CANADIAN ROYALTY FUNDING CORPORATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

HILBORN LLP

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, 2017, and the statements of operations, changes in deficit and cash flows for the year then ended, 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 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, 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other Matter

The statements of financial position as at December 31, 2016 and January 1, 2016 and the statements of operations, changes in deficit and cash flows for the year ended December 31, 2016 were audited by another firm of chartered professional accountants who issued an unqualified audit report dated May 24, 2017.

Hilborn LLP

Toronto, Ontario
May 16, 2018

Chartered Professional Accountants
Licensed Public Accountants

CANADIAN ROYALTY FUNDING CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

	2017	2016
ASSETS		
Cash and cash equivalents *(note 6(c))*	**$ 43,092**	$ 398,573
Amounts receivable *(note 6(c))*	**112,909**	73,487
Investments at fair value *(notes 2 and 6(c))*	**3,247,743**	3,400,481
	3,403,744	3,872,541
LIABILITIES		
Accounts payable and accrued liabilities	**22,600**	6,860
Debentures *(notes 3, 6(b) and 6(c))*	**3,847,581**	4,281,001
	3,870,181	4,287,861
SHAREHOLDER'S EQUITY		
Share capital *(note 5)*	**100**	100
Deficit	**(466,537)**	(415,420)
	(466,437)	(415,320)
	$ 3,403,744	$ 3,872,541

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board:

, Director , Director

CANADIAN ROYALTY FUNDING CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2017

		2017		2016
Revenues				
Distribution income *(note 6(c))*	**$**	**667,385**	$	595,587
Redemption fees *(note 6(c))*		**-**		132,836
Interest revenue		**3,523**		1,015
Dividends *(note 6(c))*		**25**		11,711
Realized and unrealized gain from investments in equity securities		**49**		15,487
		670,982		756,636
Expenses				
Interest expenses *(notes 6(b) and 6(c))*		**431,817**		502,887
Accretion expenses		**54,580**		184,804
Administration *(note 6(c))*		**53,228**		57,842
Professional fees		**23,799**		79,774
Transfer agent fees *(note 6(c))*		**6,937**		7,287
Commissions *(note 6(c))*		**-**		1,134
Fair value adjustments to Funding Agreement *(note 6(c))*		**151,738**		180,393
		722,099		1,014,121
Loss before income taxes		**(51,117)**		(257,485)
Income tax expense *(note 4)* - current		**-**		-
- deferred		**-**		-
		-		-
Net loss and total comprehensive loss for the year		**(51,117)**		(257,485)
Deficit - at end of year	**$**	**(466,537)**	$	(415,420)

The accompanying notes are an integral part of these financial statements

CANADIAN ROYALTY FUNDING CORPORATION

STATEMENT OF CHANGES IN DEFICIT

YEAR ENDED DECEMBER 31, 2017

	Share Capital	Warrants	Deficit	Total
Balance at January 1, 2016	$ 100	$ -	$ (157,935)	$ (157,835)
Net loss and total comprehensive loss for the year	-	-	(257,485)	(257,485)
Balance at December 31, 2016	100	-	(415,420)	(415,320)
Share issuance	-	-	-	-
Net loss and total comprehensive loss for the year	-	-	(51,117)	(51,117)
Balance at December 31, 2017	**$ 100**	**$ -**	$ (466,537)	$ (466,437)

The accompanying notes are an integral part of these financial statements

CANADIAN ROYALTY FUNDING CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

		2017		2016
Operating activities				
Net loss and total comprehensive loss for the year	**$**	**(51,117)**	$	(257,485)
Items not affecting cash				
Accretion expense		**54,580**		184,804
Realized and unrealized gain on equity securities		**(49)**		(15,487)
Fair value adjustments to Funding Agreement		**151,738**		180,393
		155,152		92,225
Net change in non-cash working capital items				
Amounts receivables		**(39,422)**		19,427
Net HST Recoverable		**-**		20,563
Accounts payable and accrued liabilities		**15,740**		(35,405)
Cost to purchase funding agreement		**-**		(7,576)
Proceeds on disposal of investments		**1,049**		181,663
Cash used in operating activities		**(22,633)**		178,672
Financing activity				
Repurchases of debentures		**(488,000)**		(1,800,000)
Net change in cash during the year		**(355,481)**		(1,529,103)
Cash and cash equivalents - beginning of year		**398,573**		1,927,676
Cash and cash equivalents - end of year	**$**	**43,092**	$	398,573

The accompanying notes are an integral part of these financial statements

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's head office is located at 1710-150 King Street West, Toronto, Ontario, Canada.

