Founders Advantage Capital Corp.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)

(in thousands of Canadian dollars)

		As at September 30, 2020		As at December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**9,506**	$	5,458
Trade and other receivables		**15,367**		16,270
Prepaid expenses, deposits and other assets		**2,225**		2,087
Notes receivable		**565**		410
Inventories		**3,022**		3,563
Total current assets		**30,685**		27,788
Non-current assets				
Trade, other receivables and other assets		**984**		556
Investments		**613**		557
Equity accounted investment		**1,253**		1,229
Capital assets		**18,663**		18,994
Right-of-use assets (note 4)		**54,310**		45,379
Intangible assets (note 5)		**136,699**		138,395
Goodwill (note 5)		**89,086**		88,922
TOTAL ASSETS	**$**	**332,293**	$	321,820
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities (note 6)		**23,774**		16,775
Loans and borrowings (note 7)		**15,441**		22,201
Deferred contract liability		**1,153**		674
Other current liabilities		**170**		326
Lease obligations (note 8)		**4,034**		2,449
Total current liabilities		**44,572**		42,425
Non-current liabilities				
Loans and borrowings (note 7)		**38,484**		38,972
Deferred contract liability		**1,836**		2,053
Foreign exchange forward contract liability (note 18)		**1,089**		365
Other long-term liabilities		**2,415**		1,775
Lease obligations (note 8)		**56,702**		47,410
Deferred tax liabilities		**29,859**		30,978
TOTAL LIABILITIES		**174,957**		163,978
Equity				
Share capital		**115,216**		115,390
Contributed surplus		**15,296**		15,296
Accumulated other comprehensive income (loss)		**61**		(223)
Deficit		**(57,566)**		(56,752)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**73,007**		73,711
NON-CONTROLLING INTEREST (notes 2 and 20)		**84,329**		84,131
TOTAL LIABILITIES AND EQUITY	**$**	**332,293**	$	321,820

Discontinued operations (note 16).
Commitments and contingencies (note 19).
Subsequent events (note 21).
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 INCOME (LOSS) (unaudited)

(in thousands of Canadian dollars)

	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020	2019
CONTINUING OPERATIONS				
Revenues (note 12)	**$ 25,517**	$ 23,248	**$ 58,604**	$ 67,427
Direct costs	**3,538**	3,689	**9,015**	12,937
GROSS PROFIT	**21,979**	19,559	**49,589**	54,490
General and administrative	**10,199**	8,955	**27,573**	29,574
Share-based payments (note 10)	**137**	22	**410**	300
Depreciation and amortization	**3,710**	3,451	**10,582**	10,392
	14,046	12,428	**38,565**	40,266
INCOME FROM CONTINUING OPERATIONS	**7,933**	7,131	**11,024**	14,224
OTHER (EXPENSES) INCOME				
Finance expense (note 13)	**(2,164)**	(6,069)	**(6,578)**	(11,200)
Foreign exchange gain (loss)	**856**	(623)	**(1,166)**	1,643
Change in fair value of foreign exchange forward contract (note 18)	**(694)**	-	**972**	-
Income from equity accounted investment	**157**	83	**424**	95
Loss on sale of capital and intangible assets	**-**	(19)	**-**	(29)
Loss on contract settlement (note 19)	**(53)**	(117)	**(256)**	(353)
Other income (note 14)	**883**	65	**1,941**	210
	(1,015)	(6,680)	**(4,663)**	(9,634)
INCOME BEFORE INCOME TAX	**6,918**	451	**6,361**	4,590
INCOME TAX (EXPENSE) RECOVERY				
Current tax expense	**(2,097)**	(2,212)	**(4,562)**	(4,395)
Deferred tax recovery	**224**	506	**1,117**	952
	(1,873)	(1,706)	**(3,445)**	(3,443)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	**5,045**	(1,255)	**2,916**	1,147
DISCONTINUED OPERATIONS				
Net loss after tax from discontinued operations (note 16)	**-**	(83)	**-**	(6,879)
NET INCOME (LOSS)	**$ 5,045**	$ (1,338)	**$ 2,916**	$ (5,732)
ATTRIBUTABLE TO:				
Shareholders of Founders Advantage Capital Corp.	**$ 2,082**	$ (3,157)	**$ (814)**	$ (6,917)
Non-controlling interest	**$ 2,963**	$ 1,819	**$ 3,730**	$ 1,185
EARNINGS (LOSS) PER COMMON SHARE (notes 15 and 16)				
Basic	**$ 0.05**	$ (0.08)	**$ (0.02)**	$ (0.18)
Diluted	**$ 0.05**	$ (0.08)	**$ (0.02)**	$ (0.18)
EARNINGS (LOSS) PER COMMON SHARE FROM CONTINUING OPERATIONS (note 15)				
Basic	**$ 0.05**	$ (0.09)	**$ (0.02)**	$ (0.10)
Diluted	**$ 0.05**	$ (0.09)	**$ (0.02)**	$ (0.10)

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

(in thousands of Canadian dollars)

