

Audited financial statements of

**Canadian Royalty Funding
Corporation**

December 31, 2015

Canadian Royalty Funding Corporation

December 31, 2015

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Independent Auditor's Report

To the Shareholder of
Canadian Royalty Funding Corporation

We have audited the accompanying financial statements of Canadian Royalty Funding Corporation, which comprise the statement of financial position as at December 31, 2015, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from April 8, 2015 to December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Royalty Funding Corporation as at December 31, 2015, and its financial performance and its cash flows for the period from April 8, 2015 to December 31, 2015 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
June 17, 2016

Canadian Royalty Funding Corporation

Statement of financial position

(In Canadian dollars)

	December 31, 2015
	\$
Assets	
Cash and cash equivalents	1,927,676
Receivables	92,914
Investments (Note 2)	3,739,476
HST recoverable	20,563
	<u>5,780,629</u>
Liabilities	
Accounts payable and accrued liabilities	42,267
Debentures (Note 3)	5,896,197
	<u>5,938,464</u>
Shareholder's equity	
Share capital (Note 5)	100
Current loss	(157,935)
Shareholder's equity representing net assets	<u>(157,835)</u>
Total liabilities and shareholder's equity	<u>5,780,629</u>

Approved by the Board:

 Director

 Director

See accompanying notes.

Canadian Royalty Funding Corporation

Statement of comprehensive loss

for the period from April 8, 2015 to December 31, 2015

(In Canadian dollars)

	2015
	\$
Revenue	
Net change in unrealized loss on investments	(19,796)
Distribution income (Note 2 and 6)	324,490
Redemption fees (Note 2 and 6)	62,929
Interest revenue	12,537
Dividends	4,650
Total Income	384,810
Expenses	
Interest	385,782
Transfer agent fees	65,529
Audit fees	39,140
Legal expense	35,504
Administrative	10,458
Accretion expense	5,258
Transaction costs (Note 6)	1,074
Total Expenses	542,745
Comprehensive loss	(157,935)

See accompanying notes.

Canadian Royalty Funding Corporation

Statements of changes in equity

for the period from April 8, 2015 to December 31, 2015

(In Canadian dollars)

	Share capital	Warrants	Loss	Total
	\$	\$	\$	\$
Balance at April 8, 2015	-	-	-	-
Share issuance	100	-	-	100
Net loss	-	-	(157,935)	(157,935)
Balance at December 31, 2015	100	-	(157,935)	(157,835)

See accompanying notes.

Canadian Royalty Funding Corporation

Statement of cash flows

for the period from April 8, 2015 to December 31, 2015

(In Canadian dollars)

	2015
	\$
Operating activities	
Total loss for the period	(157,935)
Items not affecting cash	
Accretion expense	(5,258)
Unrealized loss on investments	19,796
	<u>(143,397)</u>
Net change in non-cash working capital items	
Receivables	(92,914)
HST recoverable	(20,563)
Accounts payable and accrued liabilities	42,267
Cost to purchase funding agreement	(3,572,299)
Purchase of investments	(186,973)
Cash used in operating activities	<u>(3,830,482)</u>
Financing activities	
Issuance of share capital	100
Costs for issuance of debentures	(640,544)
Proceeds from issuance of debentures	6,542,000
Cash used in financing activities	<u>5,901,556</u>
Net change in cash during the period	1,927,676
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	<u>1,927,676</u>
Supplemental disclosure	
Amount of income taxes paid	-
Amount of interest paid	<u>385,782</u>

See accompanying notes.

Canadian Royalty Funding Corporation

Schedule of investment portfolio

as at December 31, 2015

(In Canadian dollars)

Number of shares	Description	Cost	Fair value
		\$	\$
	Publicly traded securities		
18,912	Caldwell U.S. Dividend Advantage Fund	186,973	167,177
		186,973	167,177
	Other		
	Funding Agreement (Note 2)	3,572,299	3,572,299
		3,572,299	3,572,299
		3,759,272	3,739,476

Canadian Royalty Funding Corporation

Notes to the financial statements

for the period from April 8, 2015 to December 31, 2015

The Canadian Royalty Funding Corporation ("the Company" or "CRFC") was incorporated on April 8, 2015, under the Business Corporations Act (Ontario), and is a wholly-owned subsidiary of Caldwell Financial Ltd. ("CFL"). The Company is authorized to issue an unlimited number of common shares.