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 expenditures associated with the distribution of securities of investment funds ("Fund Offering Expenses") in exchange for fees from such investment funds.

These financial statements were approved by the Board of Directors of the Company on May 16, 2018.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. These standards are in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to publicly accountable enterprises and include the following significant policies:

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are converted at the exchange rate at the year end date. Transactions in foreign currencies are recorded at the exchange rates prevailing at the dates of respective transactions.

Realized and unrealized foreign exchange gains and losses are presented in the Statement of Operations.

Financial Instruments

The Company initially measures its financial assets and liabilities at fair value. Upon initial recognition attributable transaction costs, except for those related to the issuance of debentures, are recognized in the statement of operations as incurred. Transaction costs related to the issuance of the debentures are included in the debenture balance.

The Company subsequently measures all its financial assets and liabilities at amortized cost except for investments at fair value.

Financial assets and liabilities measured at amortized cost include cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and debentures.

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 acquisition.

Investments at fair value

Investments at fair value consist of equity securities and Funding Agreement.

Equity securities are recorded at fair values as at the close of business at the year end date. Fair value is based on quoted market prices for exchange-traded equity securities. The valuation of securities is affected by, among other factors, the liquidity of the security, the size of the bid and ask spread and the relative breadth of market and current yield price adjustments.

The Funding Agreement with an exchange traded "close-end" investment fund, for which reliable quotations are not readily available, is recorded at fair value as at the year end date based on management's best estimates. The primary valuation technique used by management is the discounted cash flow method. The key perimeters used in calculation consist of discount rate, redemption rate and the life of the underlying fund.

Changes in fair value are recognized in the statement of operations in the year in which the changes occur.

Debentures

Debentures are initially recorded at fair value, which is the principal amount net of the transactions costs related to the issuance of the debentures, and subsequently measured at amortized cost using the effective interest rate method.

Current and Deferred Income Taxes

Current income tax asset or liability for the current and prior years is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the year end date.

Deferred income tax asset or liability is recognized on temporary differences between the tax basis of an asset or liability and its carrying amount on the statement of financial position. Deferred income tax asset or liability is measured using the income tax rates and laws that have been enacted or substantively enacted at the year end date, and which are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. A deferred income tax asset is recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Distribution income and redemption fees arising from the Funding Agreement are recorded when the amount can be measured reliably and collection is reasonably assured under the terms of the funding agreement. See *note 2* for details of the terms of the agreement.

Interest is recorded as earned.

Dividends are recorded when the dividends are declared and receivable.

Gains and losses on investments at fair value include realized gains and losses on securities sold during the year and unrealized changes in fair value of investments held at the end of the year.

Use of Estimates and Judgments

The preparation of these financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas subject to assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in future periods include valuation of Funding Agreement and deferred income tax assets and liabilities.

2. INVESTMENTS AT FAIR VALUE

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Details of investments at fair value are as follows:

2017	***Units***	***Level 1***	***Level 2***	***Level 3***	***Total***
Funding Agreement	**-**	**$ -**	**$ -**	**$ 3,247,743**	**$ 3,247,743**

2016	*Units*	*Level 1*	*Level 2*	*Level 3*	*Total*
Caldwell US Dividend Advantage Fund	100	$ 1,000	$ -	$ -	$ 1,000
Funding Agreement	-	-	-	3,399,481	3,399,481
		$ -	$ -	$ -	$ -

2. INVESTMENTS AT FAIR VALUE (continued)

Investment in Funding Agreement

The Company has entered into a funding agreement with an investment fund. Under the funding agreement, the Company facilitated the establishment of an exchange traded "close-end" investment fund by financing the expenditures associated with the distribution of securities of the fund. In return, the Company is entitled to receive distribution income calculated at an annual rate of 1.23% of the net asset value of the underlying fund over the life of the fund. The Company is also entitled to receive all the redemption fees collected by the fund until its cost of the investment in the funding agreement (the "Funding Agreement") is fully recovered.

As at the year end, the fair value of the Funding Agreement is estimated at $3,248,000 ($3,399,000 - 2016) using the discounted cash flow method.

Details of the inputs used in valuation technique and a quantitative sensitivity analysis are as below:

Significant Inputs	Rates of Input	Sensitivity Used	Effect on Fair Value
2017			
Discount rate	9%	1% increase	$(114,498)
Redemption rate	7%-17%	1% increase	(100,384)
Life of Fund	20 years	2 years deduction	(46,968)
2016			
Discount rate	10%	1% increase	$(129,793)
Redemption rate	7%-17%	1% increase	(91,608)
Life of Fund	20 years	2 years deduction	(38,001)

3. DEBENTURES

In order to finance the establishment of an investment fund, details disclosed in note 2, the Company raised funds by way of issuance of debentures.