	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020	2019
NET INCOME (LOSS)	**$ 5,045**	$ (1,338)	**$ 2,916**	$ (5,732)
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that will be subsequently reclassified to comprehensive income:				
Foreign exchange translation (loss) gain (net of tax)	**(445)**	265	**548**	(668)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	**(445)**	265	**548**	(668)
COMPREHENSIVE INCOME (LOSS)	**$ 4,600**	$ (1,073)	**$ 3,464**	$ (6,400)
ATTRIBUTABLE TO:				
Shareholders of Founders Advantage Capital Corp.	**$ 1,850**	$ (3,020)	**$ (530)**	$ (7,264)
Non-controlling interest	**$ 2,750**	$ 1,947	**$ 3,994**	$ 864

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

(in thousands of Canadian dollars)

	Attributable to Shareholders of Founders Advantage Capital Corp.						
	Share capital	**Contributed surplus**	**Accumulated other comprehensive income (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 10)	-	83	-	-	83	-	83
Lender warrants	-	450	-	-	450	-	450
Net loss and comprehensive loss	-	-	(347)	(6,917)	(7,264)	864	(6,400)
Distributions to non-controlling interest	-	-	-	-	-	(6,572)	(6,572)
Disposal of non-controlling interest (note 16)	-	-	-	520	520	(4,486)	(3,966)
Balance at September 30, 2019	$ 115,390	$ 15,292	$ (15)	$ (56,922)	$ 73,745	$ 84,672	$ 158,417
Balance at January 1, 2020	$ 115,390	$ 15,296	$ (223)	$ (56,752)	$ 73,711	$ 84,131	$ 157,842
Share cancellation (note 9)	**(174)**	**-**	**-**	**-**	**(174)**	**-**	**(174)**
Capital contribution from non-controlling interest (notes 2 and 20)	**-**	**-**	**-**	**-**	**-**	**999**	**999**
Net income and comprehensive income	**-**	**-**	**284**	**(814)**	**(530)**	**3,994**	**3,464**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(4,795)**	**(4,795)**
Balance at September 30, 2020	**$ 115,216**	**$ 15,296**	**$ 61**	**$ (57,566)**	**$ 73,007**	**$ 84,329**	**$ 157,336**

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 nine months ended September 30,		**2020**		2019
OPERATING ACTIVITIES				
Net income (loss)	**$**	**2,916**	$	(5,732)
Items not affecting cash:				
Share-based payments (note 10)		**410**		300
Depreciation and amortization		**10,582**		16,096
Amortization of debt issuance costs (note 13)		**580**		1,279
Depreciation and amortization of franchise renewals (note 5)		**1,451**		1,051
Rent abatements (note 14)		**(409)**		-
Unrealized foreign exchange loss (gain)		**1,126**		(1,588)
Change in fair value of foreign exchange forward contract (note 18)		**(972)**		-
Non-cash impairment (notes 5 and 16)		**-**		6,832
Gain on disposal of discontinued operations (note 16)		**-**		(440)
Deferred tax recovery		**(1,117)**		(1,675)
Income from equity accounted investment		**(424)**		(95)
Other non-cash items		**1,831**		2,631
Changes in non-cash working capital (note 17)		**8,295**		3,229
CASH PROVIDED BY OPERATING ACTIVITIES		**24,269**		21,888
INVESTING ACTIVITIES				
Expenditures on capital assets		**(2,104)**		(4,349)
Investment in intangible assets (note 5)		**(4,163)**		(3,071)
Proceeds on disposal of capital and intangible assets		**-**		277
Distribution from (investment in) equity accounted investee		**400**		(1,125)
Proceeds from the sale of discontinued operations (note 16)		**-**		13,468
Capital contribution from non-controlling interest (notes 2 and 20)		**999**		-
Distributions to non-controlling interests		**(4,795)**		(6,572)
CASH USED BY INVESTING ACTIVITIES		**(9,663)**		(1,372)
FINANCING ACTIVITIES				
Proceeds from debt financing, net of transaction costs (note 7)		**1,550**		4,096
Proceeds from settlement of foreign exchange forward contract (note 18)		**1,469**		-
Repayment of debt (note 7)		**(10,450)**		(19,549)
Net lease payments (note 8)		**(3,074)**		(4,321)
Dividends paid to common shareholders		**-**		(477)
CASH USED BY FINANCING ACTIVITIES		**(10,505)**		(20,251)
INCREASE IN CASH AND CASH EQUIVALENTS		**4,101**		265
Impact of foreign exchange on cash and cash equivalents		**(53)**		(47)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**5,458**		5,095
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**9,506**	$	5,313
Cash flows include the following amounts:				
Interest paid	**$**	**3,723**	$	8,277
Interest received	**$**	**17**	$	44
Income taxes paid	**$**	**4,322**	$	5,461

The accompanying notes form 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	
	September 30, 2020	December 31, 2019
Dominion Lending Centres Limited Partnership ("DLC")	**60%**	60%
Club16 Limited Partnership ("Club16") (1)	**58%**	60%
Cape Communications International Inc. (operating as Impact Radio Accessories; "Impact")	**52%**	52%

(1) See note 2.

