Founders Advantage Proposed Acquisition Q&A

On October 5, 2020, Founders Advantage Capital Corp. ("FAC") announced the proposed acquisition (the "Proposed Acquisition") of 100% of Dominion Lending Centres Limited Partnership ("DLC LP"). This document provides a brief overview of key questions and answers on the Proposed Acquisition and the related corporate reorganization.

1. Does FAC currently have an ownership interest in DLC LP?

   Yes, FAC currently holds a 60% interest in DLC LP. As FAC controls DLC LP, the financial results of FAC included the consolidated results of DLC LP along with the financial results of FAC's two other investments (Club16 and Impact).

2. How is FAC completing the Proposed Acquisition?

   FAC will acquire all of the DLC LP units that it does not already own in exchange for 26,774,054 newly created series 1 class B preferred shares (the "Preferred Shares").

3. Who is KayMaur Holdings Ltd.?

   KayMaur Holdings Ltd. ("KayMaur") is controlled by Gary Mauris and Chris Kayat (the founders and principal operators of DLC). Approximately 95% of the Preferred Shares will be issued to KayMaur.

4. Why did FAC elect to issue Preferred Shares?

   FAC elected to issue Preferred Shares so that the terms of the Preferred Shares could closely align with the terms of the DLC LP units being acquired. Further, FAC wanted to avoid issuing class A common shares ("Common Shares") as we do not believe the current trading value reflects the intrinsic value of the Common Shares.

5. Are the Preferred Shares voting or convertible into Common Shares?

   The Preferred Shares are non-voting and do not convert into Common Shares.

6. What are the key provisions for the Preferred Shares?

   A summary of the key provisions are attached as Appendix "A". A full copy of the Preferred Share provisions are available for review on SEDAR.

7. Once FAC and DLC are merged, what will be the new corporate name?

   The combined entity will continue as Dominion Lending Centres Inc.

8. What is the current trading symbol and will it change?

   FAC currently trades on the TSXV under the symbol "FCF". Upon completion of the Proposed Acquisition and the name change, we anticipate changing the trading symbol to "DLCG".

9. When is the Proposed Acquisition and related corporate reorganization expected to be completed?

   The Proposed Acquisition is expected to be completed on December 31, 2020, with the name change to be completed shortly thereafter in January, 2021.

10. What are the “Inversion Rights” referenced in the press release?

    The Inversion Rights are a feature of the current corporate structure that allow KayMaur to 70% of cash distributions above a set threshold amount. KayMaur receives 40% of cash distributions up to the threshold and then the Inversion Rights provide KayMaur with 70% of cash distributions above the threshold amount.

11. Will the Inversion Rights continue post-closing?

    FAC anticipates terminating the Inversion Rights as part of the Proposed Acquisition. In order to terminate the Inversion Rights, FAC would issue KayMaur 4,285,714 Common Shares and would pay KayMaur a cash amount of $7.5 million. The Common Shares and the cash payment are referred to as the “Inversion Termination Consideration”.

12. How will FAC fund the cash portion of the Inversion Termination Consideration?

    FAC anticipates completing a private placement of 4,285,714 Common Shares at a price of $1.75 per share for gross proceeds of $7.5 million (the “Private Placement”). Belkorp industries Inc., an insider, has indicated that they will complete the Private Placement.

13. On completion of the Proposed Acquisition, what will FAC own?

    FAC will own 100% of DLC, 58% of Club16 and 52% of Impact. FAC’s interest in DLC is considered the “Core Asset” and FAC’s interest in Club16 and Impact are considered “Non-Core Assets”.

14. As the Proposed Acquisition is a related-party transaction, it required a formal valuation. What did the independent valuator conclude was the fair market value of 100% of DLC?

    The independent valuator concluded that the fair market value of DLC was $230 million.

15. Assuming the Proposed Acquisition is completed and the Inversion Termination Consideration is paid, how many Preferred Shares and Common Shares will be outstanding?

    FAC will have an aggregate of 46,653,942 Common Shares and 26,774,054 Preferred Shares outstanding.

16. Assuming the Proposed Acquisition is completed and the Inversion Termination Consideration is paid, how many Preferred Shares and Common Shares will KayMaur own or control?

    KayMaur will hold 16,124,760 Common Shares (34.6%) and 25,432,674 Preferred Shares (95%).

17. What will happen to the Non-Core Assets post-closing?

    FAC will continue to hold the Non-Core Assets but plans to focus primarily on DLC. FAC may elect to liquidate the Non-Core Assets at a future date and use the proceeds to repay corporate debt.

18. What are the conditions to closing?

    Completion of the Proposed Acquisition is subject to various conditions, including TSXV approval, shareholder approval and lender approval.

Appendix A – The Preferred Share Terms

The key terms for the Preferred Shares are as follows:

- The Preferred Shares were created to convey similar economic and legal rights as the DLC LP units being acquired.

  The key economic provisions for the Preferred Shares (being the dividend entitlements and liquidation rights) are set out in the Preferred Share Terms and the key governance provisions for the Preferred Shares are set out in the Investor Rights Agreement (both of which are available for review on SEDAR).

- The Preferred Share Terms define the DLC operations as the Corporation's "Core Business" and the public company, Club16 and Impact operations as the Corporation's "Non-Core Business".
- In the event the Inversion Termination Consideration is not paid, the Preferred Share Terms provide that the holders shall be entitled to annual cumulative cash dividends as follows (being the Inversion Rights):
  - in the event the Corporation has non-capital losses available in any Fiscal Year, the sum of 40% of the Cdn.$17,500,000 of Core Business Distributable Cash, if any, in respect of the applicable Fiscal Year; and 70% of any Core Business Distributable Cash, if any, in excess of Cdn.$17,500,000 in respect of the applicable Fiscal Year; or
  - in the event the Corporation does not have non-capital losses available in any Fiscal Year, the sum of 40% of the Cdn.$14,600,000 of Core Business Distributable Cash, if any, in respect of the applicable Fiscal Year; and 70% of any Core Business Distributable Cash, if any, in excess of Cdn.$14,600,000 in respect of the applicable Fiscal Year.
- Core Business Distributable Cash is a defined term in the Preferred Share Terms as a proxy for distributable free cash flow and generally includes cash flows from operating activities (excluding non-cash working capital), cash flows from investing activities and cash flow from financing activities attributable to the Core Business for a given fiscal year.
- The Preferred Shares have no economic entitlement to the balance of the Core Business Distributable Cash (not otherwise paid to the Preferred Share holders) as such amounts are defined to form part of the Non-Core Business held for the benefit of holders of Common Shares.
- On a liquidation of the Corporation or the sale of the Core Business, the Preferred Shares are entitled to a percentage of the net proceeds received for the Core Business based on the ratio of historical cash distribution entitlements. For example, if the Preferred Shares historically received 40% of Core Business Distributable Cash in the form of dividends, the Preferred Shares would be entitled to 40% of the net proceeds on liquidation of the Core Business.
- The Preferred shares have no economic entitlements to the Non-Core Business.
- The holders of Preferred Shares are entitled to nominate 40% of the Corporation's directors.
- Certain corporate activities (such as incurring more debt related to the Core Business or completing a new Non-Core acquisition) require approval by the Preferred Shareholders.
- The Preferred Shares are non-voting and are not convertible into Common Shares.