributable cash flow by assembling a diversified portfolio of investments with exposure to varied and generally uncorrelated end markets.

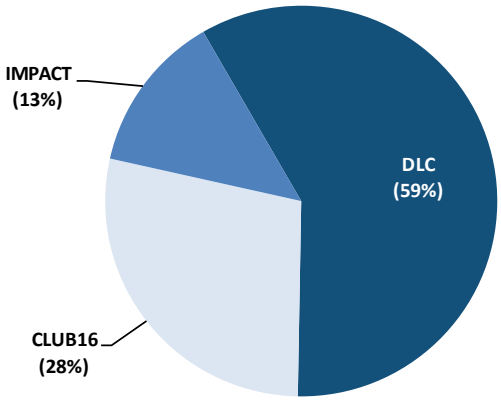
To date, some degree of diversification has been achieved through investment in a mortgage brokerage, a fitness club operator and a manufacturer of two-way radios for commercial use which each have exposure to very different end markets and economic drivers. The extent of diversification in the current portfolio is limited, however, by the dominant size of DLC, which represents 69% of total investment to-date and an estimated 59% of 3Q17E distribution payments from investments to FA Capital.

Exhibit 14: Investment Portfolio Breakdown Based on Acquisition Cost



Source: Founders Advantage Capital Corp., Raymond James Ltd.

Exhibit 15: 3Q17E Distribution Payment Breakdown by Investment



Note: Includes only investments announced to-date.

Source: Founders Advantage Capital Corp., Raymond James Ltd.

We expect that as FA Capital makes additional investments, it will gradually improve the diversification of its portfolio both in terms of individual investments (i.e., reducing its concentration in DLC) and in terms of the industries in which it is invested and, therefore, the end-markets and economic factors to which it is exposed.

In Exhibit 16 we summarize the valuation multiples paid by FA Capital for each of its three investments. Specifically, we present EV/EBITDA multiples based both on TTM EBITDA at the time of each acquisition and on 2017E EBITDA using the mid-point of management's guidance ranges. We consider EV/2017E EBITDA to be a rough proxy for the forward multiples paid for these businesses considering that the closing dates for these deals, ranging from Jun-2016 - Mar-2017 (we expect), are loosely clustered around late-2016.

Exhibit 16: EV/EBITDA Multiples Paid by FA Capital

($000s unless otherwise noted)	Acquisition Cost	% Acquired by FA Capital	Investment-Level Net Debt (1)	Enterprise Value	TTM EBITDA	EV/TTM EBITDA	2017E EBITDA (2)	EV/2017E EBITDA
DLC	73,888	60%	5,569	128,715	14,600	**8.8x**	18,500	**7.0x**
Club16 LP	20,500	60%	4,026	38,193	6,100	**6.3x**	7,250	**5.3x**
IMPACT Communications	12,000	52%	-	23,077	4,000	**5.8x**	4,200	**5.5x**
Weighted average:						**8.0x**		**6.5x**

Notes: (1) Estimated for Club16 LP and IMPACT. (2) 2017E EBITDA reflects the mid-point of management guidance ranges.

Source: Founders Advantage Capital Corp., Raymond James Ltd.

The weighted average EV/TTM EBITDA of these investments is 8.0x, although each of its more recent (and smaller) deals were priced lower at 5.8x-6.3x. Based on EV/2017E EBITDA, the weighted average multiple of FA Capital's investments is 6.5x.

In the following pages, we provide overviews of each of FA Capital's three investments, including for each a discussion of the investment transaction, an overview of the business and a summary of our financial forecasts.

Investment #1: Dominion Lending Centres

Exhibit 17: Dominion Lending Centres – Key Investment Attributes

Date Investment Announced:	May-13-2016	**Annual Threshold Amount:**	
Date Investment Closed:	Jun-3-2016	**> Pre-tax (estimated):**	$20,000,000
Amount Invested:	$73,887,888	**> Pre-tax as a % of TTM EBITDA:**	137%
% of Class A LP Units Owned:	60%	**> After-tax (actual):**	$14,600,000
% of Class B LP Units Owned:	30%	**Distributions to FA Capital:**	
Investment-level Net Debt Assumed:	$5,568,503	**> 4Q16E Annualized (After-Tax):**	$6,480,000
Implied Enterprise Value of Company:	$128,714,983	**> As an After-Tax Yield on Investment:**	8.8%
TTM EBITDA:	$14,600,000	**> Tax Applicable At:**	DLC (investee level)
EV/TTM EBITDA Multiple Paid:	8.8x	**Website:**	www.dominionlending.ca

Source: Founders Advantage Capital Corp., Raymond James Ltd.

A Justifiably-Higher Price for a Top-Tier Investment

The company's first major investment, announced in May-2016, was of a 60% stake in Dominion Lending Centres (DLC) in a transaction valued at $73.9 million at the time it was announced. The structure of this deal set the template for future investments, in this case involving FA Capital taking 60% of DLC's Class A units and 30% of Class B units and with the annual Threshold Amount set to approximate run rate EBITDA.

This transaction differed from subsequent deals in two meaningful ways:

1. Rather than receiving purely cash compensation in exchange for partial liquidation of their interest in DLC, ***co-founders Gary Mauris and Christopher Kayat took back 17% of the transaction value in the form of FA Capital common shares***, which at the time were priced at $2.625/share. We interpret this share exchange and the coincident appointment of Mr. Mauris to the company's Board as a vote of confidence in both its business model and its valuation, and as an indication that these founders have truly committed to treating their new relationship with FA Capital as a partnership rather than as a simple co-investment.

2. ***The valuation of the DLC acquisition, at 8.8x trailing 12-month EBITDA, was higher than the multiples paid for smaller subsequent investments***, with the resulting initial after-tax distribution yield of 8.8% correspondingly lower. Considering the large size of DLC (i.e., an implied enterprise value of $129 million based on acquisition price), the strength of its brand and market share, and the generally high quality of the business, we believe there had been additional competition (e.g., from private equity) for this asset that would have necessitated, and warranted, a higher acquisition multiple.

3. ***The Annual Threshold Amount was established at a level 37% higher than the company's TTM EBITDA,*** whereas the Threshold Amounts for other investments approximate their TTM EBITDA. DLC's Threshold was established at a time when it planned to distribute cash flow on a pre-tax basis such that its Threshold, too, would approximate TTM EBITDA. When it was later deemed impractical for DLC to make distributions on a pre-tax basis and its initial distribution was set at $10.8 million/year (i.e., based on after-tax cash flows), its Threshold remained unchanged at $14.6 million/year.

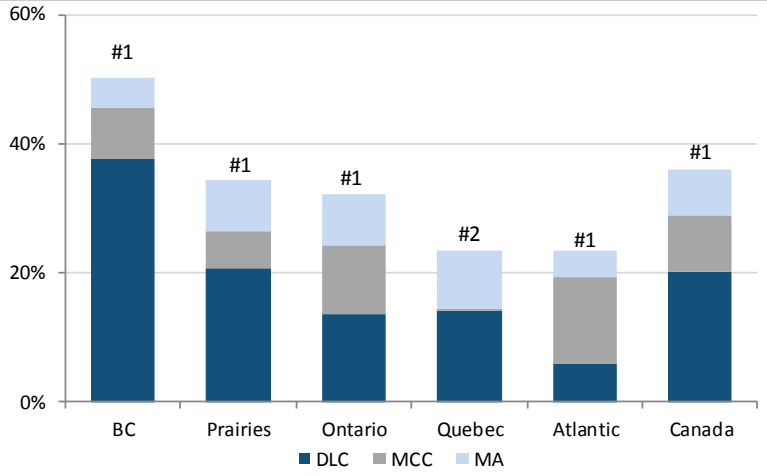
With its first investment, the company was effectively introducing itself and its unique investment model to the capital markets, and we believe it was critical to make a favourable first impression by acquiring an undisputedly desirable business to set the right tone with investors. Given the alternatives of starting out by acquiring either DLC or multiple smaller investments at lesser valuations, we believe that FA Capital made the right choice by making DLC its initial, cornerstone investment. Considering that the company's share price increased by 113% from the ascribed price of $2.625 when the deal was announced on May-13-2016 and the $5.60 when the deal closed on Jun-3-2016 (versus the TSXV at +2%), we suggest that it achieved its desired market attention and response.

In our opinion, DLC is emblematic of the type of investment that is ideal for FA Capital's model. It features low capital intensity and high free cash flow generation, limited cyclicality, a growth-oriented business model led by successful entrepreneurs, and a market-leading position with defensible market share that adds to the stability of its outlook.

Company Overview: A Market Leader with Sustainable Competitive Advantage

DLC is the largest mortgage broker in Canada in terms of both value and volume of mortgages funded. It was founded in 2006, became the country's largest mortgage broker in 2010 and then further consolidated its leading position with the acquisitions of Mortgage Centre Canada (MCC) in Jun-2013 and of Mortgage Architects (MA) in Dec-2015. The consolidated entity currently has over 5,000 mortgage professionals and 325 franchises with a total of 650 locations, and has the leading market share in each region in Canada other than Quebec (where it is #2). Based on mortgage submissions processed by D+H (i.e., the dominant processor of mortgage submissions) for the first seven months of 2016, DLC had a national market share of ~36%. In aggregate, DLC estimates that its national market share is ~40%.

Exhibit 18: DLC Franchisees by Operating Entity

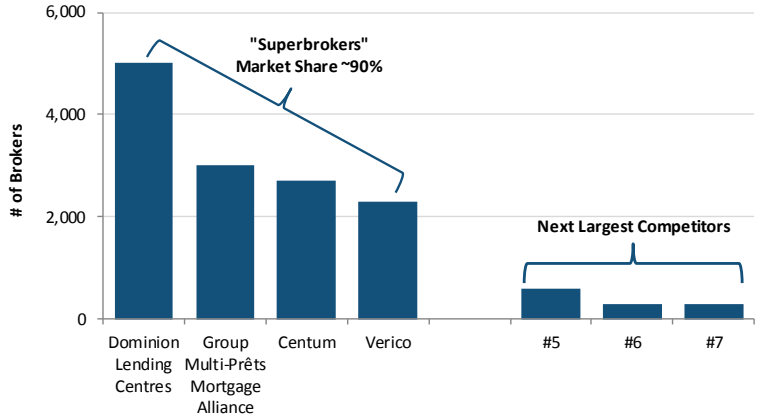


Note: Based on submissions processed by D+H from Jan-Jul 2017.

Source: Founders Advantage Capital Corp., Raymond James Ltd.

The consolidated DLC ranks as the largest of four "super-brokers" operating in Canada. The second-largest, Group Multi-Prêts Mortgage Alliance, bulked up on Oct-2016 by acquiring the industry's fourth-largest player, Invis and affiliated company Mortgage Intelligence, which grew its broker count to over 3,000. With reported broker counts of over, 2,700 and 2,300, respectively, Centum and Verico are the only other networks of Canadian mortgage professionals with any meaningful scale. We estimate that these four "super-brokers" account for a combined Canadian market share of ~90%.

Exhibit 19: Estimated Size of Leading Canadian Mortgage Broker Networks



Source: Dominion Lending Centres, Broker Websites, Raymond James Ltd.

Mortgage brokers are agents hired by borrowers to assist them in finding and arranging mortgage loans. By using a mortgage broker, a borrower gains access to potentially hundreds of lenders, generally enabling them to achieve better rates and/or terms that meet their unique circumstances than they might be able to achieve by dealing exclusively with a single lender. Brokers are compensated in the form of commissions paid by lenders with rates varying from 50-125 basis points (i.e., of mortgage value), with higher commissions generally paid for fixed term mortgages and for longer-term mortgages. Most mortgage lenders also pay volume-incentive bonuses to brokers based on reaching specified volume thresholds for a particular year which accrue to DLC based on the aggregate volumes generated by its three brands. DLC estimates that the average broker commission is ~100 bps.

DLC operates a franchise business model, with revenue-based royalty fees received from franchisees representing 40%-45% of total revenues. Approximately 10%-12% of revenues represent contributions to a company-wide advertising fund that all DLC-brand franchisees are contractually obligated to pay ($150/month per agent) which cover both the cost of advertising and a fee of ~15% earned by DLC for managing the process. The remaining ~45% of revenues include volume-based bonuses paid by lenders, ancillary fees such as connectivity and partnership fees, and commissions for selling mortgage and other types of insurance. Expenses consist primarily of corporate staffing costs, including senior management and a recruitment sales team, advertising costs (which are reimbursed by franchisees) and costs associated with onboarding new franchisees. Onboarding costs for a team generating over $200 million per year of funded mortgages might include a $100,000 signing bonus for a 7-year contract (amortized over the 7-year period) and conversion costs (changed signage etc.) of ~$25,000, which we estimate would result in ***a payback period of roughly one year***.

While mortgage brokers can opt to remain independent and avoid paying franchise royalty fees and advertising fund contributions, there are several ***advantages to joining DLC's platform***:

- It offers a national brand presence, supported both by national advertising campaigns and by the presence of a well-recognized in-house Chief Economist that reinforces the quality of the brand.
- Its brokers have access to The Dominion Intranet, a "one-stop free resource centre", and to education through its Learning Academy.
- Broker-specific websites and printed marketing materials use the company's branding.
- Brokers have access to a premium and proprietary CRM program as well as to a professionally-written newsletter that is automatically sent under the broker's name to its contacts.
- Through Plan B Mortgage Services, brokers have access to a variety of Alt-A, B and private lenders, enabling them to become a one-stop shop for their clients.

The net impact of the factors listed above is higher earnings power for brokers operating on the DLC platform which, according to DLC, earn an average of ~$85,000/year vs. an industry average (ex-DLC) of ~$55,000/year.

The amount of royalties and fees paid to DLC by brokers on its platform varies by brand, as detailed below.

Exhibit 20: Royalty Revenue Models for DLC Brands

Brand	Royalty / Fee Model
DLC	5% royalty on all mortgage-related revenue plus $150/month contribution to the DLC advertising fund; 7-year contracts
The Mortgage Centre	2-3 bps royalty on total funded volume (2%-3% royalty on mortgage-related revenue) plus agent fees of $99/month; 5-year contracts
Mortgage Architects	~5% royalty on mortgage-related revenue

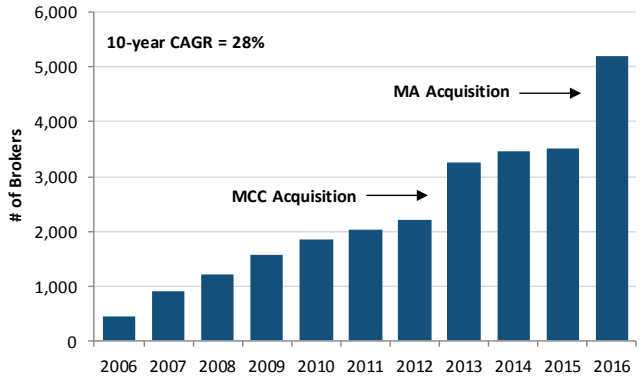
Source: Founders Advantage Capital Corp., Raymond James Ltd.

DLC's industry-leading size provides it with several competitive advantages, making the addition of new franchisees to its network a win-win proposition. By pooling funding from franchisees to support the promotion of a single brand, superior leverage can be achieved from marketing expenditures. By aggregating mortgage volumes across the system, it is able to achieve superior access to lenders and a higher level of volume-based bonuses (i.e., it ranks as the #1 broker for 16 of its top 20 lending relationships). Its relatively large capitalization and free cash flow also positions it well as an industry consolidator, to the extent that there remains much consolidation

potential. We also believe that as the DLC platform grows, it becomes more attractive to prospective joiners, aiding in the broker recruitment effort and resulting in a network effect supportive of continued expansion.

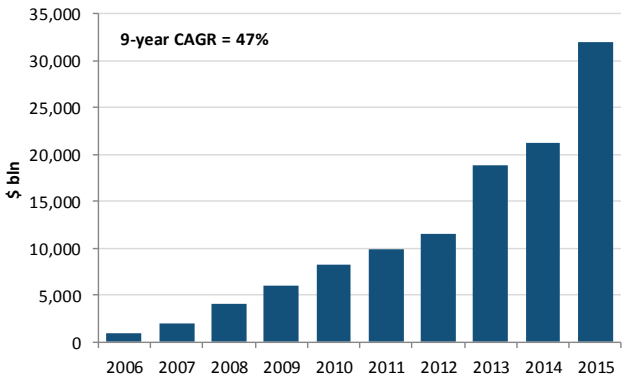
In addition to acquisitions, DLC has historically enjoyed organic growth driven both by ongoing net recruitment of new franchises and brokers, a high contract renewal rate of ~94%, and, in several years, improved productivity per broker. ***Historically, DLC has grown its market share organically by an average of 1.0%-1.5%/year***. Broker recruitment efforts are aided by (1) the attraction of operating under any of DLC's brands with the associated benefits, as discussed above, (2) its ability to offer different business models (i.e., DLC as a full-service model, MCC as a low-cost model) with separate commission structures to appeal to brokers with varying preferences, and (3) a 13-person recruitment sales force, the largest in the industry. The result has been steady growth (ex-acquisitions) in the number of brokers operating under DLC's various brands, as shown in Exhibit 21.

Exhibit 21: DLC Group Broker Count



Source: Dominion Lending Centres, Raymond James Ltd.

Exhibit 22: DLC Mortgage Origination Volumes

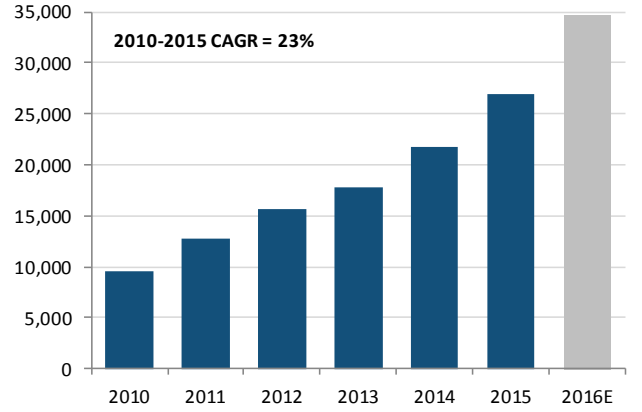


Source: Dominion Lending Centres, Raymond James Ltd.

