Founders Advantage Capital Corp.

Interim Condensed Consolidated Financial Statements

For the three months ended March 31, 2020 and 2019

(unaudited)

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands of Canadian dollars)

		As at March 31, 2020		As at December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**8,976**	$	5,458
Trade and other receivables		**12,153**		16,270
Prepaid expenses and deposits		**1,611**		2,087
Notes receivable		**389**		410
Inventories		**3,046**		3,563
Total current assets		**26,175**		27,788
Non-current assets				
Trade, other receivables and other assets		**551**		556
Investments		**557**		557
Equity accounted investment		**1,297**		1,229
Capital assets		**18,629**		18,994
Right-of-use assets		**45,998**		45,379
Intangible assets (note 4)		**137,894**		138,395
Goodwill (note 4)		**89,481**		88,922
TOTAL ASSETS	**$**	**320,582**	$	321,820
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**12,951**	$	16,775
Loans and borrowings (note 5)		**20,334**		22,201
Deferred contract liability		**1,014**		674
Other current liabilities		**389**		326
Lease obligations		**3,049**		2,449
Total current liabilities		**37,737**		42,425
Non-current liabilities				
Loans and borrowings (note 5)		**44,557**		38,972
Deferred contract liability		**1,971**		2,053
Foreign exchange forward contract liability (note 14)		**-**		365
Other long-term liabilities		**1,256**		1,775
Lease obligations		**48,133**		47,410
Deferred tax liabilities		**30,183**		30,978
TOTAL LIABILITIES		**163,837**		163,978
Equity				
Share capital		**115,216**		115,390
Contributed surplus		**15,296**		15,296
Accumulated other comprehensive income (loss)		**749**		(223)
Deficit		**(58,951)**		(56,752)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**72,310**		73,711
NON-CONTROLLING INTEREST		**84,435**		84,131
TOTAL LIABILITIES AND EQUITY	**$**	**320,582**	$	321,820

Discontinued operations (note 12).
Commitments and contingencies (note 15).
Subsequent events (note 16).
The accompanying notes form an integral part of these condensed consolidated financial statements.

Signed on behalf of the Board of Directors,

(signed)
James Bell, Director

(signed)
Dennis Sykora, Director

CONDENSED CONSOLIDATED STATEMENTS OF LOSS (unaudited)

(in thousands of Canadian dollars, except per share amount)

For the three months ended March 31,		2020		2019
CONTINUING OPERATIONS				
Revenue (note 9)	**$**	**18,073**	$	20,600
Direct costs		**3,113**		4,606
GROSS PROFIT		**14,960**		15,994
General and administrative		**9,225**		10,514
Share-based payments (note 7)		**(125)**		90
Depreciation and amortization		**3,436**		3,503
		12,536		14,107
INCOME FROM CONTINUING OPERATIONS		**2,424**		1,887
OTHER (EXPENSES) INCOME				
Finance expense (note 10)		**(2,210)**		(2,498)
Foreign exchange (loss) gain		**(3,712)**		1,151
Change in fair value of foreign exchange forward contract (note 14)		**2,061**		-
Income from equity accounted investment		**68**		-
Loss on contract settlement (note 15)		**(114)**		(118)
Other income		**120**		57
		(3,787)		(1,408)
(LOSS) INCOME BEFORE INCOME TAX		**(1,363)**		479
INCOME TAX (EXPENSE) RECOVERY				
Current tax expense		**(1,143)**		(1,273)
Deferred tax recovery		**790**		408
		(353)		(865)
NET LOSS FROM CONTINUING OPERATIONS		**(1,716)**		(386)
DISCONTINUED OPERATIONS				
Net loss after tax from discontinued operations (note 12)		**-**		(509)
NET LOSS	**$**	**(1,716)**	$	(895)
ATTRIBUTABLE TO (notes 11 and 12)**:**				
Shareholders of Founders Advantage Capital Corp.		**(2,199)**		(1,472)
Non-controlling interest		**483**		577
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO SHAREHOLDERS (notes 11 and 12)				
Basic	**$**	**(0.06)**	$	(0.04)
Diluted	**$**	**(0.06)**	$	(0.04)
NET LOSS PER COMMON SHARE FROM CONTINUING OPERATIONS ATTRIBUTABLE TO SHAREHOLDERS (note 11)				
Basic	**$**	**(0.06)**	$	(0.03)
Diluted	**$**	**(0.06)**	$	(0.03)

The accompanying notes form an integral part of these condensed consolidated financial statements.
Prior year information in the condensed consolidated statement of loss has been restated to conform to current year presentation, see note 12.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31,		2020		2019
NET LOSS	**$**	**(1,716)**	$	(895)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be subsequently reclassified to comprehensive income:				
Foreign exchange translation gain (loss) (net of tax)		**1,869**		(461)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		**1,869**		(461)
COMPREHENSIVE INCOME (LOSS)	**$**	**153**	$	(1,356)
ATTRIBUTABLE TO:				
Shareholders of Founders Advantage Capital Corp.	**$**	**(1,227)**	$	(1,711)
Non-controlling interest	**$**	**1,380**	$	355

