



Founders Advantage Capital Corp.

Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(unaudited)

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands of Canadian dollars)

	As at June 30, 2020	As at December 31, 2019
<b>ASSETS</b>		
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,409	\$ 5,458
Trade and other receivables	12,803	16,270
Prepaid expenses and deposits	2,654	2,087
Notes receivable	599	410
Inventories	2,848	3,563
<i>Total current assets</i>	<b>27,313</b>	27,788
<i>Non-current assets</i>		
Trade, other receivables and other assets	536	556
Investments	613	557
Equity accounted investment	1,496	1,229
Capital assets	17,901	18,994
Right-of-use assets	44,895	45,379
Intangible assets (note 4)	137,097	138,395
Goodwill (note 4)	89,220	88,922
<b>TOTAL ASSETS</b>	<b>\$ 319,071</b>	<b>\$ 321,820</b>
<b>LIABILITIES AND EQUITY</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (note 5)	18,891	16,775
Loans and borrowings (note 6)	16,699	22,201
Deferred contract liability	1,048	674
Other current liabilities	196	326
Lease obligations (note 7)	3,203	2,449
<i>Total current liabilities</i>	<b>40,037</b>	42,425
<i>Non-current liabilities</i>		
Loans and borrowings (note 6)	41,986	38,972
Deferred contract liability	1,813	2,053
Foreign exchange forward contract liability (note 17)	395	365
Other long-term liabilities	2,297	1,775
Lease obligations (note 7)	47,957	47,410
Deferred tax liabilities	30,083	30,978
<b>TOTAL LIABILITIES</b>	<b>164,568</b>	163,978
<i>Equity</i>		
Share capital	115,216	115,390
Contributed surplus	15,296	15,296
Accumulated other comprehensive income (loss)	293	(223)
Deficit	(59,648)	(56,752)
<b>TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>71,157</b>	73,711
<b>NON-CONTROLLING INTEREST</b> (notes 2 and 19)	<b>83,346</b>	84,131
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 319,071</b>	<b>\$ 321,820</b>

Discontinued operations (note 15).

Commitments and contingencies (note 18).

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)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
<b>CONTINUING OPERATIONS</b>				
Revenues (note 11)	\$ 15,014	\$ 23,579	\$ 33,087	\$ 44,179
Direct costs	2,364	4,642	5,477	9,248
<b>GROSS PROFIT</b>	<b>12,650</b>	<b>18,937</b>	<b>27,610</b>	<b>34,931</b>
General and administrative	8,149	10,105	17,374	20,619
Share-based payments (note 9)	398	188	273	278
Depreciation and amortization	3,436	3,438	6,872	6,941
	<b>11,983</b>	<b>13,731</b>	<b>24,519</b>	<b>27,838</b>
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>667</b>	<b>5,206</b>	<b>3,091</b>	<b>7,093</b>
<b>OTHER INCOME (EXPENSES)</b>				
Finance expense (note 12)	(2,204)	(2,633)	(4,414)	(5,131)
Foreign exchange gain (loss)	1,690	1,115	(2,022)	2,266
Change in fair value of foreign exchange forward contract (note 17)	(395)	-	1,666	-
Income from equity accounted investment	199	12	267	12
Loss on sale of capital and intangible assets	-	(10)	-	(10)
Loss on contract settlement (note 18)	(89)	(118)	(203)	(236)
Other income (note 13)	938	88	1,058	145
	<b>139</b>	<b>(1,546)</b>	<b>(3,648)</b>	<b>(2,954)</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>806</b>	<b>3,660</b>	<b>(557)</b>	<b>4,139</b>
<b>INCOME TAX (EXPENSE) RECOVERY</b>				
Current tax expense	(1,322)	(910)	(2,465)	(2,183)
Deferred tax recovery	103	38	893	446
	<b>(1,219)</b>	<b>(872)</b>	<b>(1,572)</b>	<b>(1,737)</b>
<b>NET (LOSS) INCOME FROM CONTINUING OPERATIONS</b>	<b>(413)</b>	<b>2,788</b>	<b>(2,129)</b>	<b>2,402</b>
<b>DISCONTINUED OPERATIONS</b>				
Net loss after tax from discontinued operations (note 15)	-	(6,287)	-	(6,796)
<b>NET LOSS</b>	<b>\$ (413)</b>	<b>\$ (3,499)</b>	<b>\$ (2,129)</b>	<b>\$ (4,394)</b>
<b>ATTRIBUTABLE TO:</b>				
Shareholders of Founders Advantage Capital Corp.	\$ (697)	\$ (2,288)	\$ (2,896)	\$ (3,760)
Non-controlling interest	\$ 284	\$ (1,211)	\$ 767	\$ (634)
<b>NET LOSS PER COMMON SHARE ATTRIBUTABLE TO SHAREHOLDERS</b> (notes 14 and 15)				
Basic	\$ (0.02)	\$ (0.06)	\$ (0.08)	\$ (0.10)
Diluted	\$ (0.02)	\$ (0.06)	\$ (0.08)	\$ (0.10)
<b>NET (LOSS) INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS ATTRIBUTABLE TO SHAREHOLDERS</b> (note 14)				
Basic	\$ (0.02)	\$ 0.02	\$ (0.08)	\$ (0.01)
Diluted	\$ (0.02)	\$ 0.02	\$ (0.08)	\$ (0.01)