Looking forward, DLC sees particular opportunity to grow its market share in Ontario, which accounts for over half of national mortgage originations and for which DLC's market share of ~30% is low vs. its ~50% share in British Columbia.

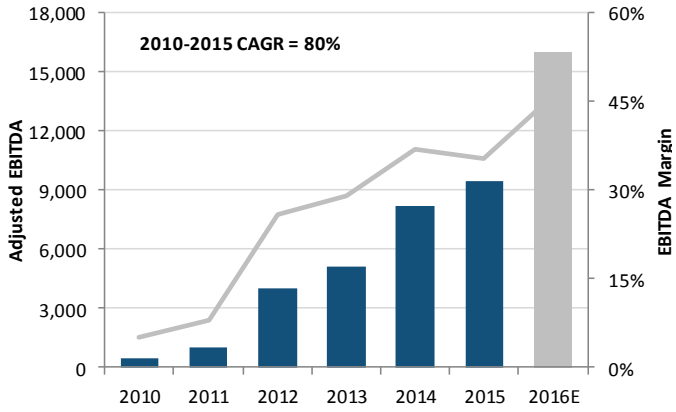
As a result of a combination of aggressive broker recruitment, acquisitions and a consistently buoyant Canadian residential real estate market, DLC enjoyed a 23% revenue CAGR from 2010-2015 with an even steeper 80% CAGR in normalized EBITDA over the same period. Run rate revenues and EBITDA have since expanded further due to continued organic growth and the Dec-2015 acquisition of Mortgage Architects, with run-rate EBITDA reaching a reported $14.6 million as at the time of the DLC acquisition announcement by FA Capital in May-2016.

Exhibit 23: DLC Historical Revenue ($ 000's)



Source: Founders Advantage Capital Corp., Raymond James Ltd.

Exhibit 24: DLC Historical Adj. EBITDA ($ 000's) & EBITDA Margin



Source: Founders Advantage Capital Corp., Raymond James Ltd.

Industry Overview & Outlook – A Historically Growthy Market Set For a Modest Near-Term Slowdown?

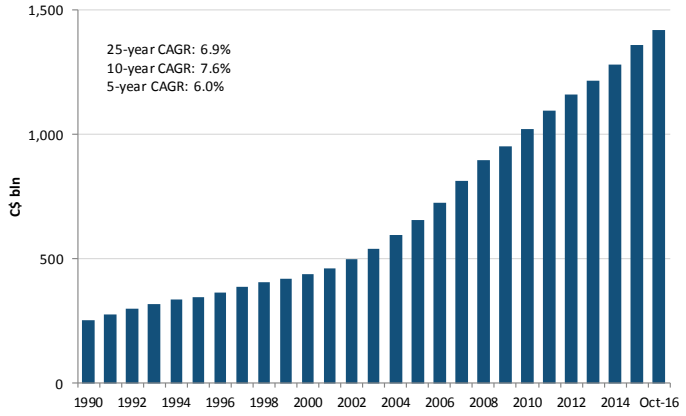
The majority of DLC's revenues are dependent on the volume of mortgages brokered by its franchisees, which are in turn a function of (1) the number of housing transactions in the market, (2) average house prices, (3) mortgage brokers' aggregate share of total mortgage financings and (4) DLC's share within the broker market.

As discussed above, we believe that the strength of DLC's brand and offering to brokers will contribute to continued market share gains through the ongoing addition of brokers to its platform. Below, we discuss trends and outlooks for market-wide mortgage credit growth and for broker market share, in aggregate. Overall, our near-term outlook is for modest contraction in both housing prices and housing sales (i.e., a reversal from recent trend) due mainly to recent regulatory tightening, particularly in the GVA and the GTA. As a potential offset, we think there is a good chance that mortgage brokers' share of the mortgage financing market will continue to rise due to a number of factors.

The Canadian Mortgage Market: A History of Steady Growth

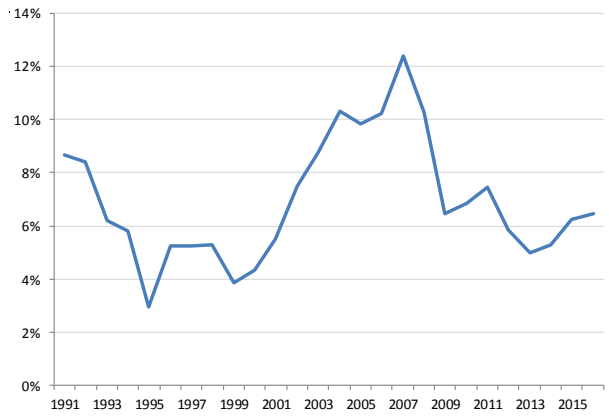
The size of the Canadian mortgage market, as measured by the total value of residential mortgages outstanding, has grown consistently over the long term, at a CAGR of 6.9% between 1990 and 2015 and, more recently, by 6.0% over the past five years. Year-over-year growth of 6.2% in 2015 and of 6.0% at Oct-2016 have been consistent with long-term trend, with the market showing only modest deceleration in recent months following the introduction of new mortgage insurance regulations.

Exhibit 25: Residential Mortgage Credit Outstanding in Canada



Source: Statistics Canada CANSIM tables, Raymond James Ltd.

Exhibit 26: Canadian Residential Mortgage Credit, Y/Y Growth

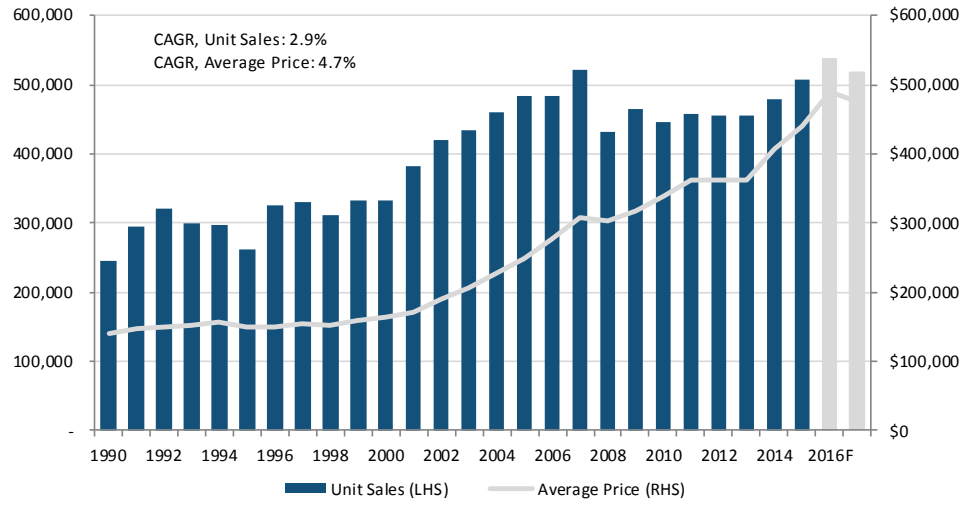


Source: Statistics Canada CANSIM tables, Raymond James Ltd.

Historical growth in the value of mortgages outstanding has been a function of both steady price increases and a rising number of unit sales. A number of factors have provided support for these increases, including steady levels of net migration, particularly of skilled workers, a steady level of housing starts, a long-term trend of rising home ownership and, more recently, historically low interest rates that have supported housing affordability.

Based on transaction activity, the Canadian Real Estate Association (CREA) tracks average house prices and total unit sales and provides regularly updated forecasts for each (Exhibit 27). In its most recent *Quarterly Forecasts Report* published in Dec-2016, it anticipates 6.2% Y/Y growth in unit sales and a 10.5% average house price increase for 2016E which, combined, would translate to an above-average level of mortgage credit growth for 2016E. ***For 2017E, however, CREA is now calling for a -3.3% contraction in unit sales and a -2.8% contraction in average prices***, both of which were revised lower vs. its previous forecast.

Exhibit 27: Residential Unit Sales and Average House Prices in Canada



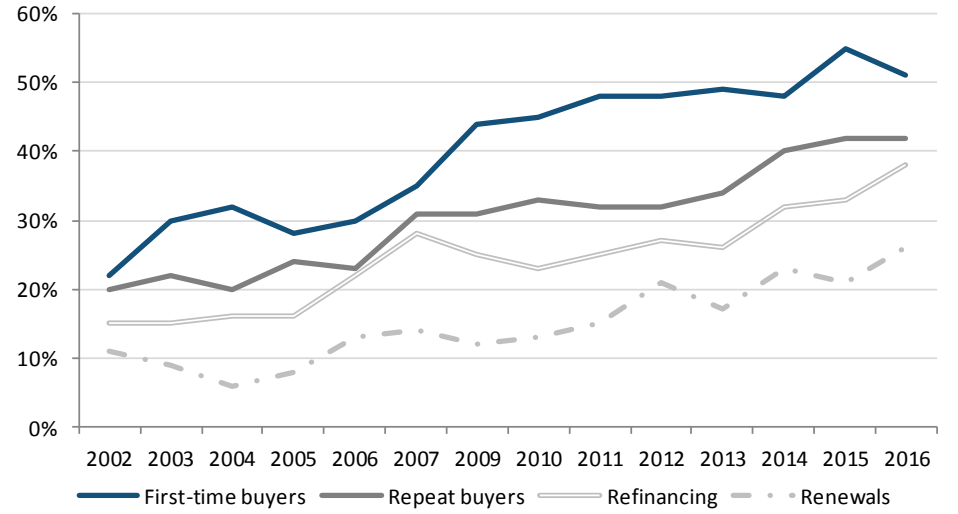
Source: Canadian Real Estate Board (CREA), Raymond James Ltd.

On a near-term basis, we expect that ***recent regulation changes tightening the availability of mortgage insurance will serve to pressure both housing prices and unit sales, partially reversing the outsized growth in each metric in 2016 and suggesting a similarly soft near-term growth trend for the aggregate value of new mortgage credit***. Beyond 2017E, our base-case assumption is that the aggregate size of the Canadian mortgage market will resume relatively steady growth which, even if not as strong as its historical average growth rate, would still be supportive of a relatively steady revenue outlook for mortgage brokers such as DLC.

Broker Market Share: A Generally Rising Trend

Both the CMHC and Mortgage Professionals Canada (MPC) conduct surveys to estimate the extent to which different classifications of homeowners use mortgage brokers to assist them in securing financing. As shown in Exhibit 28, CMHC data indicates that ***the use of mortgage brokers has been on a generally upward trend since 2002***, with first-time homebuyers the most likely to use a broker (51%) and those renewing mortgages the least likely (26%). These statistics are corroborated by the most recent MPC study which indicates that 43% of all purchasers (and 25% of those that are renewing or refinancing) are currently using brokers.

Exhibit 28: Mortgage Brokers' Share of Canadian Mortgage Originations by Borrower Type



Source: CMHC Consumer Lending Surveys, Raymond James Ltd.

This generally rising market share trend for mortgage brokers (vs. other financing alternatives) is supportive of the demand outlook for DLC and its peers, particularly considering the following factors that DLC expects will drive even greater use of brokers for mortgage financing going forward:

- **Increasingly stringent mortgage regulations** – Since 2008, the federal government and the CMHC have introduced a number of increasingly stringent regulations making it more difficult for homeowners to qualify for mortgage insurance, thereby dampening the availability (and raising the price) of mortgage credit. Under these circumstances, however, we believe the value of using mortgage brokers is trending higher due to both the advice they are able to provide in navigating a changing regulatory environment and the access they are able to provide to multiple lenders offering a variety of mortgage types (including uninsured loans). DLC notes, for example, that it gained share and grew revenue through the 2008 – 2009 financial crisis by providing what was perceived to be valuable advice.
- **Conditioning and habits** – Once a homeowner has established a relationship with a mortgage broker to assist them with arranging a mortgage, we believe there is a high probability that they will also use a broker to assist with future financings. We believe the rising usage of brokers by first-time buyers is therefore a precursor to future market share growth of brokers (on a lagged basis) for follow-on transactions, including refinancing and renewals.
- **The complexity of mortgages** – In the event that the structure and range of options of mortgage financial products becomes increasingly complex, the value associated with the expertise, advice and access of trained mortgage professionals should also increase.

DLC Forecasts

Exhibit 29: DLC Forecast Summary

	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	Y/Y Growth: 2018E	2019E
Revenue	7,619	10,000	10,769	8,936	37,324	39,191	41,150	5%	5%
Normalized EBITDA	**3,200**	**5,000**	**5,600**	**4,200**	**18,000**	**18,900**	**19,845**	**5%**	**5%**
> EBITDA margin	*42%*	*50%*	*52%*	*47%*	*48%*	*48%*	*48%*		
Distributions to owners	2,700	2,700	2,700	2,700	10,800	13,200	14,000	22%	6%
> Distributions as % of EBITDA	*84%*	*54%*	*48%*	*64%*	*60%*	*70%*	*71%*		
Distributions to FA Capital	**1,620**	**1,620**	**1,620**	**1,620**	**6,480**	**7,920**	**8,400**	**22%**	**6%**
> % of total	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*	*60%*		
Distributions to NCI	1,080	1,080	1,080	1,080	4,320	5,280	5,600	22%	6%
> % of total	*40%*	*40%*	*40%*	*40%*	*40%*	*40%*	*40%*		

Source: Founders Advantage Capital Corp., Raymond James Ltd.

- ***In the three-year period 2012-2015, DLC grew revenue and EBITDA by CAGRs of ~20% and ~40%, respectively***, supported in part by its acquisition of MCC in Jun-2013. Following its Dec-2015 acquisition of Mortgage Architects and benefiting from strong market-wide activity growth, we expect 2016E Normalized EBITDA of $16.0 million (including $3.8 million for 4Q16E), 68% higher than the $9.5 million earned in 2015.

- For 2017E, management expects DLC to earn EBITDA of $18.0-$19.0 million, which would represent Y/Y growth of 13%-19% based on our 2016E forecast. ***Our $18.0 million forecast reflects the low end of management's guidance range***, with quarterly forecasts reflecting normal seasonal strength expected in each of the second and third quarters of the year.

- ***Beyond 2017E, our forecasts reflect more moderate revenue growth of 5%/year*** with no further margin expansion, resulting in 5%/year EBITDA growth. This outlook assumes no further acquisitions, and is intended to mirror the historical average growth rate of the Canadian mortgage market, for which we are assuming that activity levels will return to normal by 2018E. ***Our modest growth forecasts might be conservative considering the following***:

  - DLC has historically been successful in adding established brokers to its various platforms, representing a source of potential organic growth not factored into our forecasts.

- We believe the recent acquisition of Marlborough Sterling, while small, has the potential to provide meaningful earnings upside if DLC can successfully transition the deal application flow from its vast broker network onto this platform, potentially reducing fee-based costs in the process.
- Brokers' share of total Canadian mortgage transactions could benefit if their share of renewals, which is still relatively low, continues to improve at a lag to their share with first-time buyers as those homeowners become increasingly comfortable with the use of brokers.
- Considering that the founding management of DLC reportedly opted to accept a lower up-front transaction price from FA Capital vs. competing offers, we think it reasonable to assume that at the time of the deal they had confidence that the business would generate enough medium-term cash flow growth (i.e., more than our 5%/year forecast), and therefore distribution growth, to more than compensate for the reduced acquisition price.

- ***Potential risks to our growth forecasts include*** (1) the risk of an extended housing (and mortgage) market slowdown, and (2) the possibility that non-bank lenders (i.e., which provide much of brokers' product offerings) might lose share to banks following recent regulatory changes that decreased the availability of mortgage insurance and made it more difficult for those lenders to fund mortgage originations.

- DLC began paying a monthly distribution of $0.9 million ($0.54 million to FA Capital) in Oct-2016 which, at an annualized amount of $10.8 million, equates to 74% of its TTM EBITDA as at the time of FA Capital's Jun-2016 acquisition. Assuming a 26% tax rate, the initial distribution was therefore set to approximate run-rate cash flow circa 1H16. Since then, DLC's EBITDA has grown, however, resulting in a declining annualized payout ratio.

  Based on its current monthly distribution, we estimate that DLC will pay out just 60% of 2017E EBITDA or 81% on an after-tax basis. We forecast higher after-tax payouts of 94%-95% in 2018E and 2019E. We note that based on our forecasts, DLC's distribution is not expected to exceed its annual Threshold Amount before the end of 2019E.

Investment #2: Club16 LP

Exhibit 30: Club16 LP – Key Investment Attributes

Date Investment Announced:	Nov-2-2016	**Annual Threshold Amount:**	
Date Investment Closed:	Dec-20-2016	**> Pre-tax (actual):**	$5,850,000
Amount Invested:	$20,500,000	**> Pre-tax as a % of TTM EBITDA:**	96%
% of Class A LP Units Owned:	60%	**> After-tax (estimated):**	$4,329,000
% of Class B LP Units Owned:	30%	**Distributions to FA Capital:**	
Investment-level Net Debt (est.):	$4,026,000	**> 2Q17E Annualized (After-Tax):**	$2,308,800
Implied Enterprise Value of Company:	$38,192,667	**> As an After-Tax Yield on Investment:**	11.3%
TTM EBITDA:	$6,100,000	**> Tax Applicable At:**	FA Capital (holdco level)
EV/TTM EBITDA Multiple Paid:	6.3x	**Websites:**	www.trevorlindenfitness.com / www.shesfit.com

Source: FA Capital Corp., Raymond James Ltd.

Deal Structure: Smaller but Higher Yielding than Deal #1

FA Capital's second investment, announced in Nov-2016, was of a 60% stake in Club16 LP, the owner of 13 fitness clubs located in the Vancouver and Lower Mainland areas of British Columbia and operating under the Club 16 Trevor Linden Fitness Clubs and She's FIT! Health Clubs brands. The arrangement is similar to that of the DLC transaction, with FA Capital acquiring a 60% interest in its' Class A LP units and 30% of its Class B LP units and with the annual Threshold Amount approximating trailing 12-month EBITDA.

Four notable differences from the company's first deal are that:

1. Its $20.5 million cost is materially smaller than the company's $73.9 million investment in DLC.
2. The valuation of this investment, at 6.3x trailing 12-month EBITDA, is much lower than the 8.8x multiple paid by FA Capital for its stake in DLC.