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)

(in thousands of Canadian dollars)

	Attributable to Shareholders of Founders Advantage Capital Corp.						
	Share capital	**Contributed surplus**	**Accumulated other comprehensive loss**	**Deficit**	**Total shareholders' equity**	**Non-controlling interest**	**Total equity**
Balance at January 1, 2019	115,390	14,759	332	(50,525)	79,956	94,866	174,822
Share-based payments (note 7)	-	75	-	-	75	-	75
Fair value of lender warrants	-	450	-	-	450	-	450
Net loss and comprehensive loss	-	-	(239)	(1,472)	(1,711)	355	(1,356)
Distributions to non-controlling interest	-	-	-	-	-	(1,532)	(1,532)
Balance at March 31, 2019	$ 115,390	$ 15,284	$ 93	$ (51,997)	$ 78,770	$ 93,689	$ 172,459
Balance at January 1, 2020	$ 115,390	$ 15,296	$ (223)	$ (56,752)	$ 73,711	$ 84,131	$ 157,842
Share cancellation (note 6)	**(174)**	**-**	**-**	**-**	**(174)**	**-**	**(174)**
Net loss and comprehensive loss	**-**	**-**	**972**	**(2,199)**	**(1,227)**	**1,380**	**153**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(1,076)**	**(1,076)**
Balance at March 31, 2020	**$ 115,216**	**$ 15,296**	**$ 749**	**$ (58,951)**	**$ 72,310**	**$ 84,435**	**$ 156,745**

The accompanying notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31,		**2020**		2019
OPERATING ACTIVITIES				
Net loss	**$**	**(1,716)**	$	(895)
Items not affecting cash:				
Share-based payments (note 7)		**(125)**		90
Depreciation and amortization		**3,436**		5,394
Net gain on disposal of capital assets		**-**		(84)
Depreciation and amortization of franchise renewals (note 4)		**442**		317
Unrealized foreign exchange loss (gain)		**3,669**		(1,185)
Change in fair value of foreign exchange forward contract		**(2,061)**		-
Deferred tax recovery		**(790)**		(616)
Income from equity accounted investment		**(68)**		-
Other non-cash items		**868**		679
Changes in non-cash working capital (note 13)		**1,535**		1,943
CASH PROVIDED BY OPERATING ACTIVITIES		**5,190**		5,643
INVESTING ACTIVITIES				
Expenditures on capital assets		**(431)**		(1,847)
Investment in intangible assets (note 4)		**(599)**		(485)
Proceeds on disposal of capital and intangible assets		**-**		275
Distributions to non-controlling interests		**(1,076)**		(1,532)
CASH USED BY INVESTING ACTIVITIES		**(2,106)**		(3,589)
FINANCING ACTIVITIES				
Proceeds from debt financing, net of transaction costs (note 5)		**1,689**		3,307
Proceeds from settlement of foreign exchange forward contract (note 14)		**1,469**		-
Repayment of debt (note 5)		**(1,733)**		(2,845)
Net lease payments		**(993)**		(1,732)
Dividends paid to common shareholders		**-**		(477)
CASH PROVIDED (USED) BY FINANCING ACTIVITIES		**432**		(1,747)
INCREASE IN CASH AND CASH EQUIVALENTS		**3,516**		307
Impact of foreign exchange on cash and cash equivalents		**2**		14
NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**5,458**		5,095
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**8,976**	$	5,416
Net cash and cash equivalents is comprised of:				
Cash and cash equivalents		**8,976**		5,455
Bank indebtedness		**-**		(39)
NET CASH AND CASH EQUIVALENTS, END OF PERIOD		**8,976**		5,416
Cash flows include the following amounts:				
Interest paid	**$**	**1,371**	$	1,860
Interest received	**$**	**9**	$	6
Income taxes paid	**$**	**1,571**	$	1,641

The accompanying notes from an integral part of these condensed consolidated financial statements.

(in thousands of Canadian dollars)

1. NATURE OF OPERATIONS

Founders Advantage Capital Corp. ("FAC", "our", or "the Corporation") is an investment corporation listed on the TSX Venture Exchange ("Exchange") under the symbol "FCF". The head office of the Corporation is located at Suite 400, 2207 4th Street S.W., Calgary, Alberta, T2S 1X1. The Corporation was incorporated under the *Business Corporations Act* (Alberta) on October 1, 1998.

The Corporation's investment approach is to acquire controlling or majority equity interests in middle-market private companies with strong cash flows and proven management teams who are incentivized to grow their underlying business. This investment approach allows owners of our investee companies to continue managing the day-to-day operations and has no mandated liquidity time frame. As a part of our investment strategy, FAC has acquired interests in the following subsidiaries:

	Ownership interest	
	March 31, 2020	December 31, 2019
Dominion Lending Centres Limited Partnership ("DLC")	**60%**	60%
Club16 Limited Partnership ("Club16")	**60%**	60%
Cape Communications International Inc. (operating as Impact Radio Accessories; "Impact")	**52%**	52%

2. BASIS OF PREPARATION

Statement of compliance

These interim condensed consolidated financial statements ("interim financial statements") of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), specifically International Accounting Standard 34 – Interim Financial Reporting.