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

Prior year information has been restated to conform to current year presentation.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(in thousands of Canadian dollars)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
NET LOSS	\$ (413)	\$ (3,499)	\$ (2,129)	\$ (4,394)
<b>OTHER COMPREHENSIVE (LOSS) INCOME</b>				
Items that will be subsequently reclassified to comprehensive income:				
Foreign exchange translation (loss) gain (net of tax)	(876)	(472)	993	(933)
<b>TOTAL OTHER COMPREHENSIVE (LOSS) INCOME</b>	(876)	(472)	993	(933)
<b>COMPREHENSIVE LOSS</b>	\$ (1,289)	\$ (3,971)	\$ (1,136)	\$ (5,327)
<b>ATTRIBUTABLE TO:</b>				
Shareholders of Founders Advantage Capital Corp.	\$ (1,153)	\$ (2,533)	\$ (2,380)	\$ (4,244)
Non-controlling interest	\$ (136)	\$ (1,438)	\$ 1,244	\$ (1,083)

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 9)	-	79	-	-	79	-	79			
Fair value of lender warrants	-	450	-	-	450	-	450			
Net loss and comprehensive loss	-	-	(484)	(3,760)	(4,244)	(1,083)	(5,327)			
Distributions to non-controlling interest	-	-	-	-	-	(4,627)	(4,627)			
Balance at June 30, 2019	\$ 115,390	\$ 15,288	\$ (152)	\$ (54,285)	\$ 76,241	\$ 89,156	\$ 165,397			
Balance at January 1, 2020	\$ 115,390	\$ 15,296	\$ (223)	\$ (56,752)	\$ 73,711	\$ 84,131	\$ 157,842			
Share cancellation (note 8)	(174)	-	-	-	(174)	-	(174)			
Capital contribution from non-controlling interest (notes 2 and 19)	-	-	-	-	-	999	999			
Net loss and comprehensive income	-	-	516	(2,896)	(2,380)	1,244	(1,136)			
Distributions to non-controlling interest	-	-	-	-	-	(3,028)	(3,028)			
<b>Balance at June 30, 2020</b>	<b>\$ 115,216</b>	<b>\$ 15,296</b>	<b>\$ 293</b>	<b>\$ (59,648)</b>	<b>\$ 71,157</b>	<b>\$ 83,346</b>	<b>\$ 154,503</b>			

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 six months ended June 30,	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (2,129)	\$ (4,394)
<i>Items not affecting cash:</i>		
Share-based payments (note 9)	273	278
Depreciation and amortization	6,872	10,733
Amortization of debt issuance costs (note 12)	358	442
Depreciation and amortization of franchise renewals (note 4)	925	653
Rent abatements (note 13)	(241)	-
Unrealized foreign exchange loss (gain)	1,990	(2,181)
Change in fair value of foreign exchange forward contract (note 17)	(1,666)	-
Non-cash impairment (notes 4 and 15)	-	6,832
Deferred tax recovery	(893)	(909)
Income from equity accounted investment	(267)	(12)
Other non-cash items	1,634	1,410
Changes in non-cash working capital (note 16)	5,611	1,282
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>12,467</b>	<b>14,134</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on capital assets	(519)	(3,265)
Investment in intangible assets (note 4)	(2,268)	(1,291)
Proceeds on disposal of capital and intangible assets	-	277
Investment in equity accounted investee	-	(1,125)
Capital contribution from non-controlling interest (notes 2 and 19)	999	-
Distributions to non-controlling interests	(3,028)	(4,627)
<b>CASH USED BY INVESTING ACTIVITIES</b>	<b>(4,816)</b>	<b>(10,031)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from debt financing, net of transaction costs (note 6)	784	3,877
Proceeds from settlement of foreign exchange forward contract (note 17)	1,469	-
Repayment of debt (note 6)	(5,593)	(5,017)
Net lease payments (note 7)	(1,339)	(2,568)
Dividends paid to common shareholders	-	(477)
<b>CASH USED BY FINANCING ACTIVITIES</b>	<b>(4,679)</b>	<b>(4,185)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,972</b>	<b>(82)</b>
Impact of foreign exchange on cash and cash equivalents	(21)	(87)
<b>NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>5,458</b>	<b>5,095</b>
<b>NET CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 8,409</b>	<b>\$ 4,926</b>
Net cash and cash equivalents is comprised of:		
Cash and cash equivalents	8,409	4,958
Bank indebtedness	-	(32)
<b>NET CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>8,409</b>	<b>4,926</b>
Cash flows include the following amounts:		
Interest paid	\$ 2,600	\$ 3,710
Interest received	\$ 13	\$ 35
Income taxes paid	\$ 1,571	\$ 3,614