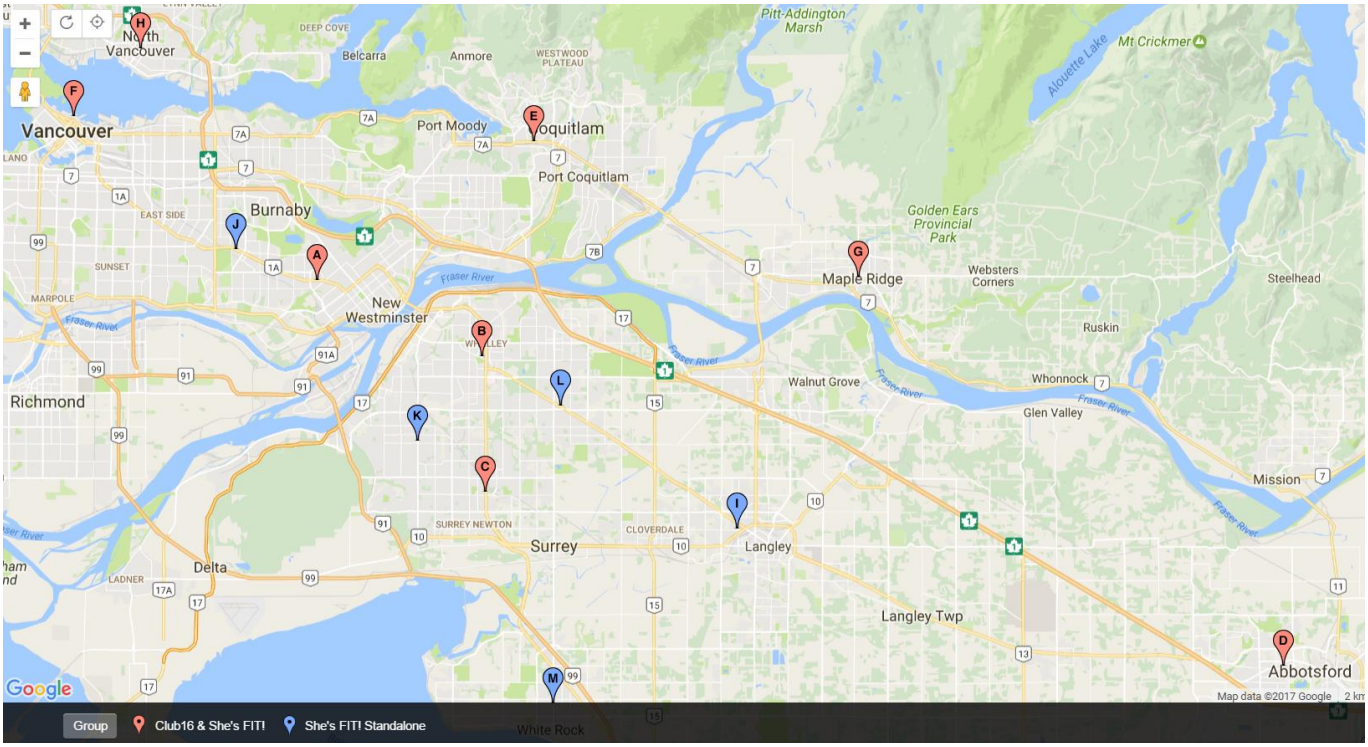
3. We estimate that the initial after-tax yield on investment for Club16 LP will be 11.3%/year (and that it would be 12.7%/year assuming that all distributable cash flow is paid out), much higher than the 8.8%/year implied by DLC's initial monthly distribution.
4. Unlike distributions from DLC, which are paid out on an after-tax basis, distributions from Club16 LP will be paid out on a pre-tax basis. Because they will be taxable at the holding company level, they will provide FA Capital with a revenue stream against which it will be able to deduct corporate-level expenses, representing somewhat of a built-in tax shield (and enhancing the implicit contribution of this investment to FA Capital's earnings).

Company Overview: A Low-Cost Leader in Expansion Mode

Club 16 Trevor Linden Fitness and its sister brand, She's FIT!, are value-oriented health club chains operating in the Vancouver and Lower Mainland areas of British Columbia. The company is managed by its co-founders, Chuck Lawson, who opened his first Women's Only Fitness (She's FIT! predecessor) in 1991, and Trevor Linden, who opened his first Club 16 location in 2011. The company's market presence is bolstered by Mr. Linden's status as a well-recognized and respected personality in Club16 LP's market, having played 16 of his 20 years as a professional hockey player with the Vancouver Canucks, including several as the team's captain, wearing jersey number 16 (which has since been retired by the team).

The business is currently comprised of 13 separate health clubs, including eight co-located Club 16 Trevor Linden Fitness & She's FIT! locations and an additional five She's FIT! stand-alone locations. The aggregate membership of these locations is currently ~79,000. Each facility is owned and operated directly by Club16 LP (i.e., they are not franchised) and has been established in a market distinct enough from other locations to avoid customer base cannibalization but within a cohesive enough footprint to benefit from both regional marketing efforts and a growing network effect.

Exhibit 31: Club16 and She's FIT Locations



Source: Founders Advantage Capital Corp., Raymond James Ltd.

The company's business model reflects its goal of making fitness more accessible to everyone. Management believes that the three biggest sources of resistance to potential gym-goers joining health clubs are high membership fees, the commitment of fixed contracts and a perception that one must be fit to be comfortable in a gym environment. Club16 LP aims to appeal to as broad a target market as possible by offering extremely low membership fees of as little as $4.00/week, not requiring contracts for "Regular" memberships (Elite memberships require a 12-month commitment), and by monitoring behavior to screen out "things that make the average person

uncomfortable in the fitness/health club environment". The availability of She's FIT! clubs provides another option to members that feel less intimidated exercising in a women-only environment.

Exhibit 32: Club16 & She's FIT! Membership Service and Pricing Levels

Membership Level	Bi-Weekly Price	Services / Benefits
Regular	$8.00 bi-weekly ($10.00 for the downtown Vancouver location)	> Access to all products & services at a single location
Elite	$10.00 bi-weekly	> Unlimited tanning > 25% discount on retail products > Out-of-town guest privileges
Elite Plus	$12.50 bi-weekly	> All benefits of Elite-level membership > Access to all locations > 25% discount on Club 16 Seawall bike rental

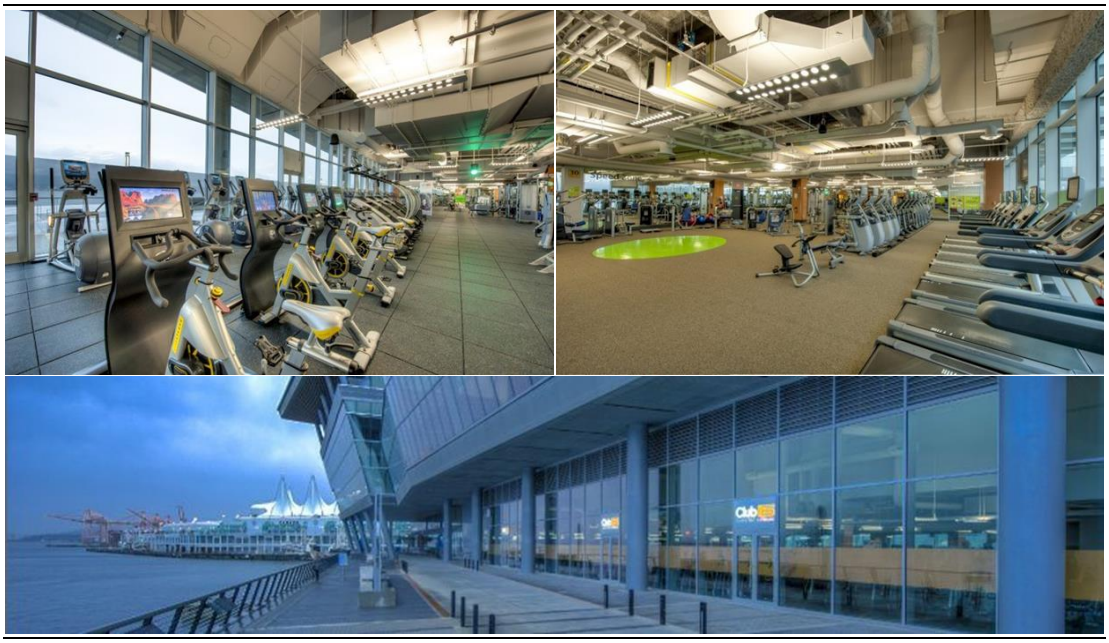
Source: Founders Advantage Capital Corp., Raymond James Ltd.

In addition to regular biweekly dues, new members, upon joining, also pay one-time fees for enrollment ($9.00), a membership card ($20.00) and a fitness assessment ($29.00). Every May, each member is also charged an Annual Club Enhancement Fee of $29.99 that helps fund the maintenance and replacement of equipment.

An obvious question that members of more traditional health clubs (i.e., paying far higher fees than offered by Club16 LP) might have is ***"how do they turn a profit at such low membership fees"?*** Part of the answer lies in ***the streamlined nature of its offering***. Its clubs feature basic amenities including modern cardio equipment, free weights, weight machines, full locker rooms and tanning studios. They do not, however, include steam rooms, saunas, pools or large exercise studios. Towel service is not provided – members are required to carry their own towel with them while working out. Locker room dimensions are minimized by the use of day lockers, with members supplying their own locks. Retail is offered in each location, but typically in a large kiosk format rather than as a full pro shop. As a general rule, floor space allocated to higher-cost and space-intensive services that are not critical to the clubs' core cardio and weight training offerings are minimized.

The offering of a streamlined product vs. higher-priced competition doesn't necessarily mean that locations need to look or feel like low-priced options, as evidenced by the sleek design and spaciousness of its flagship downtown Vancouver location (Exhibit 33).

Exhibit 33: Club16 Trevor Linden Fitness & She's FIT! – Downtown Vancouver Location

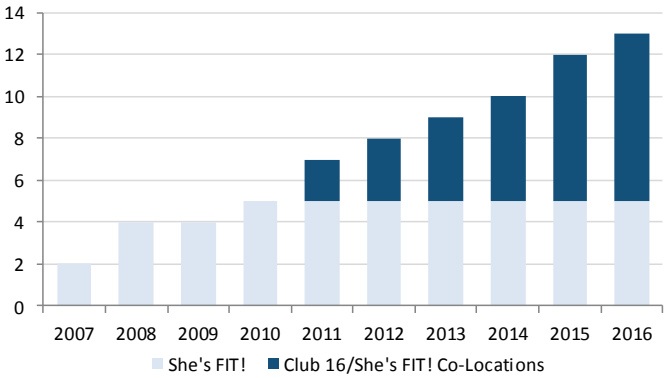


Source: Club16 Trevor Linden Fitness, She's FIT!, Raymond James Ltd.

Another feature that contributes to the profitability of this low-cost business model is ***a high level of membership intensity per location***. On average, co-located facilities are 21,000 square feet in size and have 7,400 members. Standalone She's FIT! Clubs, which were all opened prior to 2011, are understandably smaller, averaging 9,000 square feet of space and 3,500 members each. For context, the International Health, Racquet & Sportsclub Association (IHRSA) estimates that the Canadian Health Club Industry serves close to 6 million members through ~6,150 private and public clubs, implying an average membership per club of ~1,000.

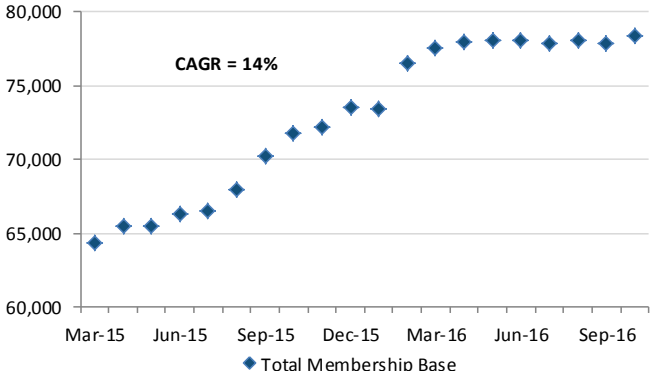
Over the past 10 years, Club16 LP has expanded by 1-2 clubs per year in every year but one (none were opened in 2009), and plans to maintain a similar pace of expansion going forward. Its immediate focus is to remain focused exclusively on the Vancouver and Lower Mainland areas, where it sees potential for 8-10 new locations, and if it does eventually expand into new markets its initial forays would likely be into other regions of British Columbia.

Exhibit 34: Growth in Club16 and She's FIT! Locations



Source: Founders Advantage Capital Corp., Raymond James Ltd.

Exhibit 35: Recent Growth in Total Membership Base



Source: Founders Advantage Capital Corp., Raymond James Ltd.

On average, ***new locations cost between $2.0-$2.3 million each and take 6-9 months to reach profitability breakeven following startup***. There is low risk associated with the buildout of new locations considering the relatively standardized nature of club designs and the repeat usage of contractors and suppliers that it has previously used to build other locations. Initial build costs are typically further defrayed by achieving rent-free periods and tenant inducements upon signing new leases.

Assuming that each new location is capable of generating an average level of cash flow relative to existing locations within a year of startup (an optimistic but simple assumption), then the addition of one location per year alone could generate as much as 8%/year cash flow growth for Club16 LP (i.e., 1/13=8%). In the 18-month period between Apr-2015 and Oct-2016, through which three new locations were ramping up (i.e., a 30% increase in locations), total membership grew by a CAGR of 14%, suggesting a likelihood that there is still growth to be realized from maturing locations.

Additional organic growth is expected to come from the planned physical expansion of certain existing locations (e.g., adding co-ed facilities to standalone She's FIT! locations) and from increased promotion of personal training and other ancillary services, which are currently under-represented in its revenues. Further, we would expect gradual EBITDA margin expansion of the network over time due to both a continuing maturation of existing locations and a diminishing dilutive impact of new locations as they are absorbed into a growing network.

An Industry Well-Suited to FA Capital's Model

The health club industry possesses several attributes that are compatible with FA Capital's business model, in our opinion. Well-run health clubs tend to feature low capital intensity, recurring revenues, high cash flow conversion metrics, limited seasonality and moderate exposure to economic cycles (especially Club16 LP's low-cost membership model), all of which are ***supportive of stable free cash flow generation***. Other attractive features are the low level of required staffing and insulation from the threat of online competition.

The industry overall is large and fragmented, is growing at a moderate pace, and appears to be somewhat underpenetrated. According to the *IHRSA Global Report 2016*, the Canadian health club industry serves ~6 million members (~17% of the national population) from ~6,150 facilities

and generates annual revenue of US$2.56 billion (C$3.3 billion). In its 2013 report, based on a survey of industry participants, it estimated that industry revenues had grown by 0.5% in 2013. Based on Statistics Canada's CANSIM reports, operating revenues for the Canadian fitness and recreational sports centre industry, which encompasses a broader market than that of Club16 LP, grew by a higher 4% in 2013 and by 7% in 2014 (the most recent data available).

Industry sources cited by larger US-based peer Planet Fitness forecast that revenues of the U.S. health club industry, which we view as relatively similar to Canada's, will grow at an annualized rate of ~3% over the next five years, supported by an increase in discretionary spending and a growing awareness of the health benefits of exercise. We believe that the discount health club market, however, is growing at an above-industry pace based on the growth trends of both Club16 LP, an early mover in this segment within its market, and Planet Fitness, which has grown revenues at a CAGR of 24% over the past four years (to 2015).

Peer Analysis: Insights From Low-Cost Peers

The biggest challenge to forecasting the financial performance of Club16 LP is the lack of historical financial information available to help us assess the revenue and margin trends and general profitability of the business. To gain some insight regarding the potential growth and profitability of successful businesses in this market segment, we present a high-level review of certain trends disclosed by two publicly-traded leaders in the low-cost fitness club market: UK-based The Gym Group Plc (GYM-LON) and US-based Planet Fitness (PLNT-NYSE).

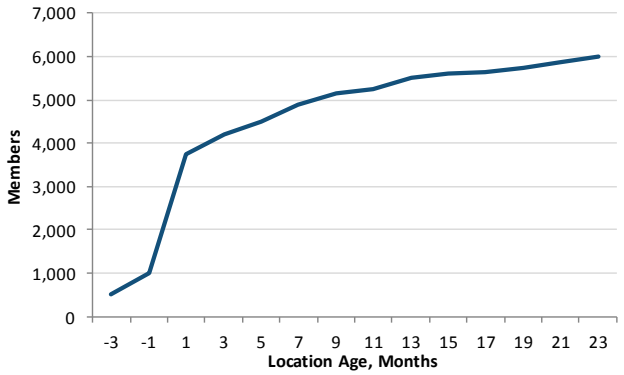
1. The Gym Group Plc: High Growth, High Margins

GYM owns and operates 80 low-cost fitness clubs in the UK. It was founded in 2007, went public in Nov-2015 and has a current market cap of ~£230 million. Similar to Club16 LP, it has a disruptive business model featuring low monthly fees starting at £10.99/month and no membership contracts. According to GYM, ***"low-cost gyms" has been the fastest-growing sub-segment of the UK fitness industry, growing at a 55% CAGR from 2012-2016*** and with market penetration remaining low at 3%.

Between 2012 and 2015, GYM experienced three-year CAGRs of 31% in membership, 39% in revenue and 42% in adjusted EBITDA. In 1H16, it grew revenues by 25% driven by 23% membership growth and an increase in average revenue per member of 1.6%. It is targeting expansion at a pace of 15-20 new locations per year, representing ~20%/year growth based on its current network size. Bloomberg consensus estimates are calling for a two-year Adjusted EBITDA CAGR of 27% (2016-2018E) and for EBITDA margins of ~32%.