These interim financial statements were authorized for issuance by the Audit Committee of the Corporation, on behalf of the Board of Directors on May 26, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation used in the preparation of these interim financial statements are the same as those in the most recent annual financial statements except those noted below.

a) **Use of estimates and judgements**

The preparation of these interim financial statements requires management to make certain estimates, judgments and assumptions that affect the amounts reported and disclosed in the interim financial statements and relates notes. Those include estimates that, by their nature, are uncertain, and actual results could differ materially from the estimates. The impacts of such estimates may require accounting adjustments based on future results. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

Information about assumptions, judgments and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next twelve months are as follows:

COVID-19 Impact

Management has used the best available information in making well-reasoned judgements and estimates of the impact of COVID-19 on its discounted cash flow analysis used in its impairment test and forecasted cash flows in the determination of going concern. The ultimate impact of the pandemic on the Corporation's future operations and financial performance is currently unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of management, including: the duration and severity of the pandemic; the impact of the pandemic on economic growth and financial and capital markets; and governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the initial outbreak of the COVID-19 virus has subsided. The potential impact of the COVID-19 pandemic has been considered by management in making judgments, estimates and assumptions used in the preparation of the interim financial statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future financial periods as additional information becomes available.

(in thousands of Canadian dollars)

4. INTANGIBLE ASSETS AND GOODWILL

		Franchise rights, relationships and agreements		Brand names		Customer relationships		Other [(1)]		Total intangible assets
Cost										
Balance at December 31, 2019	$	93,063	$	47,778	$	18,567	$	6,060	$	165,468
Additions		**529**		**-**		**-**		**70**		**599**
Effect of movements in exchange rates		**-**		**10**		**862**		**36**		**908**
Balance at March 31, 2020	**$**	**93,592**		**47,788**		**19,429**		**6,166**		**166,975**
Accumulated amortization										
Balance at December 31, 2019	$	(16,336)	$	(710)	$	(5,690)	$	(4,337)	$	(27,073)
Depreciation and amortization recognized against revenue		**(442)**		**-**		**-**		**-**		**(442)**
Depreciation and amortization expense		**(884)**		**(59)**		**(484)**		**(139)**		**(1,566)**
Balance at March 31, 2020	**$**	**(17,662)**		**(769)**		**(6,174)**		**(4,476)**		**(29,081)**
Carrying value										
December 31, 2019	$	76,727	$	47,068	$	12,877	$	1,723	$	138,395
March 31, 2020	**$**	**75,930**	**$**	**47,019**	**$**	**13,255**	**$**	**1,690**	**$**	**137,894**

(1) Other intangible assets comprise software acquired on acquisition of DLC and NCS, supplier relationships and non-compete agreements acquired on acquisition of Impact.

The Corporation performs its annual goodwill impairment test in December and when circumstances indicated that the carrying value may be impaired. The Corporation considers internal and external factors when reviewing for indicators of impairment.

On March 17, 2020, in response to the COVID-19 pandemic, Club16 temporarily closed all clubs (see note 14). The club closures were considered an indicator of impairment for the Club16 CGU. Further, an indicator was identified at Impact, as sales were significantly decreased due to COVID-19. As a result, an impairment test was performed at March 31, 2020, which determined the Club16 and Impact CGUs were not impaired, as the fair value less costs of disposal exceeded the carrying value. No impairment loss was recognized during the three months ended March 31, 2020.

No impairment indicators were identified for the remaining CGU's at March 31, 2020.

The following table shows the carrying amount of goodwill by CGU:

Goodwill by CGU		**March 31, 2020**		December 31, 2019
DLC Franchise	**$**	**57,097**	$	57,097
NCS		**3,340**		3,340
Club16		**22,431**		22,431
Impact [(1)]		**6,613**		6,054
	$	**89,481**	$	88,922

(1) Goodwill acquired upon acquisition of Impact is adjusted for foreign exchange translation differences at the end of each reporting period.

(in thousands of Canadian dollars)

5. LOANS AND BORROWINGS

		March 31, 2020		December 31, 2019
Corporate				
Term credit facility (1)	**$**	**43,143**	$	40,228
Subsidiaries				
DLC term loan facility		**3,908**		4,385
DLC operating facility		**8,130**		6,950
Club16 demand credit facility		**8,294**		8,702
Club16 operating facility		**1,416**		908
Total loans and borrowings		**64,891**		61,173
Less current portion		**(20,334)**		(22,201)
	$	**44,557**	$	38,972

(1) Net of debt issuance costs. At March 31, 2020, the Corporate term credit facility's principal balance owing was USD $31,984 (CAD $45,376) (December 31, 2019—USD $32,621 (CAD $42,368)).