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.

On June 29, 2020, Club16 completed a private placement of 273 Class A Limited Partnership Units to the founder and operating partner of Club16 for proceeds of $999. As a result, the Corporation's ownership interest in Club16 decreased from 60% to 58%. The non-controlling interest on the balance sheet at September 30, 2020, includes the increase in non-controlling interest. The allocation of net income and earnings (loss) per share, between shareholders of the Corporation and non-controlling interest are allocated based on the Corporation's 58% ownership interest in Club16, beginning in the three months ended September 30, 2020. The proceeds from the Club16 offering were used to fund the opening of two new clubs.

These interim financial statements were authorized for issuance by the Audit Committee of the Corporation, on behalf of the Board of Directors on November 23, 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 interim financial statements. 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 these 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.

b) Government Subsidies

A government grant is recognized when there is reasonable assurance that the grant will be received, and that the Corporation will comply with any conditions attached to the grant. When the grants relate to an expense item, they are recognized within Other Income on a systematic basis consistent with the recognition of the related costs that they are intended to compensate.

c) COVID-19-Related Rent Concessions – Amendment to IFRS 16

In May 2020, the IASB released the COVID-19-Related Rent Concessions an amendment to IFRS 16 ("the amendment"), to provide relief to lessees when applying IFRS 16 to COVID-19 related rent concessions. The amendment allows a lessee to elect a practical expedient to not assess whether COVID-19 related rent concessions are a lease modification. When the practical expedient is elected, a lessee accounts for any change in lease payments resulting from COVID-19 rent concessions in the same way it would account for the change if the change was not a lease modification. The Corporation has elected to account for these changes within the consolidated statements of income (loss), in Other Income.

i. Adoption of the amendment

The Corporation first applied the amendment effective for the quarter-ended June 30, 2020. The amendment is applied retrospectively with the cumulative effect of adopting the amendment recognized as an adjustment to the opening balance of retained earnings at January 1, 2020, with no restatement of comparative information.

In accordance with the amendment, the Corporation is not required to present for the current and comparative periods, the amount of the adjustment for each financial statement line affected and for the basic and diluted earnings (loss) per share.

ii. Accounting for the amendment

The practical expedient only applies to rent concessions occurring as a direct consequent of the COVID-19 pandemic, if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2021 (for example, a rent concession would meet this condition if it results in reduce lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
- there is no substantive change to other terms and conditions of the lease

iii. Impact on the financial statements

The Corporation has elected to apply the practical expedient available under the amendment to all amended leases that meet the required conditions. The leases applicable for the amendment are building leases for Club16's gyms. Changes in lease payments that arose from COVID-19 related rent concessions are recognized in the consolidated statement of income (loss), within Other Income. As the Corporation's rent concessions were not effective until April 2020, the Corporation did not incur any adjustments to the opening balance of retained earnings at January 1, 2020.

(in thousands of Canadian dollars)

4. RIGHT-OF-USE ASSETS

		Office and Buildings		Vehicles		Total
Cost						
Balance at December 31, 2019	$	49,295	$	121	$	49,416
Additions		**12,372**		**62**		**12,434**
Change in fair value		**(37)**		**-**		**(37)**
Balance at September 30, 2020	**$**	**61,630**	**$**	**183**	**$**	**61,813**
Accumulated amortization						
Balance at December 31, 2019	$	(3,997)	$	(40)	$	(4,037)
Depreciation and amortization expense		**(3,434)**		**(32)**		**(3,466)**
Balance at September 30, 2020	**$**	**(7,431)**	**$**	**(72)**	**$**	**(7,503)**
Carrying value						
December 31, 2019	$	45,298	$	81	$	45,379
September 30, 2020	**$**	**54,199**	**$**	**111**	**$**	**54,310**

5. 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		**4,092**		**-**		**-**		**71**		**4,163**
Effect of movements in exchange rates		**-**		**3**		**256**		**13**		**272**
Balance at September 30, 2020	**$**	**97,155**	**$**	**47,781**	**$**	**18,823**	**$**	**6,144**	**$**	**169,903**
Accumulated amortization										
Balance at December 31, 2019	$	(16,336)	$	(710)	$	(5,690)	$	(4,337)	$	(27,073)
Depreciation and amortization recognized against revenue		**(1,451)**		**-**		**-**		**-**		**(1,451)**
Depreciation and amortization expense		**(2,626)**		**(177)**		**(1,453)**		**(424)**		**(4,680)**
Balance at September 30, 2020	**$**	**(20,413)**	**$**	**(887)**	**$**	**(7,143)**	**$**	**(4,761)**	**$**	**(33,204)**
Carrying value										
December 31, 2019	$	76,727	$	47,068	$	12,877	$	1,723	$	138,395
September 30, 2020	**$**	**76,742**	**$**	**46,894**	**$**	**11,680**	**$**	**1,383**	**$**	**136,699**

(1) Other intangible assets comprise software acquired on acquisition of DLC and NCS and supplier relationships acquired on acquisition of Impact.