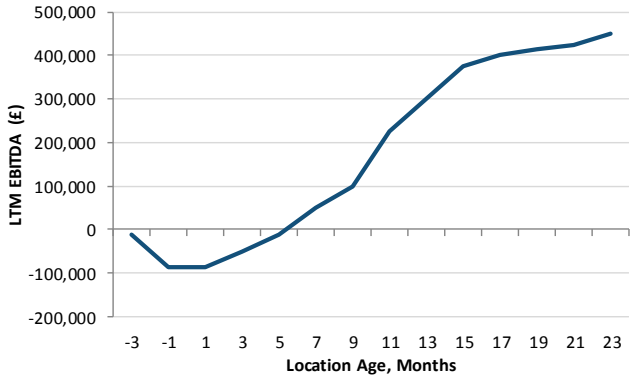
GYM discloses the aggregate financial performance of 40 "mature" locations to illustrate the progression of membership and EBITDA for its gyms, on average. We find it interesting that its gyms reach membership levels of ~6,000, on average, after two years of operation and reach EBITDA break-even after six months, in line with Club16 LP's experience, suggesting comparability between the two business models. ***These "mature" locations earned an average EBITDA margin of 48% in 2015 (above the 28% corporate average) and an average return on capital employed of 34%.***

Exhibit 36: GYM – Average Members, Age of Location



Source: The Gym Group Plc, Raymond James Ltd.

Exhibit 37: GYM – Average LTM EBITDA, Age of Location



Source: The Gym Group Plc, Raymond James Ltd.

2. Planet Fitness: The Low-Cost Industry Benchmark

Planet Fitness is a franchisor and operator of low-cost fitness centers with more than 8.7 million members and 1,242 owned and franchised locations spanning 47 US states, Canada, Puerto Rico, and the Dominican Republic. Standard membership costs US$10/month with premium Black Card membership costing US$20/month, well below what it cites as an industry average gym membership cost of US$52/month. Also similar to Club16 LP's model is PLNT's aim to provide a welcoming, non-intimidating environment that it calls the "Judgement Free Zone".

Although its market approach mirrors that of Club16 LP (or vice versa), only one of its three operating segments is truly similar, limiting the comparability of PLNT as a valuation comparable:

- ***It has 58 corporate-owned stores which accounted for 30% of total revenues and generated an EBITDA margin of 38%*** in the first nine months of 2016. This is the business most comparable to that of Club16 LP. Considering that PLNT has not opened any new corporate stores since 1H15, we consider its run rate EBITDA margin as reflective of a more mature store network (i.e., comparable to the group of GYM locations earning an EBITDA margin of 48%).
- Its primary business, accounting for 58% of segment-level EBITDA (at an 85% margin) in the first nine months of 2016, is the ***licensing and selling of Planet Fitness franchises***. Its growth is concentrated here, with the franchised location count increasing 21% Y/Y YTD in 2016.
- 38% of YTD revenues have come from ***the sale of fitness-related equipment*** to franchisee-owned stores.

Overall, PLNT grew its location count at a CAGR of 22% between 2010 and 2015 with the average dues per member rising at a CAGR of 2.1% over that period due to a growing penetration of higher-priced memberships. Its average number of members per location was 6,607 in 2014, slightly higher than Club16 LP's current average, and had been consistently growing for several years at that point (i.e., from 5,858 in 2010), suggesting the potential for multi-year membership growth at locations beyond an initial two-year maturation phase.

Similar to GYM, PLNT also features high free-cash flow conversion, indicating that both its corporate-owned locations and its franchisees typically enjoy unlevered cash-on-cash returns on invested capital of at least 25%/year beyond the first year of operation.

In Exhibit 38, we summarize revenue and EBITDA trends and consensus forecasts for each of GYM and PLNT.

Exhibit 38: The Gym Group & Planet Fitness – Summary Financial Metrics

					Bloomberg Consensus		
	2012	2013	2014	2015	2016E	2017E	2018E
The Gym Group (£ 000's)							
Revenue	22	36	45	60	77	98	113
Y/Y growth		60%	27%	32%	28%	27%	15%
Adjusted EBITDA	6	12	15	17	23	31	37
Y/Y growth		97%	24%	16%	36%	32%	20%
Adjusted EBITDA Margin	27%	33%	32%	28%	30%	31%	32%
Planet Fitness (US$ mln)							
Revenue	160	211	280	331	377	411	454
Y/Y growth	17%	32%	33%	18%	14%	9%	11%
Adjusted EBITDA	51	71	101	124	148	169	197
Y/Y growth	35%	39%	41%	23%	19%	15%	16%
Adjusted EBITDA Margin	32%	34%	36%	37%	39%	41%	43%

Source: The Gym Group Plc, Planet Fitness, Bloomberg, Raymond James Ltd.

Club16 LP Forecasts

Exhibit 39: Club16 LP Forecast Summary

$ 000's unless otherwise noted	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	Y/Y Growth: 2018E	Y/Y Growth: 2019E
Revenue	6,923	8,308	6,077	6,385	27,692	30,667	33,416	11%	9%
Normalized EBITDA	**1,800**	**2,160**	**1,580**	**1,660**	**7,200**	**8,280**	**9,356**	**15%**	**13%**
> EBITDA margin	*26%*	*26%*	*26%*	*26%*	*26%*	*27%*	*28%*		
Distributions to owners		1,300	1,300	1,300	3,900	6,800	8,000	74%	18%
> Distributions as % of EBITDA		*60%*	*82%*	*78%*	*54%*	*82%*	*86%*		
Distributions to FA Capital		**780**	**780**	**780**	**2,340**	**3,795**	**4,155**	**62%**	**9%**
> % of total		*60%*	*60%*	*60%*	*60%*	*56%*	*52%*		
Distributions to NCI		520	520	520	1,560	3,005	3,845	93%	28%
> % of total		*40%*	*40%*	*40%*	*40%*	*44%*	*48%*		

Source: Founders Advantage Capital Corp., Raymond James Ltd.

- This acquisition closed on Dec-20-2016, making 1Q17E its first full-quarter contribution to FA Capital's consolidated earnings. We assume that it will begin making monthly distributions to owners at the beginning of 2Q17E, although we believe it possible that Club16 might defer the initiation of distributions a few months longer in order to build a cash buffer supportive of planned organic growth.

- According to management, ***Club16 grew its revenue and EBITDA at CAGRs of ~18% and ~13%, respectively, in the three years to Jun-2016***. We note that this growth was entirely organic in nature, resulting both from the opening of new locations and ongoing membership growth at existing locations.

- ***For 2017E, management expects Club16 to earn EBITDA of $7.0-$7.5 million, which would represent 15%-23% Y/Y growth*** compared with the $6.1 million earned in 12-month period to Oct-2016 (i.e., not exactly Y/Y, but close). Our own 2017E EBITDA forecast of $7.2 million is close to the mid-point of the guidance range, with our quarterly forecasts reflecting expected seasonal strength in the first half of the year due to both an expected surge of new members in the first quarter and the collection of annual "club enhancement" fees in the second quarter.

- ***Our forecasts for 2018E and 2019E anticipate Normalized EBITDA growth rates of 15% and 13%, respectively***, based on revenue growth rates of 11% and 9%. Expected revenue growth drivers include the addition of at least one new location per year, the expansion of certain existing locations, continued membership growth at existing locations, and potential growth of ancillary services (e.g., personal training) in the mix. As existing locations mature and the dilutive margin impact of new locations diminishes due to a growing cash flow base, we anticipate some degree of margin expansion.

  We note the significant difference between our EBITDA margin forecasts for Club16 LP and the much ***higher margins earned by both Gym Group's mature locations (48%) and PLNT's corporate-owned locations (38%)*** suggesting potential longer-term margin expansion for CLUB16 LP as its own network gains scale and eventually matures.

- ***Unlike other investments, Club16 will distribute its free cash flow on a pre-tax basis***, meaning that they will represent taxable revenues in the hands of owners. This benefits FA Capital, as it otherwise would not have any revenues to enable the deduction of corporate-level operating expenses for tax purposes. The result is that the Threshold Amount for Club16 of $5.85 million, above which the split of distribution payments shifts, represents 96% of its TTM EBITDA as at Oct-2016. We assume that it will initiate a distribution amounting to $1.3 million/quarter, lower than the implied quarterly Threshold Amount of $1.46 million in order to retain some cash flow to help fund ongoing expansion (i.e., in addition to debt). On a run-rate basis, after factoring in anticipated EBITDA growth, we expect its actual payout ratio will average ~72% across the final three quarters of 2017E, growing to 82% in 2018E and 86% in 2019E.

Investment #3: IMPACT Communications

Exhibit 40: IMPACT Communications – Key Investment Attributes

Date Investment Announced:	Dec-22-2016	**Annual Threshold Amount:**	
Date Investment Closed:	N/A	**> Pre-tax (estimated):**	$4,000,000
Amount Invested:	$12,000,000	**> Pre-tax as a % of TTM EBITDA:**	100%
% of Class A LP Units Owned:	52%	**> After-tax (actual):**	$2,960,000
% of Class B LP Units Owned:	35%	**Distributions to FA Capital:**	
Investment-level Net Debt Assumed:	Nil	**> 3Q17E Annualized (After-Tax):**	$1,456,000
Implied Enterprise Value of Company:	$23,076,923	**> As an After-Tax Yield on Investment:**	12.1%
TTM EBITDA:	$4,000,000	**> Tax Applicable At:**	IMPACT (investee level)
EV/TTM EBITDA Multiple Paid:	5.8x	**Website:**	www.impactcomms.com / www.threat4.com

Source: Founders Advantage Capital Corp., Raymond James Ltd.

Deal Structure: An Illustration of the Flexibility of FA Capital's Model

FA Capital announced its investment in IMPACT Communications on Dec-22-16 in a deal that is expected to close by the end of Mar-2017. At an initial investment size of $12.0 million for a 52% stake in the company's Class A LP units, this is FA Capital's smallest investment to date and is smaller than the low end of its target size range for new investments (i.e., $20-$200 million). This is a cash deal that will be funded from FA Capital's credit facility. We believe the company chose to prioritize this investment over larger alternatives in its deal pipeline due to both its attractive up-front economics and its affordability in the context of FA Capital's currently limited funding capacity.

The annual after-tax distributable cash flow Threshold Amount of $2.96 million, above which FA Capital will be entitled to 35% of distributions, was established in line with IMPACT's run-rate EBITDA of $4.0 million (i.e., assuming a 26% tax rate). As in the case of DLC, earnings will be subject to income taxation at the operating company level, such that distributions will be received by FA Capital on an after-tax basis. When a monthly distribution from IMPACT is eventually initiated (likely in early 3Q17E), we expect that it will be set at approximately 95% of the Threshold Amount (after-tax), resulting in a payment to FA Capital of approximately $1.46 million on an annualized basis and representing an initial after-tax yield on its investment of 12.1%/year.

The IMPACT investment features a unique structure that illustrates the flexibility of FA Capital's model, which can be tailored to meet the specific needs of any particular selling group. In this case, the founding shareholder will initially retain a larger position in his company and has the option to sell an additional tranche at a later date, as follows:

- FA Capital is initially taking a 52% stake in IMPACT's Class A LP units, lower than the 60% interest taken in each of its previous investments and just large enough to give it control and require consolidation. Conversely, its 35% stake in IMPACT's Class B units is higher than its 30% stake for other investments, meaning ***that FA Capital will initially be entitled to a higher proportion of cash flow growth from IMPACT than from other investments despite having a smaller position in the company.***
- The founding shareholder of IMPACT has ***a put option enabling him to sell to FA Capital an additional 22% interest for $5.1 million*** (i.e., at the same valuation as the initial 52% stake) between Sep-2017 and Mar-2018 as long as IMPACT's TTM EBITDA has not declined since the closing date of the initial transaction. ***If exercised, FA Capital would own 74%*** of Class A units and 65% of Class B units for an aggregate investment of $17.1 million.

The unique attributes of the IMPACT investment highlight the flexibility that FA Capital has in negotiating and structuring deals with founding entrepreneurs. In this case, the founder will be able to retain a larger portion of his company for a period of time, enabling him to capture a bigger percentage of anticipated near-term cash flow growth, and will then have the option to liquidate further or hold steady. In exchange for providing this flexibility, FA Capital will receive a more favorable split of cash flows than for other investees, enhancing the economics of the deal.

The only potential downside we see to this arrangement is that in the event the option is exercised, the founder's share of future cash flow growth (beyond the Threshold Amount) would

be just 35% vs. 70% for the founders of other investee companies, potentially representing a less effective incentive to continuing management.

Company Overview: A Niche Player in a Relatively Defensive Market

IMPACT Communications, operating under the tradename IMPACT Radio Accessories, is a designer, manufacturer and distributor of two-way radio equipment used for several military, security and commercial applications. Headquartered in Kelowna, British Columbia, the business was founded in 1999 by entrepreneur and current CEO Keith Kostek as a distributor of radio accessory items designed by other manufacturers. Today, IMPACT designs and contract manufactures its own value-focused radio equipment for sale to a wholesale network of more than 800 distributors. In Jan-2015 it added direct sales relationships with public safety and military end users through its acquisition of Toronto-based Threat4 Ltd.

Essentially, IMPACT makes aftermarket products for use with OEM-manufactured two-way radios. Its product line is dominated by items such as radio chargers, headsets, earpieces, microphones and surveillance kits. Its strategy is to offer significantly lower pricing than major-brand manufacturers (i.e., of ~50% in many cases, depending on the product) but superior product design and quality vs. “no-name” imports available in the market, and to also offer superior service and product warranties compared with competitors.

The complexity of its products within a specific line can vary widely depending on the intended application, ranging, for example, from simple handheld speaker-microphones to advanced headset-microphone combinations designed for specific military-type purposes. For illustration purposes, we present a small sample of its current product line in Exhibit 41 below.

Exhibit 41: Sample Products from IMPACT's Current Catalog

Product Name	Product Photo	Product Description
Universal Rapid Six Bank Charger		> Full anodized aluminum casing > Dual power source (AC/DC); "charge anywhere" > "Smallest and lightest" at 4.9lbs > Range of adapter cups available (use for any radio) > Optional quick release vehicle bracket (shown) > Optional wall mount bracket
3 Wire Surveillance Kit (P3W-AT1-WPTT)		> Mini wireless push-to-talk finger trigger; waterproof with velcro strap (can be used while wearing short sleeves) > Micro, ultra-sensitive condenser mic with lapel pin (can be concealed inside the collar) > Kevlar reinforced cable > "Ghost" version allows use of any 3.5mm headset (for undercover applications)
Speaker Mic (PRSM-HD3)		> Professional grade > Anchored Kevlar reinforced cable > Small ergonomic form fit > IP67 submersible > Three year warranty > High-quality audio components > 3.5mm accessory jack
Tactical Bone Conduction Headset (SNIPER-WPTT)	GSA 	> Dual bone conduction speakers have no audio bleed (others can't hear) and leaves ears open for audio situational awareness > Compatible with earplugs or earmuff hearing protection > Compatible with ballistic helmets and gas masks > Noise cancelling boom mic > IP68 submersible > Optional wireless push-to-talk finger trigger (with velcro strap)

Source: Founders Advantage Capital Corp., Raymond James Ltd.

IMPACT's current customer base includes several particularly demanding users of Threat4 product such as the US and Canadian militaries, FBI, US Secret Service, RCMP, US Marshals Service and US Transportation Security Administration. Its target market is relatively broad, including users in a variety of different military, security and commercial industries, as summarized in Exhibit 42. Approximately 90% of its sales are into the US, with the remaining ~10% to Canadian customers.

Exhibit 42: Diversification of IMPACT's Customer Base

Industry	Application
Public Safety	Police, Firefighters, Ambulance, Security
Military	US Military, Canadian Military
Construction & Manufacturing	Job Sites, Large Factories, Projects
Medical & Healthcare	Hospitals, Assisted Living, Nursing Homes
Educational Institutions	School Buses, Large Campuses
Retail	Big Box Stores, Commercial
Events	Film Sets, Stadiums, Churches, Concerts
Hospitality	Hotels, Casinos, Golf Courses

Source: Founders Advantage Capital Corp., Raymond James Ltd.

While we consider IMPACT's products to be fairly niche in nature, we view its market exposure as somewhat defensive considering both the diversity of product applications (i.e., insulating it from dependence on any one industry) and its heavy exposure to the recession-proof public safety and military sectors. We also note that it offers three distinct product lines, or "Series", featuring varying levels of quality, features and warranties in order to appeal to customers at multiple price points and with different levels of required product complexity.

IMPACT Communications Forecasts

Exhibit 43: IMPACT Communications Forecast Summary

$ 000's unless otherwise noted	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	Y/Y Growth: 2018E	Y/Y Growth: 2019E
Revenue		4,038	4,038	4,038	12,115	17,229	18,260	42%	6%
Normalized EBITDA		**1,050**	**1,050**	**1,050**	**3,150**	**4,565**	**4,930**	**45%**	**8%**
> EBITDA margin		*26%*	*26%*	*26%*	*26%*	*26%*	*27%*		
Distributions to owners			700	700	1,400	3,200	3,440	129%	8%
> Distributions as % of EBITDA			*67%*	*67%*	*44%*	*70%*	*70%*		
Distributions to FA Capital			**364**	**364**	**728**	**1,623**	**1,707**	**123%**	**5%**
> % of total			*52%*	*52%*	*52%*	*51%*	*50%*		
Distributions to NCI			336	336	672	1,577	1,733	135%	10%
> % of total			*48%*	*48%*	*48%*	*49%*	*50%*		

Source: Founders Advantage Capital Corp., Raymond James Ltd.

- The only financial information available for IMPACT is that its unaudited TTM EBITDA as at the transaction closing date (i.e., 1Q17E) is anticipated by management to be ~$4.0 million. With so little history available, our visibility on IMPACT's growth and profitability trends is low, adding risk to our forecasts.

- This acquisition has not yet closed, and is expected to be completed by Mar-31-17. In our forecasts, we assume a Mar-31-17 transaction date with no earnings impact in 1Q17E and full contribution beginning in 2Q17E. We expect that IMPACT will begin making monthly distribution payments to owners three months later, at the beginning of 3Q17E. We also assume that the minority owner's put option will not be exercised, resulting in a flat ownership structure for IMPACT over our forecast period.

- According to management, ***IMPACT has grown its revenue and EBITDA at CAGRs of ~15% and ~30%, respectively, in the three years to Aug-2016***, with that growth boosted to some degree by the Jan-2015 acquisition of Threat4. Our forecast assumes no further acquisitions.