The principal place of business of the Company is 150 King Street West, Suite 1710, Toronto, Ontario, Canada M5H 1J9.

The Company was established to invest in a diversified portfolio of revenue streams with the objective of providing a combination of high dividends and capital appreciation potential. The primary business of the Company is to finance the fees and expenses associated with the distribution of securities of investment funds ("Fund Offering Expenses") in exchange for fees paid by managers of such investment funds. The Company believes that, in the case of exchange traded "closed-end" investment funds ("CEFs"), the fact that the investment fund must pay the expenses of its initial public offering, including agents' commissions, adversely affects the success of its initial public offering since the securities of the investment fund immediately have a net asset value that is approximately 6% less than the price of the securities on the initial public offering.

1. Summary of significant accounting policies

Statement of compliance & basis of presentation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and revenues and expenses for the year. Actual results could differ from those estimates. Significant judgements and estimates included in the financial statements relate to the valuation of level 3 investments.

Functional and presentation currency

The Company considers its functional and presentation currency to be the Canadian dollar, which is the currency of the primary economic environment in which it operates. The Company's performance is evaluated and its liquidity is managed in Canadian dollars.

Segmented information

The Company is organized as one main operating segment, namely the management of the Company's investments in order to achieve the Company's investment objectives.

Foreign currency translation

The monetary assets and liabilities of the Company are translated into Canadian dollars, the Company's functional currency, at exchange rates in effect at the date of the statement of financial position. Non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are included in the statements of comprehensive income for the year. Purchases and sales of investments, investment income and expenses are calculated at the exchange rates prevailing on the dates of the transactions.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit, cash in a high interest savings account and an investment savings account that holds a short term fixed income investment which matures within 90 days of year end.

Canadian Royalty Funding Corporation

Notes to the financial statements

for the period from April 8, 2015 to December 31, 2015

1. Summary of significant accounting policies (continued)

Financial instruments

The Company's financial instruments are comprised of cash and cash equivalents, investments, receivables, Harmonized Sales Tax recoverable, debentures payable and accounts payable and accrued liabilities.

Investments have been designated at fair value through profit or loss ("FVTPL") with gains and losses recorded in net income.

All other financial instruments are classified as loans and receivables and are carried at amortized cost. Due to the short term nature their carrying value approximates fair value.

Debentures are classified as a financial liability measured at amortized cost and are initially recorded at fair value, and subsequently measured at amortized cost using the effective interest rate method.

The Company measures accounts payable and accrued liabilities at cost. Due to their short term nature, carrying value approximates fair value.

Valuation of investments

Investments are measured at fair value in accordance with IFRS 13 "*Fair Value Measurement*". Publicly traded securities are valued at the close price on the recognized stock exchange on which the securities are listed or principally traded.

Securities which are listed on a stock exchange or traded over-the-counter and which are subject to a hold period or other trading restrictions are valued as described above, with an appropriate discount as determined by management.

Investments for which reliable quotations are not readily available, or for which there is no closing bid price, including securities of private issuers, are valued at fair value using management's best estimates. A number of valuation methodologies may be considered in arriving at fair value, including comparable company transactions, earnings multiples, the price of a recent investment, net assets, discounted cash flows, industry valuation benchmarks and available market prices. During the initial period after an investment has been made, cost translated using the year end foreign currency exchange rate may represent the most reasonable estimate of fair value. Unrealized gains and losses on investments are recognized in the statement of comprehensive income.

The Company takes its own credit risk and the risk of its counterparties into account in determining the fair value of financial assets and financial liabilities. Management has reviewed its policies concerning valuation of assets and liabilities and believes that the fair values ascribed to the financial assets and financial liabilities in the Company's financial statements incorporate appropriate levels of credit risk.

There are inherent uncertainties in the process of valuing investments for which there are no published markets. Management uses various valuation techniques with unobservable market inputs in its determination of fair value of private investments, those most significant of which are disclosed in Note 2. Management exercises judgment in the determination of certain assumptions about market conditions existing at the date of the financial statements in the application of the chosen valuation techniques. As such, the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

Transaction costs

Transaction costs are expensed and are included in Transaction costs in the statement of comprehensive income. Transaction costs related to the issuance of the debentures are included in the debenture balance.

Investment transactions and income recognition

Investment transactions are recorded on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis.