The Corporation performs its annual goodwill impairment test in December and when circumstances indicate 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. The club closures and resulting decrease in revenues were considered an indicator of impairment for the Club16 CGU. Further, an indicator was identified at Impact, as sales were 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. Effective June 1, 2020, all of Club16's clubs were re-opened and there were no additional indicators of impairment identified for any of the Corporation's CGUs at September 30, 2020. No impairment loss was recognized during the three and nine months ended September 30, 2020 (September 30, 2019—$nil).

During the three and nine months ended September 30, 2019, the Corporation's discontinued operations recognized an impairment loss of $6,382 (see note 16).

(in thousands of Canadian dollars)

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

Goodwill by CGU		**September 30, 2020**		December 31, 2019
DLC Franchise	**$**	**57,097**	$	57,097
NCS		**3,340**		3,340
Club16		**22,431**		22,431
Impact (1)		**6,218**		6,054
	$	**89,086**	$	88,922

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

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		September 30, 2020		December 31, 2019
Trade payables	**$**	**2,836**	$	2,237
Accrued liabilities		**17,993**		11,950
Income tax payable		**1,269**		1,015
Government agencies payable		**802**		746
Other		**874**		827
	$	**23,774**	$	16,775

7. LOANS AND BORROWINGS

		September 30, 2020		December 31, 2019
Corporate				
Term credit facility (1)	**$**	**40,389**	$	40,228
Subsidiaries				
DLC term loan facilities		**3,908**		4,385
DLC operating facility		**-**		6,950
Club16 demand loan		**1,550**		-
Club16 demand credit facility		**8,078**		8,702
Club16 operating facility		**-**		908
Total loans and borrowings		**53,925**		61,173
Less current portion		**(15,441)**		(22,201)
	$	**38,484**	$	38,972

(1) Net of debt issuance costs. At September 30, 2020, the Corporate term credit facility's principal balance owing was USD $31,495 (CAD $42,012) (December 31, 2019—USD $32,621 (CAD $42,368)).

Corporate credit facilities

Corporate term credit facility

On June 24, 2020, the Corporation amended its corporate credit facility to permit Club16 to issue 273 Class A LP units for $999 and use these proceeds to open two new fitness clubs in British Columbia.

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 18). The Corporation is obligated to make quarterly repayments on its facility based on free cash flow. At September 30, 2020, the Corporation had $3,219 classified as current debt based on forecasted free cash flows (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 3.75:1.00 for each fiscal quarter. The Corporation's fixed charge coverage ratio and total leverage ratio at September 30, 2020 was 1.42:1.00 and 2.64:1.00, respectively (December 31, 2019 – 1.37:1.00 and 2.94:1.00). As at September 30, 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 at Club16 have resulted in a risk of cross non-compliance with these financial covenants in future periods. The Corporation continually monitors its forecasted compliance of these financial covenants and will negotiate for financial covenant relief as required. 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 September 22, 2020, Club16 amended its existing debt facilities to amend the financial covenant requirements as follows:

To amend the quarterly maximum debt-to-EBITDA from 2.25:1.00 to:

- 4.00:1.00 for the fiscal quarter ending September 30, 2020;
- 4.60:1.00 for the fiscal quarter ending December 31, 2020;
- 4.00:1.00 for the fiscal quarter ending March 31, 2021; and
- 2.25:1.00 for the fiscal quarters ending thereafter.

To amend the annual maintenance of the debt service charge ratio of not less than 1.05:1.00 to a quarterly maintenance of not less than:

- 0.20:1.00 for the fiscal quarter ending September 30, 2020;
- 0.50:1.00 for the fiscal quarter ending December 31, 2020;
- 1.00:1.00 for the fiscal quarter ending March 31, 2021;
- 1.05:1.00 for the fiscal quarters ending thereafter.

To amend the annual maintenance of the debt service charge ratio excluding distributions of greater than or equal to 1.50:1.00 to a quarterly maintenance of greater than or equal to:

- 1.00:1.00 for the fiscal quarters ending September 30, 2020, December 31, 2020 and March 31, 2021; and
- 1.50:1.00 for the fiscal quarters ending thereafter.

Club16's debt-to-EBITDA, debt service charge ratio and debt service charge ratio excluding distributions at September 30, 2020 are 3.26:1.00, 0.79:1.00 and 1.97:1.00, respectively (December 31, 2019 – 1.48:1.00, 1.39:1.00 and 2.94:1.00). At September 30, 2020, Club16 was in compliance with all such covenants. The current adverse market conditions and disruption to consumer behaviour that have arisen in connection with the COVID19 pandemic have resulted in a risk of non-compliance with these financial covenants in future periods. The Corporation continually monitors its forecasted compliance of these financial covenants and will negotiate for financial covenant relief as required. Although the Corporation expects that such negotiations will be successful, there is no assurance that an agreement will be reached on acceptable terms.

On June 29, 2020, Club16 entered into a $1,550 demand non-revolving loan to provide Club16 with additional liquidity for general corporate purposes. The loan bears interest at prime rate plus 1.5% per annum. The loan matures on the earlier of: (i) demand by the lender, or (ii) 60 months from the date of drawdown.