- For 2017E, management expects IMPACT to earn EBITDA of $4.0-$4.4 million, which would represent growth of 0%-10% compared with its TTM EBITDA at the time of FA Capital's investment, well below its prior three-year CAGR of ~30%. We understand that 2017E is expected to be somewhat of a transition year involving the addition of new sales staff that will take time to ramp up as well as a restructuring of its distribution model to take better advantage of its combination of wholesale and direct distribution capabilities. ***Our 2017E EBITDA forecast reflects the middle of the guidance range (i.e., $4.2 million annualized, or $1.05 million/quarter)*** and assumes no seasonality.

- ***In our quarterly forecasts for 2018E and 2019E, we forecast Normalized EBITDA growth rates of 10% and 8%, respectively***, based on revenue growth rates of 8% and 6%.

- The annual Threshold Amount of $2.96 million, above which the split of distribution payments shifts, has been set at 74% of TTM EBITDA, effectively representing the amount of EBITDA available for distribution on a run rate basis (i.e., ignoring anticipated growth) assuming a 26% tax rate. We assume that its aggregate distribution payment will initially be set at $0.7 million/quarter, slightly below the $0.74 million/quarter Threshold Amount, and that it will be adjusted at the beginning of each year to levels resulting in payouts of 70% of full-year EBITDA in 2018E and 2019E

New Investment Outlook

We expect that FA Capital will remain an active acquirer as it seeks to continuously grow the size of its distributable cash flow stream while further diversifying the composition of its investment portfolio. In our forecasts, we have assumed several new investments over the next three years, as detailed in Exhibit 44.

Exhibit 44: New Investments – Forecasts and Assumptions

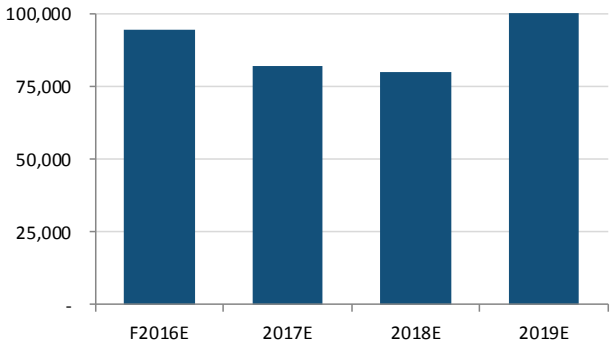
	Date Acquired	Purchase Price ($ 000's)	% A-Class Shares Acquired	Debt Assumed ($ 000's)	Implied EV ($ 000's)	TTM EBITDA ($ 000's)	EV/EBITDA Multiple	% Funded By Net Debt	Net Debt Issued ($ 000's)	Equity Issued ($ 000's)	Shares Issued (000's)	Equity Issuance Price ($/sh)
Investment #4	2Q17E	30,000	60%	8,333	58,333	8,333	7.0x	100%	30,000	-	-	-
Investment #5	4Q17E	40,000	60%	11,111	77,778	11,111	7.0x	30%	12,000	28,000	7,179	$3.90
Investment #6	2Q18E	40,000	60%	11,111	77,778	11,111	7.0x	30%	12,000	28,000	6,512	$4.30
Investment #7	4Q18E	40,000	60%	11,111	77,778	11,111	7.0x	30%	12,000	28,000	5,957	$4.70
Investment #8	2Q19E	50,000	60%	13,889	97,222	13,889	7.0x	30%	15,000	35,000	6,863	$5.10
Investment #9	4Q19E	50,000	60%	13,889	97,222	13,889	7.0x	30%	15,000	35,000	6,364	$5.50
Total		**250,000**								**154,000**		

Source: Raymond James Ltd.

We assume that the company will make two new acquisitions each year, with average deal size increasing modestly over time supported by our expectations of growing cash flows and capital markets access. For 2017E, we expect two new deals (i.e., in addition to the already-announced $12 million IMPACT deal) worth $30 million and $40 million, bringing aggregate new investment for the year to $82 million. We expect average deal size to increase to $40 million in 2018E and to $50 million in 2019E for aggregate new investment forecasts of $80 million and $100 million in those years, respectively. We do not anticipate any asset sales over the period of our forecasts.

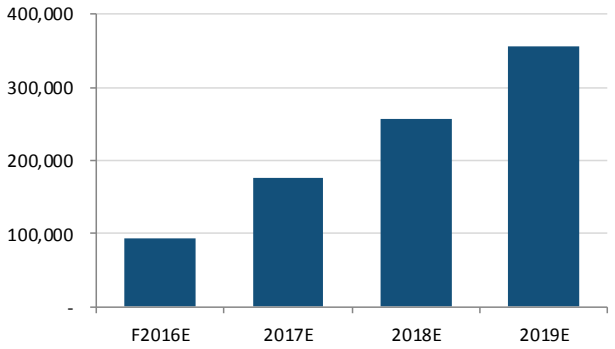
We note that ***our net investment forecasts for each of 2017E-2019E are lower than the $94 million spent on acquisitions in 2016*** (Exhibit 45), and that the $42 million average size of anticipated investments is small in the context of its target size range (of $20-$200 million) and is roughly half the size of its largest existing investment.

Exhibit 45: Net New Investment Forecasts ($ 000s)



Source: Founders Advantage Capital Corp., Raymond James Ltd.

Exhibit 46: Cumulative Investment Forecasts ($ 000s)



Source: Founders Advantage Capital Corp., Raymond James Ltd.

Based on its investment activity to-date, which featured the announcement of three separate deals in the span of seven months between May-2016 and Dec-2016 while groundwork was being performed on several additional future investment opportunities, we believe ***FA Capital has demonstrated that it has the necessary internal origination and execution capabilities to support our forecast pace of two consummated deals per year***.

Funding Considerations

We believe the primary constraint on the pace and level of investment activity at this early phase of FA Capital's development is its funding availability. If there was no limitation on the amount of capital available to the company at reasonable cost, we believe that its existing pipeline of potential deals and its internal deal-making capacity could support a much higher level of new, high-quality investment than we are forecasting. Its debt capacity is constrained by its level of attributable EBITDA, however, while its access to equity capital markets, while successful to date, may be somewhat constrained in the near-term by the stock's relatively low existing liquidity and by the extent of potential dilution represented by any future share issuance.

FA Capital's corporate-level debt facilities currently consist of both a $17 million revolving facility and a $5 million non-revolving facility for a total debt capacity of $22 million. We estimate that ***pro forma the closing of its $12 million IMPACT acquisition, the company will have only ~$1 million of funding capacity remaining on its existing lines.***

The interest rate payable on both lines is Prime plus 3.00%-3.75%, with the spread determined by its net funded debt-to-EBITDA ratio. The most relevant financial covenant is the requirement to maintain a net funded debt-to-EBITDA ratio of less than 4.0:1.

On average, we expect the company will fund new investment activity using a combination of 70% from newly issued equity and 30% from net debt (i.e., new debt issuance net of available corporate-level cash). This would result in a ratio of new corporate-level debt to acquired EBITDA of 1.8x. We expect that at this funding ratio, it will be able to expand its available debt capacity in proportion to increases in its attributable EBITDA base as it makes new investments. For ease of forecasting, we have assumed that equity will be raised in conjunction with new deal announcements and in amounts only large enough to fund related deals.

An exception to these funding assumptions is that ***we expect its next investment (i.e., Investment #4 in Exhibit 44) will be fully funded by debt***. We estimate that an all-debt financed acquisition with these parameters would result in a higher ratio of net funded debt-to-EBITDA than FA Capital aims to carry on a regular basis, but that it would remain onside with existing debt covenants. At this early stage, we believe the company will be inclined to carry a higher-than-targeted level of debt in its capital mix due to both the relative availability and cost of debt financing, and that over time it will aim to restore lower leverage ratios via regular equity issuance.

Sequencing Considerations

Our understanding is that the company maintains an active pipeline of potential investments featuring companies of varying size, industry and quality. We believe that the company's investments to-date have been sequenced according to its circumstances at various points in time. Its initial "coming out" investment in DLC was necessarily large enough and of sufficient quality and brand-name recognition to attract favorable investor attention. As a result of these attributes, DLC demanded a higher acquisition multiple than was paid for subsequent acquisitions. In contrast, its' next two investments were relatively small, fully funded by debt and transacted at relatively low acquisition multiples.

Given the company's limited portfolio size and current funding capacity, ***we believe it is appropriate to be prioritizing smaller investments at this stage for three reasons***:

1. For a given "quality" of company, we believe that FA Capital should be able to achieve lower entry valuations for investments of smaller size, providing superior economics and possibly showcasing the value-creation potential of its model for shareholders earlier than might be the case with larger, more expensive acquisitions.
2. With limited existing funding capacity, it should be easier to fund incremental investments of smaller size.
3. By making smaller acquisitions, the company will be able to achieve greater portfolio diversification at an earlier stage than if it were to concentrate solely on larger investments.

Based on these considerations, ***we suspect that its' next one or two acquisitions might be of similarly small size*** (i.e., vs. its target investment size range), with our $70 million aggregate investment forecast for the remainder of 2017E potentially split among more than the two deals included in our forecast. ***If so, we think it possible that FA Capital might be able to achieve lower acquisition multiples for these investments than the 7.0x we have assumed.*** Recall that its last two investments, with average purchase prices of $16 million, were acquired at EV/TTM EBITDA multiples of 5.8x-6.3x. As the company's portfolio and funding availability both increase over time, we would expect its average deal size (and average acquisition multiple) to gradually increase.

New Investments – Supporting Assumptions

Although we expect that the structure of each deal could vary to suit the preferences of founding shareholders, and that the company will acquire investments with varying levels of growth and profitability, for ease of forecasting we assume that each future investment will be identical in all aspects other than deal size. Specifically, our assumptions for each future deal include the following:

- We assume operating company-level debt equal to 1.0x EBITDA, and that FA Capital will acquire its positions at ***a consistent valuation of 7.0x EV/TTM EBITDA***. In general, we'd expect smaller investments to feature lower valuations with larger investments going for higher multiples, similar to the company's experience to-date, but have not made this distinction in our forecasts.
- We assume ***10%/year EBITDA growth over the period of our forecasts*** on the basis that FA Capital's investment model is geared to attract founding shareholders anticipating a decent level of medium-term cash flow growth.
- We assume that the annual Threshold Amount, as well as the initial distribution level, will be established at 74% of TTM EBITDA at the time the investment is made. Beyond the first year of investment, we forecast EBITDA payout ratios of ~70%, on average. We expect that distributions will commence one quarter after investments are made, and that their levels will be reset at the beginning of each year.
- We assume that each investment (other than Investment #4 at 100% debt) will be funded 70% by equity and 30% by a combination of debt and available corporate-level cash. Rather than assume larger periodic equity raises, we assume that equity will be raised in conjunction with each deal and only in the amount required for that deal. While we don't actually expect an equity raise to accompany each deal, this approach simplifies our forecasting.
- Similar to the DLC and Club16 LP deals, we assume that FA Capital will acquire 60% of Class A LP units and 30% of Class B LP units, entitling it to 30% of cash distributions made above annual Threshold Amounts.

Consolidated Financial Forecasts

Our consolidated forecasts for FA Capital, including the fully-consolidated results of each of its majority-owned investments, are presented in Exhibit 47. Our operating company-level forecasts for each investment are presented separately in the investment review sections of this report and our detailed financial forecasts for FA Capital can be found in Appendix A.

Exhibit 47: Consolidated Financial Forecast Summary

($ 000's unless otherwise noted)	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E
Investment-level EBITDA	5,000	9,356	10,522	10,729	35,607	66,349	99,696
Corporate-level EBITDA	(2,657)	(2,401)	(2,025)	(2,038)	(9,121)	(8,283)	(8,501)
Consolidated EBITDA	**2,343**	**6,955**	**8,497**	**8,691**	**26,486**	**58,066**	**91,195**
Consolidated adjusting items:							
Share-based payments	1,357	1,138	750	750	3,995	3,000	3,000
Acquisition and diligence costs	300	250	250	250	1,050	1,000	1,000
Other adjusting items							
Consolidated Normalized EBITDA	**4,000**	**8,343**	**9,497**	**9,691**	**31,531**	**62,066**	**95,195**
Per share metrics:							
Basic EPS	-$0.03	$0.02	$0.03	$0.02	$0.04	$0.20	$0.31
Diluted EPS	-$0.03	$0.02	$0.03	$0.02	$0.04	$0.20	$0.30
Attributable normalized EBITDA/share (basic)	$0.05	$0.12	$0.14	$0.13	$0.44	$0.70	$0.87
Distributable CFPS	$0.00	$0.02	$0.05	$0.04	$0.11	$0.32	$0.44
Dividend per share	$0.01	$0.01	$0.01	$0.01	$0.05	$0.10	$0.18
Dividend payout - current period, as % of DCPS	nmf	71%	27%	31%	46%	31%	41%
BVPS	$2.92	$2.96	$2.99	$3.14	$3.14	$3.53	$3.97
Common shares outstanding - basic	37,699	37,699	37,699	44,879	44,879	57,877	71,103
Weighted avg. # shares outstanding - diluted	37,999	38,199	38,199	41,789	39,047	51,024	64,961
Investment metrics:							
Capital deployed for investment	12,000	30,000	-	40,000	82,000	80,000	100,000
> Funded with debt	12,000	30,000	-	12,000	54,000	24,000	30,000
> Funded with equity	-	-	-	28,000	28,000	56,000	70,000
Cumulative investment to-date	118,584	148,584	148,584	188,584	188,584	268,584	368,584

Source: Founders Advantage Capital Corp., Raymond James Ltd.

We note that the financial history of FA Capital prior to 3Q16 is not particularly meaningful given that the structure of the company changed significantly in early 2016 and that it acquired its first income-producing investment in Jun-2016. We also highlight that its fiscal year end changed from September to December in 2016, with F2016 including 15 months.

In Exhibit 48, we present an alternative and, in our opinion, more meaningful breakdown of our Attributable EBITDA forecasts which are comprised of FA Capital's proportionate share of investment-level EBITDA less corporate-level costs. Attributable Normalized EBITDA is calculated by then adding back both share-based compensation costs, which are non-cash in nature and are expected to decline in the near term, and deal-related acquisition costs, which are fully associated with future deals and which would cease in the event the company stopped growing via new investment.

Exhibit 48: Attributable Normalized EBITDA Breakdown

($'000s unless otherwise noted)	1Q17E	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
Attributable EBITDA by investment:											
DLC (60%-owned)	1,920	3,000	3,360	2,520	10,800	2,016	3,150	3,528	2,646	11,340	11,907
Club16 (60%-owned)	1,080	1,296	948	996	4,320	1,242	1,490	1,090	1,145	4,968	5,614
Impact (52%-owned)	-	546	546	546	1,638	572	601	601	601	2,374	2,564
Investment #4 (60%-owned)	-	688	1,375	1,375	3,438	1,375	1,513	1,513	1,513	5,913	6,504
Investment #5 (60%-owned)	-	-	-	917	917	1,833	1,833	1,833	2,017	7,517	8,268
Investment #6 (60%-owned)	-	-	-	-	-	-	1,833	1,833	1,833	5,500	7,883
Investment #7 (60%-owned)	-	-	-	-	-	-	-	-	1,833	1,833	7,517
Investment #8 (60%-owned)	-	-	-	-	-	-	-	-	-	-	6,875
Investment #9 (60%-owned)	-	-	-	-	-	-	-	-	-	-	2,292
Total investment-level attributable EBITDA	**3,000**	**5,530**	**6,229**	**6,354**	**21,112**	**7,038**	**10,420**	**10,398**	**11,588**	**39,444**	**59,423**
Less: Corporate-level G&A (ex D&A)	(1,000)	(1,013)	(1,025)	(1,038)	(4,076)	(1,051)	(1,064)	(1,077)	(1,091)	(4,283)	(4,501)
Attributable Normalized EBITDA	**2,000**	**4,517**	**5,204**	**5,316**	**17,037**	**5,987**	**9,356**	**9,321**	**10,497**	**35,161**	**54,922**
Attributable Normalized EBITDA per share	**$0.05**	**$0.12**	**$0.14**	**$0.13**	**$0.44**	**$0.13**	**$0.19**	**$0.18**	**$0.19**	**$0.70**	**$0.87**

Source: Founders Advantage Capital Corp., Raymond James Ltd.

Our forecasts call for Attributable Normalized EBITDA growth of 106% in 2018E and 56% in 2019E and of 59% and 24%, respectively, on a per share basis.

In Exhibit 49, we present our forecasts of the company's distributable cash flow, which is comprised of distribution payments received from its investee companies less corporate-level G&A (excluding depreciation & amortization) and finance costs as well as deal-related acquisition costs.

Exhibit 49: Distributable Cash Flow Breakdown

($'000s unless otherwise noted)	1Q17E	2Q17E	3Q17E	4Q17E	2017E	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E
Distributions received, by investment:											
DLC	1,620	1,620	1,620	1,620	6,480	1,980	1,980	1,980	1,980	7,920	8,400
Club16	-	780	780	780	2,340	949	949	949	949	3,795	4,155
Impact	-	-	364	364	728	406	406	406	406	1,623	1,707
Investment #4	-	-	925	925	1,850	980	980	980	980	3,920	4,130
Investment #5	-	-	-	-	-	1,233	1,233	1,233	1,233	4,933	5,347
Investment #6	-	-	-	-	-	-	-	1,233	1,233	2,467	5,227
Investment #7	-	-	-	-	-	-	-	-	-	-	4,933
Investment #8	-	-	-	-	-	-	-	-	-	-	3,083
Investment #9	-	-	-	-	-	-	-	-	-	-	-
Total distributions received	**1,620**	**2,400**	**3,689**	**3,689**	**11,398**	**5,548**	**5,548**	**6,781**	**6,781**	**24,658**	**36,982**
Less:											
Corporate-level G&A (ex-D&A)	(1,000)	(1,013)	(1,025)	(1,038)	(4,076)	(1,051)	(1,064)	(1,077)	(1,091)	(4,283)	(4,501)
Corporate-level finance costs (ex-amort'n)	(210)	(471)	(652)	(713)	(2,045)	(785)	(831)	(859)	(898)	(3,373)	(4,078)
Acquisition costs	(300)	(250)	(250)	(250)	(1,050)	(250)	(250)	(250)	(250)	(1,000)	(1,000)
Distributable cash flow	**110**	**666**	**1,762**	**1,688**	**4,227**	**3,462**	**3,403**	**4,594**	**4,542**	**16,002**	**27,402**
Distributable cash flow per share (DCPS)	**$0.00**	**$0.02**	**$0.05**	**$0.04**	**$0.11**	**$0.08**	**$0.07**	**$0.09**	**$0.08**	**$0.32**	**$0.44**

Source: Founders Advantage Capital Corp., Raymond James Ltd.