On April 13, 2015 the Company offered for issuance up to 16,000 subscription receipts for $1,000 each under an offering memorandum. 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 of the Company 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.

3. *DEBENTURES (continued)*

On May 28, 2015 the offering closed and, 6,542 receipts were purchased by the investors and converted to convertible debentures and warrants for gross proceeds of $6,542,000. Included in the debenture balance were transactions costs of $640,544.

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

The fair value of the warrants was determined to be $NIL on issuance.

On February 26, 2016, the Company repurchased from the registered debenture holders $1,800,000 par value of outstanding debentures for the price of $1,015.62 per $1,000 debenture representing par value plus accrued interest to date of settlement. All repurchased debentures were cancelled and will not be reissued.

On February 17, 2017, the Company repurchased from the registered debenture holders $488,000 par value of outstanding debentures for the price of $1,013.15 per $1,000 debenture representing par value plus accrued interest to date of settlement. All repurchased debentures were cancelled and will not be reissued.

During the year, the Company incurred interest expenses of $432,000 ($503,000 - 2016). In addition the Company recorded debenture accretion expense of $55,000 ($185,000 - 2016), which is included in the statement of operations.

As at December 31, 2017, on a non-discounted cash basis, the Company has annual interest payable of $425,000 ($474,000 - 2016) over the term of the debentures, due quarterly, and principal repayable of $4,254,000 ($4,742,000 - 2016), due on maturity, June 30, 2035.

4. INCOME TAX

A reconciliation of the income tax expense (recovery) and the accounting loss multiplied by the Company's statutory tax rate is as follows:

	2017	*2016*
Accounting loss before tax	**$ (51,117)**	$ (257,485)
Income tax expense (recovery) at the Company's income tax rate of 26.5% (2016 - 26.5%)	**(14,000)**	(68,000)
Non-taxable dividends	**-**	(2,000)
Deferred income tax asset not recognized	**14,000**	70,000
Income tax expense (recovery) reported in the statement of operations	**$ -**	$ -

4. INCOME TAX (continued)

The Company has incurred losses and other timing differences deductible for tax purposes, as follows:

Losses expiring in 2035	$	349,000
Losses expiring in 2036		212,000
Losses expiring in 2037		145,000
	$	706,000

The potential deferred income tax benefit that might arise from the utilization of these deductions has not been recorded in the accounts.

5. SHARE CAPITAL

Authorized and issued share capital are as follows:

		2017		*2016*
Authorized:				
Unlimited number of common shares				
Issued:				
40,000,000 common shares (40,000,000 - 2016)	**$**	**100**	$	100

As at December 31, 2017, the total number of warrants issued was 12,038,125 at $Nil (12,038,125 at $Nil - 2016). Refer to note 3 for the terms of warrants.

6. RELATED PARTY TRANSACTIONS

(a) Influence of A Director Over the Business Operation

A director of the Company, jointly with his close family members, directly owns 66% of the common shares of the parent and therefore has control over the Company. The director also holds a key management position within the Company, its parent and other related companies and exerts significant influence over the financial and operating policies of these entities.

(b) Director's Transactions

A director of the Company, jointly with his close family members, subscribed for debentures issued by the Company. As at December 31, 2017, the director and his close family hold debentures having a face value of $184,000 (184,000 - 2016) and these debentures earned interest of $18,000 ($22,000 - 2016).

6. RELATED PARTY TRANSACTIONS (continued)

(c) Other Related Party Transactions

The Company is related to its parent company, Caldwell Financial Ltd. ("CFL") due to direct control by CFL. The Company is related to Caldwell Investment Management Ltd ("CIM") and Caldwell Securities Ltd. ("CSL") since all of these entities are under common control by CFL. The Company is related to Caldwell Investment Trust I ("CIT I"), of which CFL is the sole beneficiary.

The Company has invested in a Funding Agreement with Caldwell US Dividend Advantage Fund (the "Fund") and pursuant to the Funding Agreement (see note 2), receives distribution and redemption fees from the Fund through the fund manager, CIM.

The Company utilizes the brokerage services of CSL and pays commissions to CSL for portfolio transactions.

The Company raised funds through issuance of debentures to CIT I and pays interest to CIT I.