On May 26, 2020, Club16 amended its demand credit facility to waive principal payments for an additional three months, effective June 2020.

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 September 30, 2020, the facilities bore interest at prime plus 2.0%.

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 facilities are 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.

(in thousands of Canadian dollars)

8. LEASE OBLIGATIONS

Balance at December 31, 2019	$	49,859
Additions of new leases		**12,434**
Lease payments		**(3,404)**
Lease abatements		**(409)**
Tenant allowances		**330**
Lease modifications		**(37)**
Change in fair value		**(30)**
Interest on lease obligations		**1,993**
Balance at September 30, 2020		**60,736**
Less current portion		**(4,034)**
	$	**56,702**

The Corporation and its subsidiaries have commitments under leases for buildings, office space and vehicles with varying terms that expire between 2020 and 2030, captured in the below value. The approximate undiscounted lease payments remaining are as follows:

Year		**Lease payments**
2020	$	1,735
2021		7,627
2022		6,765
2023		6,281
2024		5,959
2025		5,701
Thereafter		18,277
Balance at September 30, 2020		**52,345**
Less: leases not yet commenced (1)		**(6,270)**
	$	**46,075**

(1) Included within the lease payment schedule and excluded from lease liabilities at September 30, 2020, is additional space at Club16's Abbotsford location and new agreements for Club16's future location in Chilliwack. The lease agreement for the additional space at Club16 Abbotsford was entered into in January 2020 but does not commence until 2021. Club16's Chilliwack location was signed in March 2020 but does not commence until 2021.

9. 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 September 30, 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.

10. 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

(in thousands of Canadian dollars)

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, September 30, 2020	**323,893**	**$**	**3.65**

The following table summarizes the share options outstanding and exercisable under the Plan as at September 30, 2020:

Grant date	Share options outstanding	Years to Maturity	Share options exercisable		Weighted average exercise price
February 23, 2016	98,893	0.4	98,893	$	3.00
July 7, 2016	150,000	0.8	150,000		4.40
July 3, 2017	75,000	1.8	75,000		3.00
	323,893		323,893	$	3.65

The Corporation recorded total share-based payments expense of $137 and $410 for the three and nine months ended September 30, 2020 (September 30, 2019—$22 and $300). These amounts include share-based payment expense related to the Corporation's restricted share units ("RSUs") for the three and nine months ended September 30, 2020, of $137 and $399 (September 30, 2019—$13 and $299), and share-based payments related to Impact's share appreciation rights ("SARs") of $nil and $11 (September 30, 2019—$5 expense and $(82) recovery). The Corporation did not incur any share-based payments related to the Corporation's share options during the three and nine months ended September 30, 2020 (September 30, 2019—$4 and $83).

RSU Plan

The Corporation's RSUs were issued to corporate 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
Settled	**(68,333)**
Granted	**484,040**
Outstanding RSUs, September 30, 2020	**747,040**

During the nine months ended September 30, 2020, the Corporation settled 68,333 RSU units at a 5-day volume average weighted price of $1.00 per share (September 30, 2019—nil units issued) and granted an additional 484,040 RSU units (September 30, 2019—371,333). The 191,866 units granted to employees vest over a two-year term and the 292,174 units granted to directors vest over a three-year term.

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, September 30, 2020	1.70	**2,078,568**	**$**	**1.44**

11. 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.

(in thousands of Canadian dollars)

The results of Astley Gilbert Limited ("AG") are presented as discontinued operations and have been excluded from the segmented information for the comparative condensed statements of income (loss) information (see note 16). 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 September 30, 2020					
Cash and cash equivalents	$ 5,160	$ 2,343	$ 473	$ 1,530	$ 9,506
Trade, other receivables and other assets	12,245	2,212	1,309	585	16,351
Right-of-use assets	1,669	52,231	410	-	54,310
Intangible assets	123,542	3,658	9,499	-	136,699
Goodwill	60,437	22,432	6,217	-	89,086
Capital and other assets	3,284	18,775	3,287	995	26,341
Total assets	$ 206,337	$ 101,651	$ 21,195	$ 3,110	$ 332,293
Accounts payable and accrued liabilities	$ 20,000	$ 2,592	$ 668	$ 514	$ 23,774
Capital lease obligation	1,711	58,089	422	514	60,736
Loans and borrowings	3,908	9,628	-	40,389	53,925
Foreign exchange forward contract liability	-	-	-	1,089	1,089
Deferred tax	27,290	1,056	2,536	(1,023)	29,859
Other liabilities	3,159	471	135	1,809	5,574
Total liabilities	$ 56,068	$ 71,836	$ 3,761	$ 43,292	$ 174,957