Corporate credit facility

Corporate term credit facility

On March 25, 2020, the Corporation amended its corporate credit facility to permit the Corporation to unwind its USD $15,000 foreign currency forward contract and retain the proceeds to enhance liquidity (see note 14). At March 31, 2020, the Corporation had $1,197 classified as current debt (December 31, 2019—$3,775). The Corporate Credit Facility matures on June 14, 2022. Financial covenants in the Corporate Credit Facility include the requirement to maintain a fixed charge coverage ratio of not less than 1.00:1.00 and a total leverage ratio of:

- 4.00:1:00 for the fiscal quarters ending March 31, 2020 and June 30, 2020; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

As at March 31, 2020, the Corporation was in compliance with all such covenants. The current adverse market conditions and disruption to consumer behaviour that have arisen in connection with the COVID-19 pandemic have resulted in a risk of non-compliance with these financial covenants in future periods. In response to this risk, the Corporation has initiated negotiations for financial covenant relief, and the negotiations are ongoing. Although the Corporation expects that such negotiations will be successful, there is no assurance that an agreement will be reached on acceptable terms.

Subsidiaries credit facilities

Club16

On March 26, 2020, Club16 amended its debt facilities. The amendments increased its operating facility limit from $1,500 to $3,000, waived principal payments effective March 2020 for three months on Club16's demand credit facility, and removed the quarterly covenant test for the quarter-ended June 30, 2020.

Borrowings under the demand credit and revolving operating facility bear interest at prime rate plus 0.5 to 2.0% per annum and are secured by a general security agreement with first charge over the assets of Club16. At March 31, 2020, the facilities bore interest at prime plus 0.75%. Annual financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00, and a debt service charge ratio greater than or equal to 1.50:1:00 excluding distributions. Quarterly financial covenants include the requirement to maintain a maximum debt-to-EBITDA ratio of less than or equal to 2.25:1.00.

As at March 31, 2020, Club16 was in compliance with quarterly covenants. The current adverse market conditions and disruption to consumer behaviour that have arisen in connection with the COVID-19 pandemic have resulted in a risk of non-compliance with these financial covenants in future periods. In response to this risk, the Corporation has initiated negotiations for financial covenant relief, and the negotiations are ongoing. Although the Corporation expects that such negotiations will be successful, there is no assurance that an agreement will be reached on acceptable terms.

DLC

On March 27, 2020, DLC amended its existing term loans. The amendment suspended principal payments effective April 2020 for six months, in order to increase liquidity.

Borrowings under the term loans and operating facility bear interest at prime rate plus 1.0% per annum. The loan facility is secured by a general security agreement with first charge over the assets of DLC. Annual financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. The current adverse market conditions and disruption to consumer behaviour that have arisen in connection with the COVID-19 pandemic are not expected to result in a risk of non-compliance with these financial covenants in future periods.

(in thousands of Canadian dollars)

6. SHARE CAPITAL

Authorized share capital

The Corporation is authorized to issue an unlimited number of Class A common shares without par value and an unlimited number of Class B preferred shares.

A summary of changes in Class A common share capital in the period is as follows:

	Number of Class A common shares		Amount
Balance at December 31, 2019	38,182,513	$	115,390
Cancelled shares	**(100,000)**		**(174)**
Balance at March 31, 2020	**38,082,513**	**$**	**115,216**

On March 12, 2020, the Corporation entered into an agreement with a former employee to acquire an aggregate of 100,000 Class A common shares valued at $1.74 per share, as partial payment for a loan owed by the former employee. These Class A common shares have been cancelled and returned to treasury.

7. SHARE-BASED PAYMENTS

Share options

Under the Corporation's share option plan ("Plan"), the Corporation may grant share options to its directors, officers, employees, and consultants for up to 10% of the issued and outstanding common shares at the time of the share option grant. The Corporation's directors determine the term and vesting period of the share options at the time of the grant with the maximum term under the plan being ten years from the grant date. The exercise price of each share option is determined on issuance of the share options, which cannot be less than the market price, less a maximum discount of 15%, as defined by the Exchange.

A summary of share option activity in the period is as follows:

	Number of share options		Weighted average exercise price
Outstanding share options, December 31, 2019	1,165,578	$	3.49
Expired	**(745,019)**		**3.56**
Cancelled	**(96,666)**		**2.40**
Outstanding share options, March 31, 2020	**323,893**	**$**	**3.65**

On January 30, 2020, an aggregate of 745,019 share options expired. The expired share options consist of 445,019 share options having an exercise price of $3.00 and 300,000 share options having an exercise price of $4.40.

On March 12, 2020, the Corporation entered into an agreement with a former employee to cancel 96,666 share options having and exercise price of $2.40 as partial payment for a loan owed by the former employee (see note 6).

The following table summarizes the share options outstanding and exercisable under the Plan as at March 31, 2020:

Grant date	Share options outstanding	Years to Maturity	Share options exercisable		Weighted average exercise price
February 23, 2016	98,893	0.9	98,893	$	3.00
July 7, 2016	150,000	1.3	150,000		4.40
July 3, 2017	75,000	2.3	75,000		3.00
	323,893		323,893	$	3.65

The Corporation recorded total share-based payment recovery of ($125) for the three months ended March 31, 2020 (March 31, 2019—$90 expense). These amounts include share-based payment recovery related to the Corporation's restricted shares units ("RSUs") for the three months ended March 31, 2020, of ($127) (March 31, 2019—$75 expense), and share-based payments related to Impact's share appreciation rights ("SARs") of $2 (March 31, 2019—$15).