Canadian Royalty Funding Corporation

Notes to the financial statements

for the period from April 8, 2015 to December 31, 2015

1. Summary of significant accounting policies (continued)

Realized gains and losses from investment transactions and unrealized net gain or loss on foreign exchange and investments are calculated on an average cost basis.

Distribution income and redemption fees is earned on the funding agreement defined in Note 2(i) and recognized on an accrual basis when the amount can be measured reliably and collection is reasonably assured.

2. Fair value measurement

Fair value measurements of the investments are classified based on a three-level hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following is a summary of the Company's investments categorized in the fair value hierarchy as at December 31, 2015:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Publicly traded securities	167,177	-	-	167,177
Funding Agreement (i)	-	-	3,572,299	3,572,299
	167,177	-	3,572,299	3,739,476

- (i) The Company has entered into a funding agreement (the "Funding Agreement") with a related party and is entitled to receive distribution income via a stream of payments from Caldwell Investment Management Ltd. ("CIM") which are calculated based on an annual rate of 1.23% of the net asset value of an underlying investment fund managed by CIM. These payments are received monthly by the Company and are required to be paid until the underlying fund is terminated. In addition, the Company is entitled to earn redemption fees equal to 100% of any redemption fees received by CIM.

The following table provides a reconciliation of level 3 fair value measurements of financial assets.

	December 31, 2015
	Total
Balance at April 8, 2015	-
Purchase	3,572,299
Sales	-
Realized gain	-
Unrealized gain	-
Balance at December 31, 2015	3,572,299

Canadian Royalty Funding Corporation

Notes to the financial statements

for the period from April 8, 2015 to December 31, 2015

2. Fair value measurement (continued)

Level 3 valuation methods – December 31, 2015

Description	Fair value	Primary Valuation technique used	Significant unobservable inputs	Input or range of inputs
Funding Agreement	3,572,299	Discounted cash flow	Discount rate	9%
			Redemption rate	5%–20%
			Life of fund	20 years

Sensitivity analysis to significant changes in unobservable inputs within the Level 3 hierarchy

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at December 31, 2015 is shown below:

Level 3 Sensitivity analysis - December 31, 2015

Description	Input	Sensitivity used	Effect on fair value (\$)
Funding Agreement	Discount rate	1% increase	(143,317)
	Redemption rate	1% increase	(26,385)
	Life of Fund	2 years deduction	(34,173)

For the period ended December 31, 2015, there were no transfers between levels.

3. Convertible debentures

On April 13, 2015 the Company, through an offering memorandum, offered for issuance, up to 16,000 subscription receipts for \$1,000 each. Each subscription receipt represented the right to receive: (i) \$1,000 principal amount of convertible unsecured senior redeemable debentures; and (ii) 250 warrants at no additional cost.

The debentures bear interest at an annual rate of 10%, payable quarterly in arrears in equal installments and have a maturity date of June 30, 2035. Each Debenture is convertible to common shares at the option of the holder at a conversion price of \$0.80 per common share at any time.

Each warrant entitles the holder to purchase one common share of the Company for \$0.25 per share at any time before they expire. Each warrant will expire the earlier of:

- (i) 18 months from the Company's common share listing date; and
- (ii) June 30, 2020 whether or not the common shares are listed on a stock exchange. On May 28, 2015 the offering closed and, 6,542 receipts were purchased and converted to convertible debentures and warrants for gross proceeds of \$6,542,000 which included 1,635,000 warrants. Included in the debenture balance are transactions costs of \$640,544. During the period, \$5,259 of accretion expense was included in the debenture balance.

In addition, 402,625 warrants were issued to the brokers and 10,000,000 warrants were issued to CFL with identical features as noted in the warrant terms above for \$nil per unit.

The fair value of the warrants were determined to be \$nil on issuance.

Canadian Royalty Funding Corporation

Notes to the financial statements

for the period from April 8, 2015 to December 31, 2015

4. Financial instruments and risk management

The Company is exposed to the following risks arising from the financial instruments.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligation when due. The following table details the Company's remaining contractual obligations for its financial liabilities based on agreed repayments. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Company can be required to pay.

	1 year	5 year	10 year	20 year
Interest - Debentures	654,200	3,271,000	6,542,000	13,084,000
Principal - Debentures	-	-	-	6,542,000
Accounts payable and accrued liabilities	42,267	-	-	-
Total	696,467	3,271,000	6,542,000	19,626,000

The Company endeavors to maintain sufficient liquidity to meet its obligations.