	DLC	Club16	Impact	Corporate and Consolidated	Consolidated
For the three months ended September 30, 2020					
Revenue	$ 14,069	$ 9,020	$ 2,428	$ -	$ 25,517
Direct costs	1,486	856	1,196	-	3,538
General and administrative	4,301	4,611	693	594	10,199
Share-based payments	-	-	-	137	137
Depreciation and amortization	1,075	2,339	292	4	3,710
Finance expense	74	779	4	1,307	2,164
Other income	(117)	(822)	(30)	(180)	(1,149)
Income (loss) before tax from continuing operations	$ 7,250	$ 1,257	$ 273	$ (1,862)	$ 6,918

	DLC	Club16	Impact	Corporate and Consolidated	Consolidated
For the nine months ended September 30, 2020					
Revenue	$ 34,936	$ 17,138	$ 6,530	$ -	$ 58,604
Direct costs	3,944	1,817	3,254	-	9,015
General and administrative	12,840	11,191	2,135	1,407	27,573
Share-based payments	-	-	11	399	410
Depreciation and amortization	3,237	6,456	876	13	10,582
Finance expense	330	2,164	13	4,071	6,578
Other (income) expenses	(534)	(1,563)	(223)	405	(1,915)
Income (loss) before tax from continuing operations	$ 15,119	$ (2,927)	$ 464	$ (6,295)	$ 6,361

(in thousands of Canadian dollars)

		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 September 30, 2019										
Revenue	$	13,186	$	7,296	$	2,766	$	-	$	23,248
Direct costs		1,377		991		1,321		-		3,689
General and administrative		3,956		3,803		740		456		8,955
Share-based payments		-		-		4		18		22
Depreciation and amortization		1,250		1,904		293		4		3,451
Finance expense		166		675		5		5,223		6,069
Other (income) expense		(16)		19		(33)		641		611
Income (loss) before tax from continuing operations	$	6,453	$	(96)	$	436	$	(6,342)	$	451

		DLC		Club16		Impact		Corporate and Consolidated		Consolidated
For the nine months ended September 30, 2019										
Revenue	$	31,705	$	23,123	$	12,599	$	-	$	67,427
Direct costs		4,374		2,669		5,894		-		12,937
General and administrative		13,291		11,378		2,366		2,539		29,574
Share-based payments		-		-		(82)		382		300
Depreciation and amortization		3,807		5,674		883		28		10,392
Finance expense		525		1,699		13		8,963		11,200
Other expense (income)		105		29		(27)		(1,673)		(1,566)
Income (loss) before tax from continuing operations	$	9,603	$	1,674	$	3,552	$	(10,239)	$	4,590

(in thousands of Canadian dollars)

12. REVENUES

	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020	2019
Franchising revenue, mortgage brokerage services	**$ 13,948**	$ 12,993	**$ 34,553**	$ 31,313
Brokering of mortgages	**121**	193	**383**	392
Memberships and dues revenue	**7,208**	5,077	**13,616**	17,465
Radio and radio accessories	**2,312**	2,674	**6,158**	12,082
Supplementary services revenue and other revenue	**1,928**	2,311	**3,894**	6,175
	$ 25,517	$ 23,248	**$ 58,604**	$ 67,427

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 typically increase significantly in the second quarter of each year, as an annual club enhancement fee is usually charged to Club16 members in May of each year. As Club16 suspended membership collections during the temporary club closures in response to COVID-19, Club16 deferred the collection of its 2020 club enhancement fee, which was collected in early August 2020. 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 DLC and Club16 segments for the three and nine months ended September 30, 2020 is $14,559 and $8,519; and $36,321 and $16,456 (September 30, 2019—$13,160 and $6,870; and $31,540 and $22,338).

Revenues earned from contracts with U.S. customers included in the above for Impact for the three and nine months ended September 30, 2020 is $2,172 and $5,864 (September 30, 2019 – $2,466 and $11,639).

13. FINANCE EXPENSE

	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020	2019
Interest expense on debt obligations	**$ 1,211**	$ 4,577	**$ 3,977**	$ 8,302
Interest on lease obligations	**731**	611	**1,993**	1,496
Amortization of debt issuance costs	**222**	837	**580**	1,279
Accretion expense	**-**	44	**28**	123
	$ 2,164	$ 6,069	**$ 6,578**	$ 11,200

14. OTHER INCOME

	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020	2019
Government wage subsidies	**$ 796**	$ -	**$ 1,464**	$ -
Lease rent abatements	**168**	-	**409**	-
Other	**(81)**	65	**68**	210
	$ 883	$ 65	**$ 1,941**	$ 210

Government wage subsidies for the three and nine months ended September 30, 2020 consist of Government of Canada grants received under the Canada Emergency Wage Subsidy ("CEWS") program. All of the Corporation's subsidiaries were eligible to receive the grants during the three months ended September 30, 2020.