(in thousands of Canadian dollars)

RSU Plan

The Corporation's RSUs were issued to directors and employees. The Corporation's RSU plan provides RSUs to be settled in cash on the vesting date. The Corporation's directors determine at the time of the grant: the vesting period, the number of units issued, and the terms of the RSUs.

A summary of the RSU activity in the period is as follows:

Outstanding RSUs, December 31, 2019	331,333
Outstanding RSUs, March 31, 2020	**331,333**

Warrants

The following table summarizes the warrants outstanding:

	Years to Maturity	Warrants Outstanding		Exercise price
Outstanding lender warrants, December 31, 2019	2.45	2,078,568	$	1.44
Outstanding lender warrants, March 31, 2020	2.21	**2,078,568**	**$**	**1.44**

8. SEGMENTED INFORMATION

The Corporation's operating segments represent the components of the business whose operating results are reviewed regularly by the Corporation's chief operating decision makers, which is made up of the Corporation's senior management. The Corporation currently has the Corporate and Consolidated segment and three operating segments, which consist of business operations conducted through DLC, Club16, and Impact. DLC is engaged in the business of franchising mortgage brokerage services and operates in all ten Canadian provinces. The Club16 segment is engaged in the fitness business in the Lower Mainland area of Vancouver. Impact is engaged in the business of designing and retailing communication products and services and has sales throughout North America.

The results of Astley Gilbert Limited ("AG") are presented as discontinued operations and have been excluded from the segmented information for the comparative income statement information (see note 12). AG was previously included in the "Impact" operating segment.

The Corporate and Consolidated segment used in the following segment tables is not a separate operating segment and reflects revenue earned and expenses incurred at the corporate office level and consolidating accounting entries.

		DLC		Club16		Impact		Corporate and Consolidated		Consolidated
As at March 31, 2020										
Cash and cash equivalents	**$**	**6,000**	**$**	**111**	**$**	**1,076**	**$**	**1,789**	**$**	**8,976**
Trade, other receivables and other assets		**8,323**		**2,661**		**1,113**		**607**		**12,704**
Right-of-use assets		**1,842**		**43,713**		**443**		**-**		**45,998**
Intangible assets		**122,913**		**4,317**		**10,664**		**-**		**137,894**
Goodwill		**60,437**		**22,432**		**6,612**		**-**		**89,481**
Capital and other assets		**2,854**		**18,541**		**3,411**		**723**		**25,529**
Total assets	**$**	**202,369**	**$**	**91,775**	**$**	**23,319**	**$**	**3,119**	**$**	**320,582**
Accounts payable and accrued liabilities	**$**	**10,728**	**$**	**1,380**	**$**	**638**	**$**	**205**	**$**	**12,951**
Capital lease obligation		**1,857**		**48,292**		**453**		**580**		**51,182**
Loans and borrowings		**12,038**		**9,710**		**-**		**43,143**		**64,891**
Deferred tax		**27,505**		**1,158**		**2,647**		**(1,127)**		**30,183**
Other liabilities		**2,861**		**322**		**221**		**1,226**		**4,630**
Total liabilities	**$**	**54,989**	**$**	**60,862**	**$**	**3,959**	**$**	**44,027**	**$**	**163,837**

(in thousands of Canadian dollars)

		DLC		Club16		Impact		Corporate and Consolidated		Consolidated
For the three months ended March 31, 2020										
Revenue	**$**	**9,498**	**$**	**6,315**	**$**	**2,260**	**$**	**-**	**$**	**18,073**
Direct costs		**999**		**951**		**1,163**		**-**		**3,113**
General and administrative		**4,084**		**3,971**		**776**		**394**		**9,225**
Share-based payments expense (recovery)		**-**		**-**		**2**		**(127)**		**(125)**
Depreciation and amortization		**1,086**		**2,053**		**292**		**5**		**3,436**
Finance expense		**148**		**705**		**5**		**1,352**		**2,210**
Other (income) expenses		**(166)**		**-**		**1**		**1,742**		**1,577**
Income (loss) before tax from continuing operations	**$**	**3,347**	**$**	**(1,365)**	**$**	**21**	**$**	**(3,366)**	**$**	**(1,363)**

		DLC		Club16		Impact		Corporate and Consolidated		Consolidated
As at December 31, 2019										
Cash and cash equivalents	$	3,632	$	395	$	553	$	878	$	5,458
Trade, other receivables and other assets		12,290		2,415		1,304		817		16,826
Right-of-use assets		243		44,675		461		-		45,379
Intangible assets		123,729		4,646		10,020		-		138,395
Goodwill		60,437		22,432		6,053		-		88,922
Capital and other assets		2,961		19,168		3,877		834		26,840
Total assets	$	203,292	$	93,731	$	22,268	$	2,529	$	321,820
Accounts payable and accrued liabilities	$	13,356	$	1,671	$	1,390	$	358	$	16,775
Capital lease obligation		249		48,528		469		613		49,859
Loans and borrowings		11,335		9,610		-		40,228		61,173
Foreign exchange forward contract liability		-		-		-		365		365
Deferred tax		27,732		1,315		2,730		(799)		30,978
Other liabilities		3,055		128		201		1,444		4,828
Total liabilities	$	55,727	$	61,252	$	4,790	$	42,209	$	163,978