Details of the related party transactions during the year and the balances held at the year end are as follows:

	2017	*2016*
Included in the Statement of Financial Position:		
Assets		
CSL trading account balance included in cash and cash equivalents	**$ 1,069**	$ 193,384
Amounts receivable	**112,909**	73,487
Fund units included in investments at fair value	**-**	1,000
Funding Agreement included in investments at fair value	**3,247,743**	3,399,481
	3,361,721	3,667,352
Liabilities		
Debentures at face value	**549,000**	444,000
	549,000	444,000
Included in the Statement of Operations:		
Revenues		
Distribution income	**$ 667,385**	$ 595,587
Redemption fees	**-**	132,836
Dividends	**25**	11,711
Realized and unrealized gain on Fund units	**49**	15,487
Total revenues	**667,459**	755,621
Expenses		
Interest on debentures	**52,250**	53,116
Commissions	**-**	1,250
Fair value adjustments to Funding Agreement	**151,738**	180,393
Total expenses	**$ 203,988**	$ 234,759

The Company shares the office premise leased by CIM and also utilizes the management services of CIM at no charges.

7. FINANCIAL INSTRUMENTS AND RISK EXPOSURE

	2017	*2016*
Financial assets include the following:		
Cash and cash equivalents	**$ 43,092**	$ 398,573
Amounts receivable	**112,909**	73,487
Investments at fair value	**3,247,743**	3,400,481
	3,403,744	3,872,541
Financial liabilities include the following:		
Accounts payable and accrued liabilities	**22,600**	6,861
Debentures excluding unamortized accretion cost	**4,254,000**	4,742,000
	$ 4,276,600	$ 4,748,861

The Company's financial instruments consist of the foregoing assets and liabilities. It is management's opinion that the Company is not exposed to significant interest risk arising from these financial instruments.

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its obligations to the Company. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, amounts receivable and investments at fair value.

Credit risk from investing activities other than investments in Funding Agreement is minimized by limiting investments to liquid securities and maintaining cash accounts in reputable financial institutions with high quality credit ratings. Risk associated with the investments in Funding Agreement is mitigated by closely monitoring the fund performance and the market trends by the Fund manager. Valuation of the investments is performed periodically and its fair value is adjusted accordingly.

The Company is not exposed to credit risk with respect to the amounts receivable as the amounts were subsequently collected by the Company.

At the reporting date the amount of $3,403,744 is the maximum exposure the Company has in respect to credit risk.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Financial instruments that potentially subject the Company to liquidity risk consist of accounts payable and accrued liabilities and debentures. The debentures bear an interest rate of 10% and payable annually with the principal repayable at maturity, which is June 30, 2035. Management continuously monitors actual and projected cash flows to ensure the Company will always have sufficient liquidity to meet its liabilities when due.

7. FINANCIAL INSTRUMENTS AND RISK EXPOSURE (continued)

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk that changes in foreign exchange rates will cause fluctuations to the fair values and cash flows of the Company's financial instrument holdings.

The Company is indirectly exposed to currency risk with respect to its Funding Agreement as the fair value of the Funding Agreement is largely determined by the net asset value of of the Caldwell US Dividend Advantage Fund. The fair value of the Funding Agreement will increase or decrease as with the changes in foreign exchange rates associated with the foreign currency denominated portfolio held by the underlying Fund.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will cause fluctuations to the fair values and cash flows of the Company's investments in interest bearing financial instruments.

The Company is not exposed to significant interest rate risk as its investments in interest bearing instruments are insignificant.

Market price risk

Market price risk is the potential loss the Company may incur as a result of changes in the fair value of securities held on hand.

The Company is not directly exposed to market price risk as the Company disposed of all the publicly traded equity securities during the year. The Company is indirectly exposed to market price risk with respect to its Funding Agreement. The fair value of the Funding Agreement will increase or decrease as with the changes in market prices of the portfolio held by the underlying Fund.

8. NEW FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS NOT APPLIED

Following is a listing of amendments, revisions and new International Financial Reporting Standards (IFRS) issued but not effective until annual periods beginning on or after January 1, 2018:

- IFRS 9 Financial Instruments *(New in 2014; to replace IAS 39, IFRIC 9 and earlier versions of IFRS 9)*
- IFRS 15 Revenue from Contracts with Customers *(New in 2014*; *to replace IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31); incorporates Effective Date of IFRS 15)*
- IFRIC 22 Foreign Currency Transactions and Advance Consideration *(New in 2016)*
- IFRIC 23 Uncertainty over Income Tax Treatments *(New in 2017)*

The impact on the financial statements of adopting these standards is not significant.

9. COMPARATIVE FIGURES

Certain 2016 comparative figures in the statements of operations and cash flows have been reclassified to conform with financial statement presentation adopted for the current year.