(in thousands of Canadian dollars)

15. EARNINGS (LOSS) PER SHARE

	For the three months ended September 30, 2020	2019	For the nine months ended September 30, 2020	2019
Net earnings (loss) attributable to shareholders	**$ 2,082**	$ (3,157)	**$ (814)**	$ (6,917)
Net earnings (loss) attributable to shareholders from continuing operations	**$ 2,082**	$ (3,337)	**$ (814)**	$ (3,697)
Basic and diluted weighted average number of shares	**38,082,513**	38,182,542	**38,108,790**	38,182,542
Basic earnings (loss) per share	**$ 0.05**	$ (0.08)	**$ (0.02)**	$ (0.18)
Diluted earnings (loss) per share	**$ 0.05**	$ (0.08)	**$ (0.02)**	$ (0.18)
Continuing operations:				
Basic earnings (loss) per share	**$ 0.05**	$ (0.09)	**$ (0.02)**	$ (0.10)
Diluted earnings (loss) per share	**$ 0.05**	$ (0.09)	**$ (0.02)**	$ (0.10)

As at September 30, 2020, there were 323,893 share options (September 30, 2019—1,785,578) and 2,078,568 warrants outstanding (September 30, 2019—2,078,568) that were considered anti-dilutive (see note 10).

16. 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 periods in the Corporation's condensed consolidated statements of loss. The following summarizes the results of AG in the comparative three and nine months ended September 30, 2019.

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Revenue	$ 12,120	$ 38,224
Expenses (1)	12,726	45,560
Loss before tax from discontinued operations	(606)	(7,336)
Current tax expense	(177)	(706)
Deferred tax recovery	260	723
	83	17
Gain on sale of discontinued operations	440	440
Net loss from discontinued operations	$ (83)	$ (6,879)
Attributable to:		
Shareholders	$ 180	$ (3,220)
Non-controlling interest	$ (263)	$ (3,659)
Net loss from discontinued operations per common share attributable to shareholders		
Basic loss per share	$ -	$ (0.08)
Diluted loss per share	$ -	$ (0.08)

(1) Included in expenses is non-cash impairment of $nil and $6,832 for the three and nine months ended September 30, 2019.

The following are the cash flows from the Corporation's discontinued operations for the comparative nine months ended September 30, 2019.

	September 30, 2019
Net cash from operating activities	$ 5,948
Net cash used in investing activities	(1,466)
Net cash used in financing activities	(4,199)
Cash flows from discontinued operations	$ 283

At September 30, 2019 AG had a cash balance of $668 which was disposed of as part of the sale.

(in thousands of Canadian dollars)

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

For the nine months ended September 30,		2020		2019
Trade and other receivables	**$**	**725**	$	4,608
Prepaid expenses and deposits		**(138)**		(696)
Notes receivable		**(155)**		(80)
Inventories		**541**		611
Accounts payable and accrued liabilities		**6,999**		(2,393)
Deferred contract liability		**479**		378
Other current liabilities		**(156)**		801
	$	**8,295**	$	3,229

18. 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, investments, trade payables and accrued liabilities, loans and borrowings, and foreign exchange forward contract liability. 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. 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; foreign exchange forward contracts; and Impact's operations, as a significant portion of its business is conducted in USD. At September 30, 2020, the USD cash balance is USD $566 (CAD $755), compared to USD $155 (CAD $201) at December 31, 2019. Our USD loans and borrowings balance is USD $31,495 (CAD $42,012); 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 $15 increase and $1,103 decrease of net income before tax for the three and nine months ended September 30, 2020 (September 30, 2019—$147 decrease and $5,548 decrease).

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 collectively allow 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.

(in thousands of Canadian dollars)

During the nine months ended September 30, 2020, to mitigate exposure to foreign exchange risk, the Corporation entered into the following foreign exchange forward contracts with a settlement period of six months from December 14, 2021 to June 14, 2022, 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
June 1, 2020		3,000		1.367
June 2, 2020		3,000		1.354
June 4, 2020		3,000		1.353
Total value and blended forward rate (1)	$	24,000	$	1.383

(1) The blended forward rate at September 30, 2020 was $1.335.

During the nine months ended September 30, 2020, the Corporation unwound its USD $15,000 foreign exchange forward contract, which was entered into in December 2019, 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, and during the nine months ended September 30, 2020 of $2,061 (September 30, 2019—$nil).

The Corporation's change in fair value of the foreign exchange contracts consists of unrealized losses and realized gains as follows:

	For the three months ended September 30,				For the nine months ended September 30,			
		2020		2019		**2020**		2019
Unrealized (loss)	**$**	**(694)**	$	-	**$**	**(1,089)**	$	-
Realized gain		**-**		-		**2,061**		-
Change in fair value of foreign exchange contracts	**$**	**(694)**	$	-	**$**	**972**	$	-

Foreign exchange and USD LIBOR rates may 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% increase in interest rates on loans and borrowings would have resulted in an $247 and $535 decrease in net income for the three and nine months ended September 30, 2020 (September 30, 2019—$190 and $618).

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 September 30, 2020, $409 (December 31, 2019—$536) of our trade receivables are greater than 90 days' outstanding and total ECL as at September 30, 2020 is $68 (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.

		September 30, 2020		December 31, 2019
Cash and cash equivalents	**$**	**9,506**	$	5,458
Trade, other receivables and other assets		**16,351**		16,826
Notes receivable		**565**		410
	$	**26,422**	$	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.