Exhibits 48-49 illustrate the operating leverage inherent in FA Capital's business model, as we expect that it should be able to grow its investment portfolio and cash flow on a fairly flat corporate structure (and expense level).

Our forecasts assume ~$1.0 million/year of acquisition-related costs and that corporate-level G&A costs will be $4.1 million in 2017E and will grow by 5%/year. These assumptions are conservative compared to management's budget, particularly for acquisition-related costs on which it anticipates spending just ~$200,000 per deal going forward, less than for prior deals, considering that much of these costs have recently been internalized.

We forecast growth in FA Capital's DCPS from $0.11 in 2017E to $0.32 in 2018E (+191% Y/Y) and to $0.44 in 2019E (+38% Y/Y).

We anticipate a modest lag between the growth of investment-level attributable EBITDA and the growth of DCPS for a few reasons:

- While the equity dilution related to the financing of new investments has immediate impact on DCPS, we expect that ***there will generally be a lag of at least three months before new investments will begin making distribution payments*** to owners.
- To date, initial distribution payment levels have generally been established in line with TTM free cash flow levels at the time investments are first announced. To the extent that these are growing businesses, TTM free cash flow should generally be less than run-rate free cash flow, especially by the time a deal closes and distributions actually begin. As a result, ***we expect initial year payouts by investee companies will systematically undershoot their actual free cash flow levels***. By year two, however, once FA Capital becomes more comfortable with an investment's earnings profile and outlook, we expect that it will gradually raise its free cash flow payout ratios vs. year-one levels.
- We expect that the level of an investment's distribution payments will generally be adjusted once per year, meaning that any underlying EBITDA growth will not be immediately mirrored by distribution growth, resulting in a temporary lag throughout the year.

Dividend Considerations

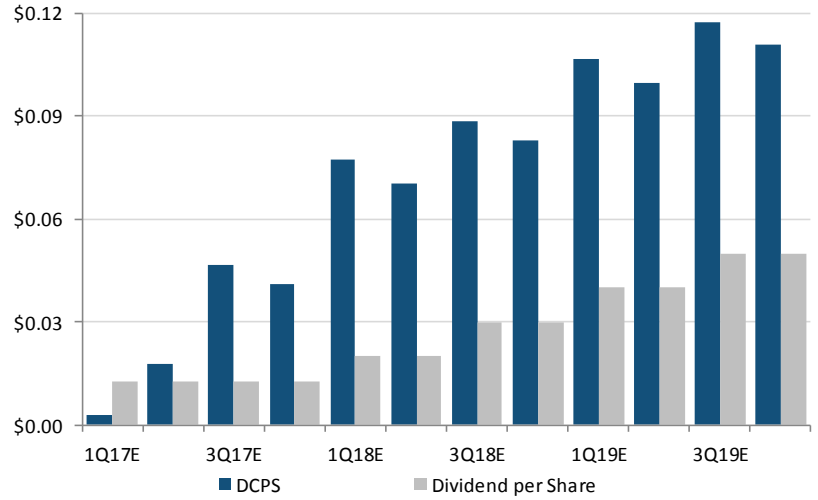
A growing level of distributable cash flow per share (DCPS) should, in turn, accommodate a growing dividend payout over the period of our forecasts. While the company has introduced a dividend policy that would enable it to pay out as much as 80% of distributable cash flow, we expect that it will maintain a much lower payout ratio over the period of our forecasts in order to preserve additional capital for reinvestment and reduce the amount of equity dilution required to support its growth.

The company has announced a quarterly dividend of $0.125/share beginning in 1Q17E, representing an aggregate payment of $0.05/share in 2017E. Although this will represent a payout ratio of >100% initially, as neither CLUB16 LP nor IMPACT are expected to begin making distributions until after 1Q17E, we estimate that it will represent a pro forma payout ratio of 40% inclusive of both distributions and financing costs related to these two investments.

Because the level of distributions being paid by its investments will generally be reset annually at year-end, we believe that FA Capital will also be likely to announce one major change to its own dividend payout each year, also around year-end. In addition to these annual revisions, we'd expect additional mid-year dividend increases to accompany the introduction of additional distribution streams following any material new investments.

In our forecasts, ***we have assumed that the company will increase its quarterly dividend every two quarters starting in 1Q18E***, roughly in line with underlying cash flow growth, resulting in forecast payout ratios (as a % of DCPS) of 46% in 2017E, 31% in 2018E, and 41% in 2019E and an almost doubling of the annual per-share payout each year. Longer-term, should the business become less reliant upon external financing as its cash flows increase relative to the size of net new investment, we'd expect it to gradually raise its payout ratio in line with its goal of becoming a high-payout dividend-grower.

Exhibit 50: Distributable Cash Flow and Dividend per Share Forecasts



Source: Raymond James Ltd.

Valuation & Recommendation

Initiating at Outperform

We are initiating coverage of FA Capital with an Outperform rating and a $4.50/share target that implies a total projected one-year return of 34%.

Our target price is based on a forward EV/EBITDA valuation as at 4Q17E (Exhibit 51) that arrives at a valuation estimate of $4.49/share (which we have rounded up to $4.50/share).

Exhibit 51: Valuation Based on 2018E EV/EBITDA

A. Estimation of the EV of Investments Attributable to FA Capital	$ 000's unless otherwise noted
Investment-source EBITDA - 2018E	66,349
Adjustments to exclude contributions from mid-2018E acquisitions:	
Investment #6: 2Q18E acquisition; adjust to exclude 2Q18E-4Q18E EBITDA	(9,167)
Investment #7: 4Q18E acquisition; adjust to exclude 4Q18E EBITDA	(3,056)
Investment-source EBITDA - 2018E for investments made prior to 2018E	54,126
Forward EV/EBITDA multiple	9.0x
Enterprise value of investments at 4Q17E - 100% basis	487,134
Less: Net investment-level debt at 4Q17E	(22,978)
Equity value of investments at 4Q17E - 100% basis	464,156
% attributable to FA Capital	60%
Equity value of investments at 4Q17E - attributable to FA Capital	278,494
B. Estimation of the Impact of Corporate-Level Expenses on Enterprise Value	
Corporate-level G&A expenses (excl. D&A) - 2018E	(4,283)
Forward EV/EBITDA multiple	5.0x
Adjustment to enterprise value at 4Q17E to account for corporate-level expenses	(21,415)
C. Equity Value per Share Estimation	
Enterprise value of FA Capital at 4Q17E (=A-B)	257,079
Less: Corporate-level net debt at 4Q17E	(55,431)
Equity value of FA Capital at 4Q17E	201,648
# shares outstanding at 4Q17E	44,879
Equity value per share at 4Q17E	**$4.49**

Source: Raymond James Ltd.

We make the following comments regarding our valuation approach:

- ***We determine the value of FA Capital's stake in its investments in aggregate*** rather than on a sum-of-parts basis. As the number of investments grows, it will become increasingly impractical to value each of its investments independently, and we expect that investors will ultimately value its Attributable EBITDA as a single cash flow stream.
- ***We assume an average ownership stake of 60%***, consistent with how we've modeled our earnings forecasts. Although the company will own a lesser 52% of IMPACT once that deal closes, ignoring this variance is immaterial to our resulting valuation due to the small size of that investment.
- ***We include only Attributable EBITDA from investments that we expect will be funded by 4Q17E***. To achieve this, we deduct from our 2018E investment-source EBITDA forecast all EBITDA associated with investments expected to be made during 2018E (i.e., Investments #6 and #7 from Exhibit 44). Specifically, we include EBITDA contributions from the three investments announced to-date as well as from investments we expect to be made in 2017E (i.e., Investments #4 and #5 from Exhibit 44).
- ***We value investment-source EBITDA at a forward EV/EBITDA multiple of 9.0x***, two turns higher than the 7.0x multiple at which we assume new investments will be made. This is consistent with our expectation that FA Capital should be able to continue sourcing investments at discounted valuations (i.e., vs. full market value if sold outright to private equity) as a result of the "Advantage Factor" available to the selling shareholders of growing businesses (as explained at page 11). This 9.0x multiple is also consistent with the 9.2x weighted-average multiple that we use in our current NAV-based valuation in Exhibit 53.

We also believe a 9.0x multiple is fair in the context of the current valuations of the diversified investment company peer group included in Exhibit 52. This group is trading at an average 2017E EV/EBITDA multiple of 9.6x, higher than the multiple we are using in our valuation of FA Capital which we think reasonable considering this group's higher average dividend yield of 6.8%, larger average size (and diversification) and more established business models.

Exhibit 52: Diversified Investment Companies – Relative Valuation Analysis

	Price	Dividend	Mkt Cap.	EV	EBITDA				EBITDA Growth				EV/EBITDA			
	24-Feb-17	Yield	($ mln)	($ mln)	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E
Diversified Investment Companies																
Alaris Royalty Corp [1]	$22.27	7.3%	$797	$869	$79	$85	$109	$116	10%	8%	28%	6%	11.0x	10.2x	8.0x	7.5x
Compass Diversified Holdings [2] (US$)	$16.70	8.6%	$1,000	$1,731	$134	$185	$202	na	-9%	38%	9%	na	12.9x	9.4x	8.6x	na
Diversified Royalty Corp	$2.54	8.8%	$289	$322	$26	$23	$40	$48	49%	-13%	73%	20%	12.2x	14.0x	8.1x	6.7x
Exchange Income Fund [1]	$39.29	5.3%	$1,210	$1,842	$213	$238	$249	na	20%	12%	5%	na	8.6x	7.7x	7.4x	na
Mosaic Capital Corp	$10.00	4.2%	$87	$238	$25	$36	$36	na	16%	44%	0%	na	9.6x	6.7x	6.7x	na
Group Average		**6.8%**							**17%**	**18%**	**23%**	**13%**	**10.9x**	**9.6x**	**7.7x**	**7.1x**

1 - Raymond James Ltd. EBITDA estimates, 2016E - 2018E; 2 - Raymond James and Associates EBITDA estiamtes, 2016E - 2018E

Source: Bloomberg, Raymond James Ltd., Raymond James and Associates

- We use a 5.0x EV/EBITDA multiple in ascribing a valuation deduction related to corporate-level expenses. Unlike our current NAV-based valuation (Exhibit 53), which assumes a liquidation scenario involving no ongoing corporate costs, the approach we are using above assumes a continuity of operation (and related expenses). Given our expectation that corporate costs will remain relatively static going forward, we assign a lower valuation multiple to this cash flow stream than we do to comparatively growthy investment-source EBITDA.

- Notable risks related to achieving our target price for FA Capital include the following:
  - Funding constraints could limit its ability to invest at the pace and terms that we assume.
  - Investors might not be as ready as we are to project multiple expansion for investments until such time as the company can demonstrate actual value appreciation by achieving a meaningful gain on sale, which we do not anticipate over the next two years (since we assume no dispositions).
  - Investment-source EBITDA might not grow in line with our forecasts. We consider this to be only a moderate risk through 2018E considering how recently each investment will have been subject to due diligence and that we believe FA Capital's model is attractive primarily to business owners that have strong visibility on the near-term growth of their companies.

- We believe that growth in the company's Attributable Normalized EBITDA per share (see Exhibit 48) will be a primary influence on the company's share price going forward. We note that our valuation does not factor in any anticipated EBITDA contributions from investments that we are forecasting will be made beyond 4Q17E.

Current NAV-Based Valuation

An alternative approach to valuing FA Capital would be to determine its current net asset value (NAV) per share by estimating and aggregating the current values of each of its investments. In our opinion, a NAV-based valuation is only appropriate for determining the current value of the company, as any estimation of its projected value at some future point in time would require assigning specific values to investments that it has not yet identified or acquired. Accordingly, ***we use our NAV/share estimation purely to assess the fairness of its current share price – it does not factor into our target price determination.*** Our current NAV/share estimation is presented in Exhibit 53.

Exhibit 53: Current Net Asset Value Estimation

	2017E EBITDA	EV/EBITDA	Enterprise Value	Investment Level Net Debt	Equity Value of Investments	% Owned by FA Capital	FA Capital NAV
NAV of Investments (FA Capital's Share):							
DLC	18,000	10.0x	180,000	(5,569)	174,431	60%	104,659
Club16 LP	7,200	8.0x	57,600	(4,026)	53,574	60%	32,144
IMPACT (annualized)	4,200	7.5x	31,500	-	31,500	52%	16,380
FA Capital's share of investment-level NAV							153,183
Less: Corporate-level net debt at 4Q16E (pro forma the IMPACT investment)							(22,080)
NAV to shareholders							131,103
# of shares outstanding (4Q16E)							37,699
NAV per share							**$3.48**

Source: Raymond James Ltd.

A few points on our NAV/share estimation:

- ***We estimate a current NAV/share of $3.48, 2% higher than FA Capital's current share price of $3.40*** suggesting that the stock is currently trading close to its estimated fair value on a liquidation basis.

- ***We value DLC at an EV/EBITDA multiple of 10.0x***, 14% higher than the 8.8x multiple that FA Capital paid in acquiring its controlling stake in mid-2016. According to management, DLC had received higher bids from private equity investors that it turned down in favour of the FA Capital option, supporting the notion that it could transact at a higher multiple than 8.8x in a full auction scenario.

  While there are no publicly-traded mortgage broker peers that we're aware of to serve as valuation comparatives for DLC, the businesses of Realogy (RLGY – NYSE) and RE/MAX (RMAX – NYSE) are close enough to qualify for consideration. On average, these stocks are trading at an average EV/EBITDA (2017E) multiple of 8.7x, lower than the multiple we are using for DLC, but deservedly so, in our opinion, considering the following:

  - While ***Realogy*** is a leading real estate brokerage franchisor with brands including Coldwell Banker, Century21 and Sotheby's, this segment only accounted for 58% of its adjusted EBITDA in 2015. Other businesses, including "owned" real estate brokerages (24% of EBITDA) and relocation, title and settlement services comprise the rest of its EBITDA mix and are not comparable to the business of DLC. Its 2017E EBITDA margin (based on consensus) of 13% points to low free cash flow conversion vs. DLC, and its projected 8% EBITDA decline in 2016E (based on consensus) is in sharp contrast to DLC's 2016E EBITDA growth of 68% (and its 2010-2015 CAGR of 80%). We note that throughout 2014 and the first half of 2015, Realogy had consistently traded within a range of ~11x-13x consensus forward EV/EBITDA.

  - Unlike Realogy, ***RE/MAX*** is a 100% franchise business with a 2015 EBITDA margin of 52% comparable to that of DLC. Its revenue and EBITDA CAGRs from 2011-2015, while decent at 6.3% and 11.4%, respectively, are much lower than DLC's CAGRs over the same time frame of 21% and 76%, respectively. It currently carries a higher level of debt than DLC, at 2.0x TTM adjusted EBITDA (DLC: 0.8x), and appears to convert a much lower percentage of EBITDA into distributable free cash flow. According to RE/MAX, only 39% of its adjusted EBITDA for the 12 months ended Sep-2016 converted into "unencumbered" free cash flow, representing free cash flow less tax, debt-related principal repayments and payments made to its controlling shareholder to satisfy its tax

obligations. DLC, in comparison, established its distribution payout at a level equal to 74% of TTM adjusted EBITDA, or 100% on an after-tax basis, representing a much higher level of distributable cash flow generation that is arguably deserving of a premium EV/EBITDA valuation.

- DLC's domestic market share of ~40% is dominant vs. Realogy's ~16% share and smaller position, and continues to grow organically by >1%/year, on average, through the attraction of brokers to its superior model.

Exhibit 54: DLC Comparables – Relative Valuation Analysis

	Price	Dividend	Mkt Cap.	EV	EBITDA				EBITDA Growth				EV/EBITDA			
	24-Feb-17	Yield	($ mln)	($ mln)	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E
Real Estate Agents/Brokers																
Realogy (US$)	$28.82	1.2%	$4,111	$7,616	$769	$790	$825	$821	-8%	3%	4%	0%	9.9x	9.6x	9.2x	9.3x
REMAX (US$)	$58.50	1.2%	$1,033	$812	$93	$104	$108	na	4%	12%	4%	na	8.8x	7.8x	7.5x	na
Group Average		**1.2%**							**-2%**	**7%**	**4%**	**0%**	**9.3x**	**8.7x**	**8.4x**	**9.3x**

Source: Bloomberg, Raymond James Ltd.

- ***We value CLUB16 LP at an EV/EBITDA multiple of 8.0x,*** 1.7 turns higher than the 6.3x multiple paid by FA Capital for its controlling stake in late-2016. Of the three publicly-traded low-cost health club comparatives included in Exhibit 55, we consider The Gym Group and Basic-Fit (BFIT-AMS) as better benchmarks for CLUB16 LP than US-leader Planet Fitness due both to PLNT's much larger size and to its franchise-dominated business model. On average, GYM and BFIT trade at 8.8x consensus 2017E EV/EBITDA, higher than the 8.0x multiple we use for CLUB16 LP which we think fair given their superior EBITDA growth outlooks (based on consensus forecasts) and larger, more mature organizations.