Interest rate risk

The Company considers the risk related to interest rate changes for cash and cash equivalents due to their short-term nature. The Company has a high interest savings account and an investment savings account at The Bank of Nova Scotia with a 0.4% and 0.5% interest rate that the Company deems as low risk.

Other market risk

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. Any equity and derivative instrument that the Company may hold is susceptible to market price risk arising from uncertainties about future prices of the instruments. Management moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value.

The most significant exposure for the Company to other market risk arises from its investment in a publicly traded security. As at December 31, 2015, for the publicly traded security, had the prices on the respective stock exchanges for this securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$16,717 (approximately 11% of total net assets). In practice, the actual results may differ materially. Management is unable to meaningfully quantify any correlation of the price of its privately owned Funding Agreement to changes in a benchmark index.

Capital management

Management manages the capital of the Company which consists of the net assets, in accordance with the Company's investment objectives. The Company is not subject to any capital requirements imposed by a regulator.

Canadian Royalty Funding Corporation

Notes to the financial statements

for the period from April 8, 2015 to December 31, 2015

5. Share capital

Authorized:

Unlimited number of common shares

Issued:

	Number	Amount \$
Balance, beginning of period	-	-
Issued during the period	40,000,000	100
Balance, December 31, 2015	40,000,000	100

(i) On April 8, 2015, the date of incorporation, the Company issued 40,000,000 shares to CFL for \$100.

The following is a summary of changes in warrants from April 8, 2015 to December 31, 2015:

	Number	\$
Balance at April 8, 2015	-	-
Issue of warrants	12,038,125	-
Balance at December 31, 2015	12,038,125	-

(see note 3)

6. Related party transactions

CIM and CRFC are under common control and are therefore related parties. Pursuant to the Funding Agreement (see Note 2), CIM, during the period paid CRFC \$324,490 in distribution income and \$62,929 in redemption fees which is included in the statement of comprehensive loss.

Caldwell Securities Ltd. ("CSL"), a commonly controlled company and a registered broker and investment dealer, executes CRFC portfolio transactions. The total amount of brokerage commission fees paid to CSL by CRFC during the period ended December 31, 2015 was \$417.

In addition, as described in note 3, the Company issued CFL 10,000,000 warrants for \$nil consideration.

All related party transactions are recorded at their exchange amounts.

7. Income taxes

The Company's provision for income taxes for the period ended December 31, 2015 is summarized as follows:

	2015
	\$
Net loss before income taxes	(157,935)
Expected income taxes payable at future rates - 26.5%	(41,853)
Income tax effect of the following:	
Non-taxable dividends	(1,232)
Non-recognition of deferred tax asset re net operating loss	37,839
Other	5,246
	-

Canadian Royalty Funding Corporation

Notes to the financial statements

for the period from April 8, 2015 to December 31, 2015

7. Income taxes (continued)

The components of the Company's deferred income taxes are as follows:

	\$
Funding Agreement	(34,754)
Financing Cost	(23,943)
Non-Capital Losses	96,535
Valuation allowance	(37,838)
Total deferred income tax balance	-

There are current year non-capital losses of \$364,286 which will expire in 2035.

8. Future accounting developments

In July 2014, the final version of IFRS 9 Financial Instruments ("IFRS 9") was issued, which replaces IAS 39 – Financial Instrument: Recognition and Measurement. IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. Financial asset classification is based on the cash flow characteristics and the business model in which an asset is held. The classification determines how a financial instrument is accounted for and measured. IFRS 9 also introduces an impairment model for financial instruments not measured at fair value through profit or loss that requires recognition of expected losses at initial recognition of a financial instrument and the recognition of full lifetime expected losses if certain criteria are met. A new model for hedge accounting aligns hedge accounting with risk management activities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact the adoption of this standard will have on the financial statements.

In December 2014, a disclosure initiative was issued, which amends IAS 1 Presentation of Financial Statements. The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying the guidance on materiality, presentation, and note structure. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company is currently assessing the impact this disclosure initiative will have on the financial statements.

9. Subsequent events

On January 19, 2016 the Company made an offer to registered debenture holders to repurchase up to \$1,800,000 par value of outstanding debentures for the price of \$1,015.62 representing par value plus accrued interest to February 26, 2016. The repurchases were settled on February 26, 2016 and all repurchased debentures were cancelled and will not be reissued. The aggregate par value of Debentures that remain issued and outstanding is \$4,742,000.

10. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on June 17, 2016.