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

## 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 4<sup>th</sup> 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	
	June 30, 2020	December 31, 2019
Dominion Lending Centres Limited Partnership (“DLC”)	60%	60%
Club16 Limited Partnership (“Club16”) <sup>(1)</sup>	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 (“LP”) 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 June 30, 2020, includes the increase in non-controlling interest. The allocation of net loss and loss per share, between shareholders of the Corporation and non-controlling interest for the three months and six months ended June 30, 2020, are allocated based on the Corporation’s 60% ownership interest in Club16. The proceeds from the Club16 offering will be 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 August 24, 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 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 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 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
(in thousands of Canadian dollars)

**4. INTANGIBLE ASSETS AND GOODWILL**

	Franchise rights, relationships and agreements	Brand names	Customer relationships	Other <sup>(1)</sup>	Total intangible assets
<b>Cost</b>					
Balance at December 31, 2019	\$ 93,063	\$ 47,778	\$ 18,567	\$ 6,060	\$ 165,468
Additions	<b>2,198</b>	-	-	<b>70</b>	<b>2,268</b>
Effect of movements in exchange rates	-	<b>5</b>	<b>458</b>	<b>19</b>	<b>482</b>
<b>Balance at June 30, 2020</b>	<b>\$ 95,261</b>	<b>\$ 47,783</b>	<b>\$ 19,025</b>	<b>\$ 6,149</b>	<b>\$ 168,218</b>
<b>Accumulated amortization</b>					
Balance at December 31, 2019	\$ (16,336)	\$ (710)	\$ (5,690)	\$ (4,337)	\$ (27,073)
Depreciation and amortization recognized against revenue	<b>(925)</b>	-	-	-	<b>(925)</b>
Depreciation and amortization expense	<b>(1,771)</b>	<b>(118)</b>	<b>(968)</b>	<b>(266)</b>	<b>(3,123)</b>
<b>Balance at June 30, 2020</b>	<b>\$ (19,032)</b>	<b>\$ (828)</b>	<b>\$ (6,658)</b>	<b>\$ (4,603)</b>	<b>\$ (31,121)</b>
<b>Carrying value</b>					
December 31, 2019	\$ 76,727	\$ 47,068	\$ 12,877	\$ 1,723	\$ 138,395
<b>June 30, 2020</b>	<b>\$ 76,229</b>	<b>\$ 46,955</b>	<b>\$ 12,367</b>	<b>\$ 1,546</b>	<b>\$ 137,097</b>

(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 June 30, 2020. No impairment loss was recognized during the three and six months ended June 30, 2020 (June 30, 2019—\$nil).

During the three and six months ended June 30, 2019, the Corporation's discontinued operations recognized an impairment loss of \$6,382 (see note 15).

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

<b>Goodwill by CGU</b>	<b>June 30, 2020</b>	<b>December 31, 2019</b>
DLC Franchise	\$ 57,097	\$ 57,097
NCS	<b>3,340</b>	3,340
Club16	<b>22,431</b>	22,431
Impact <sup>(1)</sup>	<b>6,352</b>	6,054
	<b>\$ 89,220</b>	\$ 88,922

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

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
Trade payables	\$ 2,871	\$ 2,237
Accrued liabilities	<b>11,048</b>	11,950
Income tax payable	<b>1,924</b>	1,015
Government agencies payable	<b>2,436</b>	746
Other	<b>612</b>	827
	<b>\$ 18,891</b>	\$ 16,775