		DLC		Club16		Impact		Corporate and Consolidated		Consolidated
For the three months ended March 31, 2019										
Revenue	$	8,079	$	6,557	$	5,964	$	-	$	20,600
Direct costs		1,012		786		2,808		-		4,606
General and administrative		4,576		3,699		768		1,471		10,514
Share-based payments		-		-		15		75		90
Depreciation and amortization		1,296		1,893		299		15		3,503
Finance expense		160		430		3		1,905		2,498
Other expenses		92		-		17		(1,199)		(1,090)
Income (loss) before tax	$	943	$	(251)	$	2,054	$	(2,267)	$	479

(in thousands of Canadian dollars)

9. REVENUES

For the three months ended March 31,		2020		2019
Franchising revenue, mortgage brokerage services	**$**	**9,391**	$	7,990
Brokering of mortgages		**107**		89
Memberships and dues revenue		**4,760**		5,046
Radio and radio accessories		**2,133**		5,714
Supplementary services revenue and other revenue		**1,682**		1,761
	$	**18,073**	$	20,600

The quarterly results may vary from quarter to quarter because of seasonal fluctuations in our reporting segments. The DLC operating segment is subject to seasonal variances that fluctuate in accordance with the normal home buying season. This typically results in higher revenues in the months of June through September of each year, and results in lower revenues during the months of January through March. The Club16 segment revenues increase significantly in the second quarter of each year, as an annual club enhancement fee is typically charged to Club16 members in May of each year. The Impact segment revenues can fluctuate due to large one-time orders which can and have occurred at various times throughout the year, causing irregular increases in revenues in some quarters.

Revenue earned from contracts with customers earned over time, included in the above for the DLC and Club16 segment for the three months ended March 31, 2020, is $9,927 and $6,187 (March 31, 2019—$7,974 and $6,436).

10. FINANCE EXPENSE

For the three months ended March 31,		2020		2019
Interest expense on debt obligations	**$**	**1,455**	$	1,862
Interest on lease obligations		**631**		356
Amortization of debt issuance costs		**96**		242
Accretion expense		**28**		38
	$	**2,210**	$	2,498

11. LOSS PER SHARE

For the three months ended March 31,		2020		2019
Net loss attributable to shareholders	**$**	**(2,199)**	$	(1,472)
Net loss attributable to shareholders from continuing operations		**(2,199)**		(1,218)
Basic and diluted weighted average number of shares		**38,161,402**		38,182,542
Basic loss per share		**(0.06)**		(0.04)
Diluted loss per share		**(0.06)**		(0.04)
Continuing operations:				
Basic loss per share		**(0.06)**		(0.03)
Diluted loss per share		**(0.06)**		(0.03)

As at March 31, 2020, there were 323,893 share options (March 31, 2019—2,385,578) and 2,078,568 warrants outstanding (March 31, 2019—2,078,568) that were considered anti-dilutive (see note 7).

(in thousands of Canadian dollars)

12. DISCONTINUED OPERATIONS

On September 30, 2019, ("date of disposal") the Corporation sold its 50% interest in AG for proceeds of $16,987. As a result of the transaction, the Corporation has presented the results of AG as discontinued operations for the comparative period in the Corporation's condensed consolidated statement of loss. The following summarizes the results of AG in the comparative three months ended March 31, 2019.

		March 31, 2019
Revenue	$	12,395
Expenses		13,048
Loss before tax from discontinued operations		(653)
Current tax (expense)		(64)
Deferred tax recovery		208
Net loss from discontinued operations	$	(509)
Attributable to:		
Shareholders	$	(254)
Non-controlling interest	$	(255)
Net loss from discontinued operations per common share attributable to shareholders		
Basic loss per share	$	(0.01)
Diluted loss per share	$	(0.01)

The following are the cash flows from the Corporation's discontinued operations for the comparative period ended March 31, 2019.

		March 31, 2019
Net cash from operating activities	$	2,057
Net cash used in investing activities		(355)
Net cash used in financing activities		(1,175)
Cash flows from discontinued operations	$	527

13. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital are as follows:

For the three months ended March 31,		**2020**		2019
Trade and other receivables	**$**	**3,942**	$	4,700
Prepaid expenses and deposits		**476**		1
Notes receivable		**21**		(18)
Inventories		**517**		141
Accounts payable and accrued liabilities		**(3,824)**		(3,084)
Deferred contract liability		**340**		357
Other current liabilities		**63**		(154)
	$	**1,535**	$	1,943

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Board of Directors has overall responsibility to establish and oversee the Corporation's risk management framework. The Board of Directors has implemented risk management policies, monitors compliance with them, and reviews them regularly to reflect changes in market conditions and in the Corporation's activities.

The Corporation's financial risk management policies have been established to identify and analyze risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Corporation employs risk management strategies to ensure our risks and related exposures are consistent with the Corporation's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Corporation's risk management framework, the Corporation's management has the responsibility to administer and monitor these risks.