As at September 30, 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	$	23,774	$	23,774	$	-	$	-
Lease obligations		52,345		7,456		25,186		19,703
Loans and borrowings		55,548		15,441		40,107		-
Foreign exchange forward contract liability		1,089		-		1,089		-
Long-term liabilities		1,415		-		1,415		-
	$	134,171	$	46,671	$	67,797	$	19,703

Capital management

The Corporation's capital structure is composed of total shareholders' equity and loans and borrowings, less cash and cash equivalents. The following table summarizes the carrying value of the Corporation's capital at September 30, 2020, and December 31, 2019.

		September 30, 2020		December 31, 2019
Loans and borrowings	**$**	**53,925**	$	61,173
Less: cash and cash equivalents		**(9,506)**		(5,458)
Net loans and borrowings	**$**	**44,419**	$	55,715
Shareholders' equity	**$**	**73,007**	$	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 September 30, 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;
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

(in thousands of Canadian dollars)

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.

	Carrying value as at September 30, 2020	**Fair value as at September 30, 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	**$ 613**	**$ -**	**$ -**	**$ 613**
Financial liabilities				
Foreign exchange forward contract liability	**(1,089)**	**-**	**(1,089)**	**-**
Loans and borrowings	**(53,925)**	**-**	**(53,925)**	**-**

	Carrying value as at December 31, 2019	Fair 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
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 September 30, 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.

During the three and nine months ended September 30, 2020, the Corporation recognized an increase to its investment and other income of $nil and $56 from Vital Alert's debenture conversion, respectively (September 30, 2019—$nil and $nil).

19. 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 agreements

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 $53 and $256 for the three and nine months ended September 30, 2020 (September 30, 2019—$117 and $353). As of September 30, 2020, no amounts are outstanding (December 31, 2019—$730).

Contingencies

In the normal course of operations, the Company and its investees may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. Certain of the Corporations subsidiaries has outstanding legal claims, against some of which the Corporation has been indemnified from certain losses. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty. As the outcomes of the claims are not determinable, no provision for settlement has been made in the consolidated financial statements. The Corporation does not anticipate that these claims will have a material impact on its financial position.

In February, 2019, DLC received a statement of claim (the "Claim") filed in the Ontario Superior Court of Justice by two individual plaintiffs (the "Plaintiffs"). The Plaintiffs are seeking certification of the Claim under the Class Proceedings Act (Ontario) and are seeking an order for damages of $800 million. The Claim relates to a product called Mortgage Protection Plan ("MPP"), mortgage creditor insurance underwritten by The Manufacturers Life Insurance Company ("Manulife"), formerly administered by Benesure Canada Inc. ("Benesure"), and offered through Credit Security Insurance Agency Inc. ("CSIA"). The Claim alleges that Benesure is an unlicensed insurer and that DLC is liable for distributing the MPP product through the DLC network. Benesure, Manulife and other parties were subject to a BC class action lawsuit in 2013 relating to the MPP product which failed to be certified in 2016. DLC is contractually indemnified from Benesure, Manulife and CSIA for any costs, expenses, damages or liability arising from the offering of MPP through the DLC network of brokers. It is DLC's assessment that the Claim is without merit (and includes an indemnification) and as a result, no provision has been recorded in the Corporation's financial statements.

20. RELATED PARTY TRANSACTIONS

Private Placement

On June 29, 2020, Club16 completed a private placement of 273 Class A LP units to its founder/operating partner (Chuck Lawson) for proceeds of $999. As a result, the Corporation's ownership interest in Club16 has decreased from 60% to 58%.

21. SUBSEQUENT EVENTS

On October 5, 2020, the Corporation announced the execution of an acquisition agreement with a related party (Gary Mauris and Chris Kayat) of the Corporation to acquire (the "Proposed Acquisition") all of the limited partnership units of Dominion Lending Centres LP ("DLC LP") for 26,774,054 non-voting, non-convertible and non-dilutive Series 1, Class B preferred shares (the "Preferred Shares") of the Corporation. Once acquired, the Corporation intends on winding-up DLC LP and thereafter amalgamating with Dominion Lending Centres Inc. The combined entity will operate as Dominion Lending Centre Inc. post reorganization. The transaction is anticipated to be completed on December 31, 2020, with the amalgamation and name change to be completed on January 1, 2021. The transaction is subject to various approvals by the TSXV, shareholders and lenders.

The Preferred Shares will entitle the holders thereof to a disproportionate share of future cash distributions above the defined threshold amount (the "Inversion Rights"). The Corporation anticipates completing a private placement of 4,285,714 Common Shares at $1.75 per share for aggregate gross proceeds of $7,500 (the "Private Placement") concurrent with the closing of the Proposed Acquisition. Upon completion of the Private Placement, the Corporation will pay the holders of the Preferred Shares an aggregate value of $15,000, consisting of $7,500 in cash and 4,285,714 in Common Shares at $1.75 per share, to terminate the Inversion Rights (the "Inversion Rights Termination Transaction"). The completion of the Inversion Rights Termination Transaction is subject to the Corporation satisfying the conditions to complete the Proposed Acquisition and subject to the Corporation completing the Private Placement.