Exhibit 55: CLUB16 LP Comparables – Relative Valuation Analysis

	Price	Dividend	Mkt Cap.	EV	EBITDA				EBITDA Growth				EV/EBITDA			
	24-Feb-17	Yield	($ mln)	($ mln)	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E
Healthclubs																
Basic-Fit	€16.33	na	€892	€1,069	€78	€108	€138	€175	32%	39%	28%	27%	13.8x	9.9x	7.8x	6.1x
The Gym Group	£1.78	0.1%	£228	£230	£23	£30	£36	£43	40%	31%	18%	21%	10.0x	7.6x	6.5x	5.3x
Planet Fitness (US$)	$21.43	na	$2,113	$2,548	$148	$170	$197	$229	41%	14%	16%	16%	17.2x	15.0x	12.9x	11.1x
Group Average		**0.1%**							**38%**	**28%**	**21%**	**21%**	**13.7x**	**10.9x**	**9.1x**	**7.5x**

Source: Bloomberg, Raymond James Ltd.

- ***We value IMPACT at an EV/EBITDA multiple of 7.5x***, 1.8 turns higher than the 5.8x acquisition multiple agreed to in Dec-2016. Given the very small size and niche nature of the company's offerings, there are no comparable publicly-traded peers that we are aware of. In order to provide a rough benchmark for how certain smaller-cap Canadian technology hardware manufacturers are valued, we include a small selection in Exhibit 56. On average, these comps are trading at 9.0x consensus 2017E EV/EBITDA with the smallest and least expensive trading at 6.9x, close to the 7.5x we use to value IMPACT.

Exhibit 56: IMPACT Comparables – Relative Valuation Analysis

	Price	Dividend	Mkt Cap.	EV	EBITDA				EBITDA Growth				EV/EBITDA			
	24-Feb-17	Yield	($ mln)	($ mln)	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E	2016E	2017E	2018E	2019E
Technology Hardware Manufacturers																
Avigilon Corp.	$0.15	na	$650	$571	$49	$60	$78	na	6%	21%	31%	na	11.6x	9.6x	7.3x	na
Baylin Technologies	$1.95	na	$43	$26	$1	$4	$8	na	-116%	199%	117%	na	20.7x	6.9x	3.2x	na
Plantronics Inc. (US$)	$54.67	na	$1,814	$1,885	$171	$180	$197	na	-10%	5%	10%	na	11.0x	10.5x	9.6x	na
Group Average		**na**							**-40%**	**75%**	**52%**	**na**	**14.4x**	**9.0x**	**6.7x**	**na**

Source: Bloomberg, Raymond James Ltd.

- In our analysis, we ignore corporate-level costs and do not capitalize them as an offset to our NAV. This valuation is meant to approximate a current liquidation value for the company, and in that scenario there would be no ongoing corporate costs to consider. As an offset, this approach also ignores the "goodwill" related to both management's investment sourcing and execution expertise and to the value-creation potential that we believe is inherent in its model (i.e., on a going-concern basis).

Appendix A: Consolidated Financial Statements

Exhibit 57: Summary Income Statement

($ thousands unless otherwise noted)	F2015	F2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E
Net revenues from investments:									
Revenues	-	23,161	14,542	26,166	28,524	32,091	101,322	202,433	311,375
Direct costs	-	(3,535)	(3,220)	(7,157)	(7,749)	(9,094)	(27,221)	(58,297)	(90,892)
Gross profit	-	19,625	11,322	19,008	20,774	22,996	74,101	144,136	220,483
Expenses									
General and administrative:									
Corporate-level G&A	2,062	5,190	1,000	1,013	1,025	1,038	4,076	4,283	4,501
Investment-level G&A		7,489	6,322	9,652	10,252	12,267	38,494	77,787	120,787
Share-based payments	1,216	6,401	1,357	1,138	750	750	3,995	3,000	3,000
Depreciation and amortization	4	2,109	1,561	2,034	2,481	2,905	8,981	16,361	23,802
Acquisition costs	-	3,636	300	250	250	250	1,050	1,000	1,000
	3,282	24,826	10,540	14,087	14,759	17,210	56,596	102,431	153,090
Income (loss) from operations		(5,201)	782	4,922	6,015	5,786	17,505	41,705	67,392
Finance expense	-	(2,283)	(395)	(706)	(938)	(1,067)	(3,106)	(5,610)	(7,615)
Other income, net	38,503	(957)	-	-	-	-	-	-	-
	38,503	(3,240)	(395)	(706)	(938)	(1,067)	(3,106)	(5,610)	(7,615)
Income (loss) before tax	41,785	(8,441)	387	4,215	5,078	4,719	14,399	36,095	59,778
Current income tax expense									
Deferred income tax expense	488								
Income taxes	488	2,183	(454)	(1,392)	(1,515)	(1,422)	(4,782)	(10,165)	(16,322)
Net income (loss)	42,273	(6,257)	(66)	2,823	3,562	3,297	9,616	25,930	43,455
Net income (loss) attributable to:									
Shareholders	42,273	(9,099)	(1,031)	617	1,084	854	1,524	10,175	19,327
Non-controlling interest	-	2,842	965	2,207	2,478	2,443	8,093	15,755	24,128
	42,273	(6,257)	(66)	2,823	3,562	3,297	9,616	25,930	43,455
Normalized EBITDA Calculation:									
Income (loss) before tax	41,785	(8,441)	387	4,215	5,078	4,719	14,399	36,095	59,778
Depreciation and amortization	4	2,109	1,561	2,034	2,481	2,905	8,981	16,361	23,802
Finance expense	-	2,283	395	706	938	1,067	3,106	5,610	7,615
EBITDA	41,789	(4,049)	2,343	6,955	8,497	8,691	26,486	58,066	91,195
Adjustments:									
Share-based payments	1,216	6,401	1,357	1,138	750	750	3,995	3,000	3,000
Acquisition and due diligence costs	-	3,636	300	250	250	250	1,050	1,000	1,000
Other adjusting items	-	545	-	-	-	-	-	-	-
Normalized EBITDA	**43,005**	**6,534**	**4,000**	**8,343**	**9,497**	**9,691**	**31,531**	**62,066**	**95,195**
Attributable normalized EBITDA	**nmf**	**4,108**	**2,000**	**4,517**	**5,204**	**5,316**	**17,037**	**35,161**	**54,922**
Key metrics:									
Basic EPS	$3.61	-$0.39	-$0.03	$0.02	$0.03	$0.02	$0.04	$0.20	$0.31
Diluted EPS	$3.57	-$0.38	-$0.03	$0.02	$0.03	$0.02	$0.04	$0.20	$0.30
Attributable normalized EBITDA/share (basic)	**nmf**	**$0.18**	**$0.05**	**$0.12**	**$0.14**	**$0.13**	**$0.44**	**$0.70**	**$0.87**
Distributable CFPS	**nmf**	**nmf**	**$0.00**	**$0.02**	**$0.05**	**$0.04**	**$0.11**	**$0.32**	**$0.44**
Dividend per share	**na**	**$0.0000**	**$0.0125**	**$0.0125**	**$0.0125**	**$0.0125**	**$0.0500**	**$0.1000**	**$0.1800**
Common shares outstanding - basic	9,953	37,699	37,699	37,699	37,699	44,879	44,879	57,877	71,103
Weighted avg. # shares outstanding - basic	9,879	23,273	37,699	37,699	37,699	41,289	38,597	50,024	62,961
Weighted avg. # shares outstanding - diluted	9,997	24,146	37,999	38,199	38,199	41,789	39,047	51,024	64,961
Dividend payout - current period, as % of DCPS	na	na	nmf	71%	27%	31%	46%	31%	41%
ROE (annualized)	nmf	-15.0%	-3.8%	2.2%	3.9%	2.7%	1.3%	6.1%	8.2%

Note: F2016E represents the 15-month period ending Dec-2016; F2015 represents the 12-month period ended Sep-2015.

Source: Founders Advantage Capital Corp., Raymond James Ltd.

Exhibit 58: Summary Balance Sheet

($ thousands unless otherwise noted)	F2015	F2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E
ASSETS									
Cash and cash equivalents	12,113	14,163	12,777	17,582	19,661	19,864	19,864	29,831	43,521
Net working capital	462	4,396	3,242	4,075	4,075	5,186	5,186	7,408	10,186
Investments	14,867	2,673	2,673	2,673	2,673	2,673	2,673	2,673	2,673
Equity-accounted investment	-	603	603	603	603	603	603	603	603
Capital assets	-	25,925	33,012	48,167	48,350	68,629	68,629	110,062	161,261
Intangible assets	-	126,322	134,234	153,961	153,431	179,399	179,399	228,278	287,683
Goodwill	-	64,900	72,977	92,977	92,977	119,643	119,643	172,977	239,643
Total assets	**27,441**	**238,981**	**259,517**	**320,038**	**321,770**	**395,997**	**395,997**	**551,832**	**745,571**
LIABILITIES									
Debt	-	32,346	39,637	78,267	78,711	98,273	98,273	139,540	192,225
Deferred tax liabilities	-	24,651	24,651	24,651	24,651	24,651	24,651	24,651	24,651
	-	56,997	64,288	102,918	103,362	122,925	122,925	164,191	216,877
EQUITY									
Share capital	27,027	111,340	113,768	113,768	113,768	140,788	140,788	195,938	263,488
Contributed surplus	6,678	15,257	16,614	17,753	18,503	19,253	19,253	22,253	25,253
Accumulated other comprehensive income	3,382	-					-		
Deficit	(9,645)	(18,745)	(20,247)	(20,102)	(19,489)	(19,151)	(19,151)	(14,046)	(6,119)
	27,441	107,852	110,135	111,419	112,782	140,890	140,890	204,145	282,622
NON-CONTROLLING INTEREST	-	74,132	85,094	105,700	105,626	132,183	132,183	183,496	246,072
Total liabilities and equity	**27,441**	**238,981**	**259,517**	**320,038**	**321,770**	**395,997**	**395,997**	**551,832**	**745,571**
Per share metric:									
BVPS	$2.76	$2.86	$2.92	$2.96	$2.99	$3.14	$3.14	$3.53	$3.97

Note: F2016E represents the 15-month period ending Dec-2016; F2015 represents the 12-month period ended Sep-2015.

Source: Founders Advantage Capital Corp., Raymond James Ltd.

Exhibit 59: Summary Cash Flow Statement

($ thousands unless otherwise noted)	F2015	F2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E
Cash Flows from Operating Activities									
Net (loss) income for the period	42,273	(6,257)	(66)	2,823	3,562	3,297	9,616	25,930	43,455
Items not affecting cash:									
Realized loss on sale of investments & capital assets	-	1,331	-	-	-	-	-	-	-
Depreciation and amortization	4	2,109	1,561	2,034	2,481	2,905	8,981	16,361	23,802
Share-based payments	1,216	6,401	1,357	1,138	750	750	3,995	3,000	3,000
Deferred tax recovery	(488)	(4,125)	-	-	-	-	-	-	-
Other non-cash items	(39,506)	272	2,429	-	-	-	2,429	-	-
Changes in non-cash working capital:	(378)	(1,540)	-	-	-	-	-	-	-
Cash provided by (used in) operating activities	3,121	(1,810)	5,280	5,995	6,794	6,953	25,021	45,291	70,258
Cash Flows from Investing Activities									
Acquisition of investment	-	(73,561)	(10,846)	(27,500)	-	(36,667)	(75,013)	(73,333)	(91,667)
Contribution to equity-accounted investee	-	(20)	-	-	-	-	-	-	-
Acquisition of intangibles	-	(1,487)	(750)	(750)	(750)	(750)	(3,000)	(3,000)	(3,000)
Acquisition of PPE	-	(142)	(810)	(1,165)	(1,385)	(1,735)	(5,095)	(10,340)	(14,740)
(Investment in) sale of shares	(10,909)	7,004	-	-	-	-	-	-	-
Other investing activities	39,577	-	-	-	-	-	-	-	-
Cash provided by (used in) investing activities	28,668	(68,207)	(12,406)	(29,415)	(2,135)	(39,152)	(83,108)	(86,673)	(109,407)
Cash Flows from Financing Activities									
Proceeds from equity financing, net of costs	-	59,012	-	-	-	27,020	27,020	54,040	67,550
Proceeds from debt	-	35,017	7,292	30,297	444	8,451	46,483	19,044	24,908
Repayments of debt	-	(21,016)	-	-	-	-	-	-	-
Proceeds from exercise of broker warrants/options	710	-	-	-	-	-	-	1,110	-
Return of capital distribution	(21,649)	-	-	-	-	-	-	-	-
Distributions paid by investees to NCI	-	(1,080)	(1,080)	(1,600)	(2,553)	(2,553)	(7,785)	(17,775)	(28,219)
Dividends paid to common shareholders	-	-	(471)	(471)	(471)	(516)	(1,930)	(5,070)	(11,400)
Cash provided by (used in) financing activities	(20,939)	71,933	5,740	28,225	(2,580)	32,403	63,788	51,349	52,839
Net increase (decrease) in cash and cash equivalents	10,850	1,915	(1,386)	4,805	2,078	204	5,702	9,967	13,690
Impact of foreign exchange	-	136	-	-	-	-	-	-	-
Cash and cash equivalents - beginning of period	7,727	18,577	14,163	12,777	17,583	19,661	14,163	19,865	29,831
Cash and cash equivalents - end of period	18,577	14,163	12,777	17,583	19,661	19,865	19,865	29,831	43,521

Note: F2016E represents the 15-month period ending Dec-2016; F2015 represents the 12-month period ended Sep-2015.

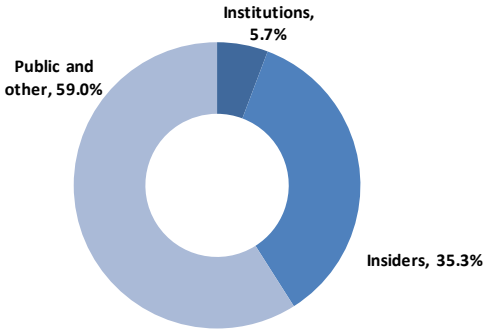
Source: Founders Advantage Capital Corp., Raymond James Ltd.

Appendix B: Share Ownership

Exhibit 60: Share Ownership, Feb-14-2017

Shareholder Summary	# Shares	% O/S
Institutions		
Globalive Capital Inc.	1,207,381	3.2%
Vertex One Asset Management Inc.	992,400	2.6%
Total Institutions	2,199,781	5.7%
Insiders		
Kayat, Chris	2,680,952	7.0%
Mauris, Gary Brian (Director)	2,522,952	6.6%
Harrington Global Limited	2,435,356	6.4%
Salida Capital Corporation	2,302,022	6.0%
Reid, Stephen (CEO, President and Director)	2,097,140	5.5%
Ward, J. R. Kingsley (Chairman)	714,266	1.9%
Bezanson, Allan James (EVP of Capital Markets)	326,372	0.9%
Cartmell, Akosha Heather (SVP of Acquisitions)	106,701	0.3%
Gratton, Ron (Director)	90,000	0.2%
McRae, Peter Croft (Director)	88,172	0.2%
Top 10 Insiders	13,363,933	34.9%
Other Insiders	132,749	0.3%
Total Insiders	13,496,682	35.3%
Public and other	22,590,311	59.0%
Total Shares Outstanding	**38,286,774**	**100.0%**
	38299274	

Source: S&P Capital IQ, Raymond James Ltd.



Appendix C: Management & Board of Directors

Management

Stephen Reid, President & CEO – Mr. Reid served as Senior Vice President of Business Development of Alaris Royalty Corp. from July 2008 until March 2015 where his role was to create and build relationships with all sources of investment leads. He had previously (in 2004) co-founded Alaris IGF Corp., the general partner of Alaris Income Growth Fund L.P., a predecessor of Alaris Royalty Corp. that invested in a diversified portfolio of private businesses in exchange for royalties or distributions with the principal objective of generating stable and predictable cash flows for dividend payments to its investors. He holds an Honours degree in Business Administration.

Darren Prins, Chief Financial Officer – Mr. Prins is a Chartered Professional Accountant with extensive experience in financial reporting, auditing, risk management, budgeting and forecasting, as well as international tax planning. He had previously served as Chief Financial Officer for Timmins Gold Corp, a listed gold mining company with operating and development assets in Mexico, where he was involved with acquisitions and financing transactions. While completing his Chartered Accountant designation with Ernst & Young, he worked in a variety of industries, with a specialization in financial services. Mr. Prins holds a Bachelor of Business Administration degree from Simon Fraser University (Finance Major) as well as a Diploma in Accounting from the University of British Columbia.

James Bell, Chief Operating Officer – Mr. Bell is a corporate and securities lawyer with over 15 years of experience. He had previously served as General Counsel for Olympia Financial Group Inc. and its wholly-owned subsidiary Olympia Trust Company (a non-deposit taking trust company) for six years and was a partner of an international law firm prior to that. He also serves as a Director of Paramount Resources Ltd. (a publicly-traded energy company). Mr. Bell holds a Bachelor of Law degree from the University of Saskatchewan.

Allan Bezanson, Executive VP, Capital Markets – Mr. Bezanson is responsible for developing, analyzing and executing the capital market profile for the company. In 1998 he founded a boutique advisory firm specializing in private equity and capital raises and advising on a number of going-private transactions. Earlier in his career he had been involved in M&A and the opening of several international subsidiaries for Nowosco Well Service Ltd., and was also a founding partner of a Barbados-based fixed income arbitrage fund. He serves on three public boards of which he is on the audit committees of two, Montana Exploration Ltd. and I Look About Inc. He previously served as interim CEO and director of FCF Capital Inc. and holds a Bachelor of Commerce degree from Dalhousie University.

Board of Directors

J.R. Kingsley Ward, Chairman – Mr. Ward is currently Chairman of the Vimy Ridge Group Ltd., a Toronto-based holding company with a portfolio of investments primarily in the healthcare industry, and a Managing Partner of its merchant banking arm, VRG Capital Corp. He has over 25 years of experience in initiating, structuring, and monetizing private equity investments. Mr. Ward is also Chairman of Data Group (a business communications firm), Jones Brown Holdings Inc. (a privately held Canadian Insurance brokerage and strategic consultancy firm), Clarus Securities (an institutional investment dealer) and Nucro Technics (a pharmaceutical contract support organization). He was a founder and former Director of IPEC (now Flint Energy Services), a founder and former Chairman of Pareto Corporation (a marketing services company) and a past Director of PLM Group (a commercial printing and direct marketing company). Mr. Ward holds a Bachelor of Commerce degree and a Bachelor of Arts degree.

Stephen Reid – See *Management* section above.