## 6. LOANS AND BORROWINGS

	June 30, 2020	December 31, 2019
<b>Corporate</b>		
Term credit facility <sup>(1)</sup>	\$ 41,701	\$ 40,228
<b>Subsidiaries</b>		
DLC term loan facilities	3,908	4,385
DLC operating facility	3,090	6,950
Club16 demand loan	1,550	-
Club16 demand credit facility	8,294	8,702
Club16 operating facility	142	908
Total loans and borrowings	58,685	61,173
Less current portion	(16,699)	(22,201)
	\$ 41,986	\$ 38,972

(1) Net of debt issuance costs. At June 30, 2020, the Corporate term credit facility's principal balance owing was USD \$31,984 (CAD \$43,588) (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 17). At June 30, 2020, the Corporation had \$1,678 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 June 30, 2020; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

As at June 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 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 June 30, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
(in thousands of Canadian dollars)

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 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.

**7. LEASE OBLIGATIONS**

Balance at December 31, 2019	\$	49,859
Additions of new leases		<b>1,686</b>
Lease payments		<b>(1,669)</b>
Lease abatements		<b>(241)</b>
Tenant allowances		<b>330</b>
Lease modifications		<b>(37)</b>
Change in fair value		<b>(30)</b>
Interest on lease obligations		<b>1,262</b>
Balance at June 30, 2020		<b>51,160</b>
Less current portion		<b>(3,203)</b>
	<b>\$</b>	<b>47,957</b>

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	\$	3,437
2021		7,026
2022		6,709
2023		6,258
2024		5,936
2025		5,933
Thereafter		19,214
<b>Balance at June 30, 2020</b>		<b>54,513</b>
Less: leases not yet commenced <sup>(1)</sup>		<b>19,231</b>
	<b>\$</b>	<b>35,282</b>

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

## 8. 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
<b>Cancelled shares</b>	<b>(100,000)</b>		<b>(174)</b>
<b>Balance at June 30, 2020</b>	<b>38,082,513</b>	<b>\$</b>	<b>115,216</b>

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.

## 9. 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	<b>(745,019)</b>		<b>3.56</b>
Cancelled	<b>(96,666)</b>		<b>2.40</b>
<b>Outstanding share options, June 30, 2020</b>	<b>323,893</b>	<b>\$</b>	<b>3.65</b>

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

Grant date	Share options outstanding	Years to Maturity	Share options exercisable	Weighted average exercise price
February 23, 2016	98,893	0.7	98,893	\$ 3.00
July 7, 2016	150,000	1.0	150,000	4.40
July 3, 2017	75,000	2.0	75,000	3.00
	323,893		323,893	\$ 3.65

The Corporation recorded total share-based payment expense of \$398 and \$273 for the three and six months ended June 30, 2020 (June 30, 2019—\$188 and \$278). These amounts include share-based payment expense related to the Corporation's restricted share units ("RSUs") for the three and six months ended June 30, 2020, of \$388 and \$262 (June 30, 2019—\$286 and \$286), and share-based payments related to Impact's share appreciation rights ("SARs") of \$10 and \$11 (June 30, 2019—\$(102) and \$(87) recoveries). The Corporation did not incur any share-based payments related to the Corporation's share options during the three and six months ended June 30, 2020 (June 30, 2019—\$4 and \$79).

### 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.

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

Outstanding RSUs, December 31, 2019	331,333
Settled	<b>(68,333)</b>
Granted	<b>484,040</b>
<b>Outstanding RSUs, June 30, 2020</b>	<b>747,040</b>

During the three months ended June 30, 2020, the Corporation settled 68,333 RSU units at a 5-day volume average weighted price of \$1.00 per share (June 30, 2019—nil) and granted an additional 484,040 RSU units (June 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 immediately.

#### 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
<b>Outstanding lender warrants, June 30, 2020</b>	1.96	<b>2,078,568</b>	<b>\$ 1.44</b>