The Corporation is exposed in varying degrees to a variety of risks from its use of financial instruments, which mainly include cash and cash equivalents, trade and other receivables, loans and borrowings, investments, and trade payables and accrued liabilities. Because of the use of these financial instruments, the Corporation and its subsidiaries are exposed to risks that arise from their use, including market risk, credit risk and liquidity risk. These risks may be significantly impacted by the COVID-19 pandemic. This note describes the Corporation's objectives, policies and processes for managing these risks and the methods used to measure them.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise foreign exchange risk and interest rate risk.

Foreign exchange risk

The Corporation's exposure to foreign exchange fluctuations is limited to our balances in USD bank accounts; USD loans and borrowings; and Impact's operations, as a significant portion of its business is conducted in USD. At March 31, 2020, the USD cash balance is USD $308 (CAD $437), compared to USD $155 (CAD $201) at December 31, 2019. Our USD loans and borrowings balance is USD $31,984 (CAD $45,376); at December 31, 2019, it was USD $32,621 (CAD $42,368). A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a $4,585 increase of net loss before tax for the three months ended March 31, 2020 (March 31, 2019—$5,399 increase).

To manage the Corporation's foreign exchange exposure on its USD loan, in December 2019 the Corporation entered into both an amendment of its credit facility and an intercreditor agreement, which collectivity allows the Corporation to enter into foreign exchange forward contracts up to USD $25,000. The forward contracts are secured through the intercreditor agreement between the Corporation, its lender and the counterparty, which allows the counterparty security up to CAD $7,000. During the three months ended March 31, 2020, the Corporation unwound its existing USD $15,000 foreign exchange forward contract at a forward rate of $1.442 for net proceeds of $1,469. In response to the uncertain scale and duration of the COVID-19 pandemic, the Corporation had unwound the hedge early to further strengthen its liquidity position. The Corporation recognized a net realized gain on the change in fair value of the foreign exchange forward contract from inception of $1,696 (March 31, 2019—$nil). Subsequent to the three months ended March 31, 2020, the Corporation entered into new foreign exchange forward contracts (see note 16).

Foreign exchange and USD LIBOR rates may continue to be significantly affected by COVID-19, depending on the scale and duration of the pandemic.

Interest rate risk

The Corporation is exposed to interest rate risk on its variable rate loans and borrowings. A 1% change in interest rates on loans and borrowings would have an $161 increase of net loss for the three months ended March 31, 2020 (March 31, 2019—$213).

Credit risk

Credit risk is the risk of financial loss to the Corporation if a counterparty to a financial instrument fails to meet its contractual obligations. The Corporation's credit risk is mainly attributable to its cash and cash equivalents and trade and other receivables.

The Corporation has assessed its exposure to credit risk on its cash and cash equivalents and has determined that such risk is minimal as the Corporation's cash and cash equivalents are held with financial institutions in Canada.

Our primary source of credit risk relates to DLC's franchisees and agents not repaying receivables. DLC manages its credit risk by performing credit risk evaluations on its franchisees and agents, and by monitoring overdue trade and other receivables. The management teams of DLC established an allowance for doubtful accounts based on the specific credit risk of their customers. DLC's exposure to credit risk from its other receivables is minimal considering its historical expected credit loss ("ECL") has been insignificant. As at March 31, 2020, $769 (December 31, 2019—$536) of our trade receivables are greater than 90 days' outstanding and total expected credit losses as at March 31, 2020 is $137 (December 31, 2019—$137). A decline in economic conditions, or other adverse conditions, could lead to reduced revenue and gross margin, and could impact the collectability of accounts receivable. The Corporation mitigates this risk by monitoring economic conditions and managing its customer credit risk. Another source of credit risk comes from Impact's customers not paying amounts owed to Impact, which is also managed by performing credit risk evaluations and monitoring overdue trade receivables. Impact's exposure to credit risk from its trade receivables are minimal considering its historical ECL has been insignificant.

(in thousands of Canadian dollars)

The Corporation's maximum exposure to credit risk, as related to certain financial instruments identified in the table below, approximates the carrying value of the assets of the Corporation's consolidated statements of financial position.

		March 31, 2020		December 31, 2019
Cash and cash equivalents	**$**	**8,976**	$	5,458
Trade, other receivables and other assets		**12,704**		16,826
Notes receivable		**389**		410
	$	**22,069**	$	22,694

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation utilizes cash and debt management policies and practices to mitigate the likelihood of difficulties in meeting its financial obligations and commitments. These policies and practices include the preparation of budgets and forecasts which are regularly monitored and updated as considered necessary.

On March 11, 2020, the World Health Organization ("WHO") declared the COVID-19 outbreak a pandemic. As a result, all levels of government in Canada have implemented public health measures including isolation and social distancing. As a result of government implemented public health and safety measures, including social distancing and isolation, Club16 has temporarily closed all clubs effective March 17, 2020. Club16 will not collect memberships fees during club closures. During the temporary closure period, Club16 intends to seek rent abatements and deferrals from its various landlords and expects to reduce costs to increase liquidity.