Peter McRae is currently the Chairman (and had previously been the President and CEO) of Freedom International Brokerage Company, Canada's largest inter-dealer broker. His early career included four years as a financial administrator for an engineering firm before joining the investment dealer Wood Gundy, first in the Treasurer's office 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 also a director and Chair of the audit committee of Focused Capital Corp. Mr. McRae is a Chartered Professional Accountant and also holds the ICD.D designation.

Anthony Lacavera – Mr. Lacavera founded Globalive Communications in 1998 where he continues as Chairman, and founded Wind Mobile in 2008 where he served as Chairman and CEO from 2008–2015. In 2013 he founded Globalive Capital to focus on accelerating early stage technology and telecommunications companies, and in 2015 he co-founded Globalive XMG to focus on the emerging Virtual Reality / Augmented Reality industries. Through various "accelerator programs" he supports young entrepreneurs with financing and mentorship, is active on numerous boards and advisory groups, and speaks regularly to students about entrepreneurship. Mr. Lacavera has served on a variety of charitable boards focused on university fundraising and entrepreneur advisory boards, as well as several public company boards. He holds a Bachelor of Engineering degree from the University of Toronto and was named Canada's CEO of the Year in 2010 by Globe and Mail's Report on Business Magazine.

Ron Gratton – Mr. Gratton is the President of Strathdale Investment Management Ltd. (a private investment firm) and a Director of the McCaig family office, which administers the McCaig family's investment in the Trimac group of companies. From 2000 until 2010, Mr. Gratton was a Senior Tax Partner with PricewaterhouseCoopers LLP and had previously held senior roles with Coopers & Lybrand as well as various public and private companies. Mr. Gratton is a Chartered Accountant and holds a Bachelor of Commerce degree from the University of Calgary.

Gary Mauris – Mr. Mauris is the co-founder and President & CEO of Dominion Lending Centres, CEO of Mortgage Centre Canada and Chairman of Mortgage Architects. He had sold two prior companies to the public market, was a finalist for the Ernst & Young Entrepreneur of the Year in 2011, earned the 2016 Tri-Cities Chamber of Commerce Business Leader of the Year and has led businesses recognized by Profit Magazine as among Canada's fastest growing companies. Mr. Mauris is the co-founder and President of the I AM SOMEONE Ending Bullying Society and recently co-founded "Bikes for Kids", a National program that collects new bicycles for underprivileged children across Canada.

James Bell – See *Management* section above.

Risks

- **Business Model Risk** – Because FA Capital's business model is new and unique, there is a risk that it might not be fully understood and appreciated by (a) the owners of targeted investments, potentially complicating the investment process, and/or (b) the investment community, potentially restricting the market or price of the company's common shares. The company also has a short operating history, elevating uncertainty regarding matters such as how founding management might behave following FA Capital's initial investment and on how underperforming investments might potentially be dealt with.
- **Competition Risk** – FA Capital's investment criteria results in a finite pool of potential investment candidates, the owners of which might not be interested in the company's unique co-investment and founder-managed business model, potentially restricting the availability of acquisitions. Competition from other capital providers seeking to make similar investments, including private equity, corporate lenders and royalty companies (which may have larger scale, better access to capital, and/or higher risk tolerance) might further restrict FA Capital's ability to make acquisitions and/or the price that it must pay for them (i.e., impacting potential returns).
- **Funding Availability Risk** – We expect that for the foreseeable future, FA Capital's retained cash flow (i.e., after dividend payments) will be insufficient to fund the level of new investment that we are forecasting. The company's investment-oriented growth strategy will therefore be largely be dependent upon its ability to access equity financing through the capital markets and/or debt financing, and there is no guarantee that either will be available at acceptable terms when required.
- **Investment Risk** – Distributions received from investee companies represent FA Capital's sole source of free cash flow and will be the primary source of funding for its future dividend payments. Although the company undertakes an in-depth due diligence process prior to making an investment, there is risk that this process might not accurately measure or determine all factors relevant to making a sound investment decision. Once an investment has been made, circumstances over time might deviate from the company's initial projections, potentially resulting in variability in the risk profiles, growth and financial performance of investments vs. expectations.
- **Portfolio Concentration Risk** – While FA Capital aims to eventually establish a diversified investment portfolio, there is no restriction on the proportion of its capital that may be allocated to any particular investment, industry or geography, resulting in potential concentration risk. The company currently has just three investments with its largest, DLC, accounting for 56% of 2017E run-rate distributable cash flow. Any deterioration in the financial health of DLC might therefore have a material adverse effect on the results of FA Capital.
- **Investment Illiquidity Risk** – FCF invests in private middle-market businesses, for which the market is relatively illiquid. In the event that FA Capital elects to sell its stake in a private issuer, there can be no assurance of sufficient demand from prospective buyers to support a sale on attractive terms at any given time.
- **Key Personnel Risk: FA Capital** – The company employs a small number of staff, certain of whom are critical in the sourcing of investment leads and the establishment and maintenance of relationships with key stakeholders. The loss of certain senior management could impair both the company's ability to grow profitably via capital deployment and its ability to effectively manage existing investments.
- **Key Personnel Risk: Investee Companies** – FA Capital seeks to invest passively in businesses that will continue to be operated by founding management teams that were responsible for their businesses' success prior to the company's investment. In the event that any such founding management leaves and can't be adequately replaced, the growth and profitability prospects of the related investee company might potentially become impaired. Should founding management plan to exit their business coincident with any future business sale transaction, the prospective loss of management continuity might negatively impair the value achievable by FA Capital in a sale.

- **Share Price Volatility Risk –** We expect the growth of FA Capital's investment portfolio will be funded largely through the issuance of equity, making its cost of capital largely a function of its cost of equity (i.e., which is inversely related to its share price). The company's shares are relatively illiquid and subject to potentially wide fluctuations in price. Any weakness in the company's share price could diminish the potential benefits to be expected from future equity-funded capital deployment, in turn negatively impacting its free cash flow and dividend growth outlook.

Investment Specific Risks

DLC

- **Canadian Housing Market Risk –** Franchise revenue earned by DLC is a function of both the number of brokers in its franchise network and the volume of mortgages that they broker. Any decline in residential property prices and/or the volume of housing transactions could serve to put downward pressure on both the demand for mortgage financing and the number of professional mortgage brokers in DLC's network. Housing prices and industry-wide transaction volumes are influenced by many economic factors, including unemployment levels, interest rates, consumer confidence and general economic growth, and the deterioration of any such variable has the potential to negatively impact DLC's revenues.

- **Regulatory Risk –** The mortgage industry is highly regulated, with the majority of lending undertaken by entities subject to oversight by OSFI (e.g., all chartered banks and trust companies). OSFI enforces minimum levels of risk-based capital, liquidity and leverage and requires that minimum standards of operating controls be in place for lenders. Any tightening of these rules could serve to constrain the ability and/or willingness of these entities to lend, which would in turn put pressure on the volume of mortgage financing available to prospective buyers. CMHC-imposed limits on mortgage insurance and securitization financing and recently introduced restrictions on the eligibility of mortgages for insurance also impact the availability of mortgage financing, and any further tightening of these rules could put downward pressure on residential housing market prices and transaction volumes.

- **Franchisee Risk –** DLC does not have direct oversight over its franchisees and it cannot be certain that the individuals running each franchise have the business acumen to profitably manage and/or grow their respective businesses. Poor performance of any particular franchisee could result in lower franchise revenue earned by DLC. Furthermore, any unethical behavior or operational failure at a franchisee may serve to damage the brand and reputation of DLC as a whole, potentially leading to lost market share and a diminished ability to attract brokers and franchisees to its platform.

CLUB16 LP

- **Competition Risk –** As a low-cost fitness club operator, CLUB16 LP competes directly with a range of types of fitness clubs (e.g., similarly low-cost clubs as well as high-end, boutique, and/or specialized facilities such as spinning, pilates, yoga and boxing studios) and indirectly with a wide range of other fitness/leisure options. Shifts in consumer preferences away from traditional "gyms" and/or towards higher-end (vs. low-cost) clubs may constrain both profitability and growth of CLUB16 LP. New, competing health clubs could enter CLUB16 LP's regional market, while other fitness clubs might potentially adopt some or all of CLUB16 LP's operating strategy to become more direct competitors.

- **Expansion Risk –** CLUB16 LP's growth strategy includes plans to open 1-2 new locations per year. Its planned pace of growth could be compromised if it is unable to find suitable locations for new clubs, or if new locations were to cannibalize membership from existing locations. There is no guarantee that new locations will be able to attract enough members to achieve targeted profitability levels. Eventual expansion into regions in which its brand is not yet well-recognized could involve slower growth and/or elevated marketing costs.

IMPACT Communications

- **Competition Risk –** IMPACT operates in a competitive market that features both larger, well-established major-brand manufacturers and foreign manufacturers of "no-name, off-the-shelf" equipment offered at discounted pricing. IMPACT positions itself in the middle of this

competitive spectrum, offering high-quality product at prices significantly lower than major-brand alternatives. In the event that the major brands significantly reduce pricing or the quality of less expensive unbranded product improves materially, it could pressure demand and/or pricing for IMPACT's product.

- **Technological Obsolescence Risk** – IMPACT's brand and reputation are dependent on its ability to deliver quality accessories that meet the specifications of a demanding customer base that includes buyers in the public safety, military and security industries. If IMPACT were to fail to sufficiently or productively invest in R&D, there is a risk that its product might lose competitive ground, resulting in lost market share and reduced profitability and growth. There is also a risk that competing technologies suitable to addressing IMPACT's target market might emerge, potentially impacting demand for its own product.

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Alaris Royalty Corp.	AD	TSX	C$	21.95	3	RJ Ltd.
Avigilon Corporation	AVO	TSX	C$	15.28	3	RJ Ltd.
Baylin Technologies Inc.	BYL	TSX	C$	1.95	2	RJ Ltd.
Compass Diversified Holdings	CODI	NYSE	US$	16.60	2	RJ & Associates
Exchange Income Corp	EIF	TSX	C$	38.37	1	RJ Ltd.
Paramount Resources Ltd.	POU	TSX	C$	17.29	1	RJ Ltd.
Plantronics, Inc.	PLT	NYSE	US$	54.77	3	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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	Coverage Universe Rating Distribution*			Investment Banking Distribution		
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Strong Buy and Outperform (Buy)	73%	51%	53%	48%	21%	0%
Market Perform (Hold)	26%	45%	32%	10%	10%	0%
Underperform (Sell)	1%	5%	14%	0%	4%	0%

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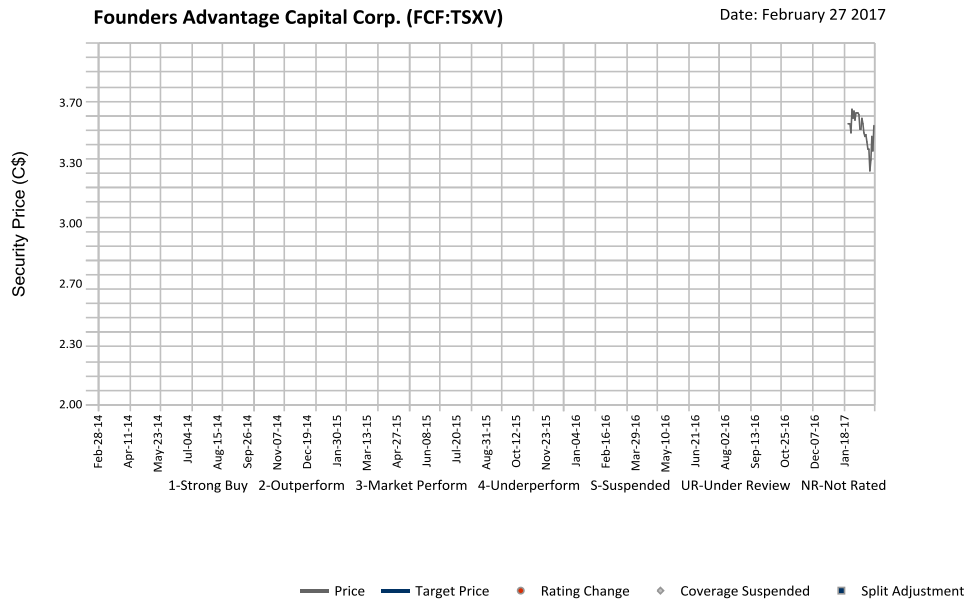
Target Prices: The information below indicates our target price and rating changes for FCF stock over the past three years.



Valuation Methodology: We value Founders Advantage Capital Corp. on a forward EV/EBITDA valuation that values 2018E Attributable EBITDA at 9.0x.

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Risks - Founders Advantage Capital Corp.

- Business Model Risk – Because FA Capital's business model is new and unique, there is a risk that it might not be fully understood and appreciated by (a) the owners of targeted investments, potentially complicating the investment process, and/or (b) the investment community, potentially restricting the market or price of the company's common shares. The company also has a short operating history, elevating uncertainty regarding matters such as how founding management might behave following FA Capital's initial investment and on how underperforming investments might potentially be dealt with.
- Competition Risk – FA Capital's investment criteria results in a finite pool of potential investment candidates, the owners of which might not be interested in the company's unique co-investment and founder-managed business model, potentially restricting the availability of acquisitions. Competition from other capital providers seeking to make similar investments, including private equity, corporate lenders and royalty companies (which may have larger scale, better access to capital, and/or higher risk tolerance) might further restrict FA Capital's ability to make acquisitions and/or the price that it must pay for them (i.e., impacting potential returns).

- Funding Availability Risk – We expect that for the foreseeable future, FA Capital's retained cash flow (i.e., after dividend payments) will be insufficient to fund the level of new investment that we are forecasting. The company's investment-oriented growth strategy will therefore be largely be dependent upon its ability to access equity financing through the capital markets and/or debt financing, and there is no guarantee that either will be available at acceptable terms when required.
- Investment Risk – Distributions received from investee companies represent FA Capital's sole source of free cash flow and will be the primary source of funding for its future dividend payments. Although the company undertakes an in-depth due diligence process prior to making an investment, there is risk that this process might not accurately measure or determine all factors relevant to making a sound investment decision. Once an investment has been made, circumstances over time might deviate from the company's initial projections, potentially resulting in variability in the risk profiles, growth and financial performance of investments vs. expectations.
- Portfolio Concentration Risk – While FA Capital aims to eventually establish a diversified investment portfolio, there is no restriction on the proportion of its capital that may be allocated to any particular investment, industry or geography, resulting in potential concentration risk. The company currently has just three investments with its largest, DLC, accounting for 56% of 2017E run-rate distributable cash flow. Any deterioration in the financial health of DLC might therefore have a material adverse effect on the results of FA Capital.

- Investment Illiquidity Risk – FCF invests in private middle-market businesses, for which the market is relatively illiquid. In the event that FA Capital elects to sell its stake in a private issuer, there can be no assurance of sufficient demand from prospective buyers to support a sale on attractive terms at any given time.

- Key Personnel Risk: FA Capital – The company employs a small number of staff, certain of whom are critical in the sourcing of investment leads and the establishment and maintenance of relationships with key stakeholders. The loss of certain senior management could impair both the company's ability to grow profitably via capital deployment and its ability to effectively manage existing investments.

- Key Personnel Risk: Investee Companies – FA Capital seeks to invest passively in businesses that will continue to be operated by founding management teams that were responsible for their businesses' success prior to the company's investment. In the event that any such founding management leaves and can't be adequately replaced, the growth and profitability prospects of the related investee company might potentially become impaired. Should founding management plan to exit their business coincident with any future business sale transaction, the prospective loss of management continuity might negatively impair the value achievable by FA Capital in a sale.

- Share Price Volatility Risk – We expect the growth of FA Capital's investment portfolio will be funded largely through the issuance of equity, making its cost of capital largely a function of its cost of equity (i.e., which is inversely related to its share price). The company's shares are relatively illiquid and subject to potentially wide fluctuations in price. Any weakness in the company's share price could diminish the potential benefits to be expected from future equity-funded capital deployment, in turn negatively impacting its free cash flow and dividend growth outlook.

Investment Specific Risks

DLC

- Canadian Housing Market Risk – Franchise revenue earned by DLC is a function of both the number of brokers in its franchise network and the volume of mortgages that they broker. Any decline in residential property prices and/or the volume of housing transactions could serve to put downward pressure on both the demand for mortgage financing and the number of professional mortgage brokers in DLC's network. Housing prices and industry-wide transaction volumes are influenced by many economic factors, including unemployment levels, interest rates, consumer confidence and general economic growth, and the deterioration of any such variable has the potential to negatively impact DLC's revenues.

- Regulatory Risk – The mortgage industry is highly regulated, with the majority of lending undertaken by entities subject to oversight by OSFI (e.g., all chartered banks and trust companies). OSFI enforces minimum levels of risk-based capital, liquidity and leverage and requires that minimum standards of operating controls be in place for lenders. Any tightening of these rules could serve to constrain the ability and/or willingness of these entities to lend, which would in turn put pressure on the volume of mortgage financing available to prospective buyers. CMHC-imposed limits on mortgage insurance and securitization financing and recently introduced restrictions on the eligibility of mortgages for insurance also impact the availability of mortgage financing, and any further tightening of these rules could put downward pressure on residential housing market prices and transaction volumes.

- Franchisee Risk – DLC does not have direct oversight over its franchisees and it cannot be certain that the individuals running each franchise have the business acumen to profitably manage and/or grow their respective businesses. Poor performance of any particular franchisee could result in lower franchise revenue earned by DLC. Furthermore, any unethical behavior or operational failure at a franchisee may serve to damage the brand and reputation of DLC as a whole, potentially leading to lost market share and a diminished ability to attract brokers and franchisees to its platform.

CLUB16 LP

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- Competition Risk – IMPACT operates in a competitive market that features both larger, well-established major-brand manufacturers and foreign manufacturers of "no-name, off-the-shelf" equipment offered at discounted pricing. IMPACT positions itself in the middle of this competitive spectrum, offering high-quality product at prices significantly lower than major-brand alternatives. In the event that the major brands significantly reduce pricing or the quality of less expensive unbranded product improves materially, it could pressure demand and/or pricing for IMPACT's product.

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