As at March 31, 2020, contractual cash flow obligations and their maturities were as follows:

		Contractual cash flow		Within 1 year		Within 5 years		Thereafter
Accounts payable and accrued liabilities	$	12,951	$	12,951	$	-	$	-
Lease obligations		32,787		5,488		17,105		10,194
Loans and borrowings		67,125		20,334		46,791		-
Long-term liabilities		256		-		256		-
	$	113,119	$	38,773	$	64,152	$	10,194

Capital management

The Corporation's capital structure is composed of total shareholders' equity and loans and borrowings, less net cash and cash equivalents. The following table summarizes the carrying value of the Corporation's capital at March 31, 2020, and December 31, 2019.

		March 31, 2020		December 31, 2019
Loans and borrowings	**$**	**64,891**	$	61,173
Less: net cash and cash equivalents		**(8,976)**		(5,458)
Net loans and borrowings	**$**	**55,915**	$	55,715
Shareholders' equity	**$**	**72,310**	$	73,711

The Corporation's objectives when managing capital include maintaining an optimal capital base to support the capital requirements of the Corporation and its subsidiaries, including acquisition opportunities.

The Corporation is not subject to any externally imposed capital requirements other than certain restrictions under the terms of its loans and borrowing agreements. The Corporation is in compliance with all externally imposed capital requirements as at March 31, 2020.

Determination of fair value

The Corporation considers the following fair value hierarchy in measuring the fair value of the financial instruments presented in the Corporation's consolidated statements of financial position. The hierarchy reflects the significance of the inputs used in determining the fair values of the Corporation's financial instruments.

i. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(in thousands of Canadian dollars)

ii. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
iii. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides the fair values of the financial assets and liabilities in the Corporation's consolidated statements of financial position, categorized by hierarchical levels and their related classifications.

		Fair value as at March 31, 2020		
	Carrying value as at March 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Investments	**$ 557**	**$ -**	**$ -**	**$ 557**
Equity accounted investments	**1,297**	**-**	**-**	**1,297**
Financial liabilities				
Loans and borrowings	**(64,891)**	**-**	**(64,891)**	**-**

		Fair value as at December 31, 2019		
	Carrying value as at December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Investments	$ 557	$ -	$ -	$ 557
Equity accounted investments	1,229	-	-	1,229
Financial liabilities				
Foreign exchange forward contract liability	(365)	-	(365)	-
Loans and borrowings	(61,173)	-	(61,173)	-

The fair value of trade, other receivables and other assets, notes receivable, accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these financial instruments. As at March 31, 2020, management has determined that the fair value of its loans and borrowings approximate their carrying value. The majority of loans and borrowings are subject to floating interest rates, and the Corporation and its subsidiaries' credit risk profiles have not significantly changed since obtaining each of the facilities.

15. COMMITMENTS AND CONTINGENCIES

Consulting agreement

In February 2020, DLC renewed a consulting agreement whereby DLC has agreed to incur an annual amount of $150, paid quarterly, for consulting services related to promotional support. The consulting agreement expires in January 2022.

Service agreement

In March 2017, Impact entered into an inventory management service agreement with a third party to provide for the administration and maintenance of inventory held in its warehouse for an annual amount of $456 USD. The service agreement expires in August 2021.

In March 2018, DLC entered into an agreement with a software development company to develop and support a customized mortgage application ("app") for an annual amount of $932. The agreement is a related party transaction due to common management between DLC and the service provider. The service agreement expires in March 2023.

DLC has contracts with external dealers to recruit franchises. DLC has a commitment to pay these dealers a commission for the franchise royalties earned by such franchises. Commissions are earned based on a percentage of franchise revenue earned and are accrued at the date it is earned. During 2018, a contract with a dealer was terminated, resulting in a loss on contract settlement of $114 for the three months ended March 31, 2020 (March 31, 2019—$118). As of March 31, 2020, $730 is outstanding (December 31, 2019—$730).

(in thousands of Canadian dollars)

Contingencies

Certain of the Corporations subsidiaries has outstanding legal claims, some of which the Corporation has been indemnified from certain losses. As the outcomes of the claims are not determinable, no provision for settlement has been made in the consolidated financial statements.

16. SUBSEQUENT EVENTS

Foreign Exchange Forward Contract

To mitigate exposure to forward exchange risk, the Corporation entered into new foreign exchange forward contracts with a settlement period of six months from December 14, 2021 to June 14, 2022, totaling USD $15,000 as follows:

Date entered	Forward contract value (in USD)	Forward rate
April 27, 2020	$ 2,500	$ 1.406
April 29, 2020	2,500	1.390
April 30, 2020	4,000	1.393
May 7, 2020	6,000	1.400

Club16 to Re-Open Fitness Centres

On May 25, 2020, the Corporation announced Club16 has scheduled to re-open its fitness centres effective June 1, 2020. In an effort to ensure the health and safety of staff and members, Club16 has adopted enhanced cleaning measures, implemented a work-out reservation system to reduce club traffic and has reconfigured club equipment to ensure adequate social distancing.