## 10. 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 condensed statements of loss information (see note 15). 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	
<b>As at June 30, 2020</b>										
Cash and cash equivalents	\$	5,315	\$	526	\$	798	\$	1,770	\$	8,409
Trade, other receivables and other assets		9,032		2,324		1,386		597		13,339
Right-of-use assets		1,755		42,713		427		-		44,895
Intangible assets		123,135		3,988		9,974		-		137,097
Goodwill		60,437		22,431		6,352		-		89,220
Capital and other assets		3,713		18,118		3,164		1,116		26,111
<b>Total assets</b>	<b>\$</b>	<b>203,387</b>	<b>\$</b>	<b>90,100</b>	<b>\$</b>	<b>22,101</b>	<b>\$</b>	<b>3,483</b>	<b>\$</b>	<b>319,071</b>
Accounts payable and accrued liabilities	\$	15,766	\$	1,942	\$	815	\$	368	\$	18,891
Capital lease obligation		1,785		48,391		437		547		51,160
Loans and borrowings		6,998		9,986		-		41,701		58,685
Foreign exchange forward contract liability		-		-		-		395		395
Deferred tax		27,502		1,062		2,612		(1,093)		30,083
Other liabilities		3,359		169		137		1,689		5,354
<b>Total liabilities</b>	<b>\$</b>	<b>55,410</b>	<b>\$</b>	<b>61,550</b>	<b>\$</b>	<b>4,001</b>	<b>\$</b>	<b>43,607</b>	<b>\$</b>	<b>164,568</b>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)  
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	DLC	Club16	Impact	Corporate and Consolidated	Consolidated
<b>For the three months ended June 30, 2020</b>					
Revenue	\$ 11,369	\$ 1,803	\$ 1,842	\$ -	\$ 15,014
Direct costs	1,459	10	895	-	2,364
General and administrative	4,455	2,609	666	419	8,149
Share-based payments	-	-	9	389	398
Depreciation and amortization	1,076	2,064	292	4	3,436
Finance expense	108	680	4	1,412	2,204
Other income	(251)	(741)	(194)	(1,157)	(2,343)
Income (loss) before tax from continuing operations	\$ 4,522	\$ (2,819)	\$ 170	\$ (1,067)	\$ 806

	DLC	Club16	Impact	Corporate and Consolidated	Consolidated
<b>For the six months ended June 30, 2020</b>					
Revenue	\$ 20,867	\$ 8,118	\$ 4,102	\$ -	\$ 33,087
Direct costs	2,458	961	2,058	-	5,477
General and administrative	8,539	6,580	1,442	813	17,374
Share-based payments	-	-	11	262	273
Depreciation and amortization	2,162	4,117	584	9	6,872
Finance expense	256	1,385	9	2,764	4,414
Other (income) expenses	(417)	(741)	(193)	585	(766)
Income (loss) before tax from continuing operations	\$ 7,869	\$ (4,184)	\$ 191	\$ (4,433)	\$ (557)

	DLC	Club16	Impact	Corporate and Consolidated	Consolidated
<b>As at December 31, 2019</b>					
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

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	DLC	Club16	Impact	Corporate and Consolidated	Consolidated
For the three months ended June 30, 2019					
Revenue	\$ 10,440	\$ 9,270	\$ 3,869	\$ -	\$ 23,579
Direct costs	1,985	892	1,765	-	4,642
General and administrative	4,759	3,876	858	612	10,105
Share-based payments	-	-	(101)	289	188
Depreciation and amortization	1,261	1,877	291	9	3,438
Finance expense	199	594	5	1,835	2,633
Other expenses (income)	29	10	(11)	(1,115)	(1,087)
Income (loss) before tax from continuing operations	\$ 2,207	\$ 2,021	\$ 1,062	\$ (1,630)	\$ 3,660

	DLC	Club16	Impact	Corporate and Consolidated	Consolidated
For the six months ended June 30, 2019					
Revenue	\$ 18,519	\$ 15,827	\$ 9,833	\$ -	\$ 44,179
Direct costs	2,997	1,678	4,573	-	9,248
General and administrative	9,335	7,575	1,626	2,083	20,619
Share-based payments	-	-	(86)	364	278
Depreciation and amortization	2,557	3,770	590	24	6,941
Finance expense	359	1,024	8	3,740	5,131
Other expenses (income)	121	10	6	(2,314)	(2,177)
Income (loss) before tax from continuing operations	\$ 3,150	\$ 1,770	\$ 3,116	\$ (3,897)	\$ 4,139

## 11. REVENUES

	For the three months ended		For the six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Franchising revenue, mortgage brokerage services	\$ 11,214	\$ 10,330	\$ 20,605	\$ 18,320
Brokering of mortgages	155	110	262	199
Memberships and dues revenue	1,648	7,342	6,408	12,388
Radio and radio accessories	1,713	3,694	3,846	9,408
Supplementary services revenue and other revenue	284	2,103	1,966	3,864
	\$ 15,014	\$ 23,579	\$ 33,087	\$ 44,179

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 until 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 six months ended June 30, 2020 is \$11,835 and \$1,750; and \$21,762 and \$7,937 (June 30, 2019—\$10,406 and \$9,032; and \$18,380 and \$15,468).

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**12. FINANCE EXPENSE**

	For the three months ended		For the six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Interest expense on debt obligations	\$ 1,311	\$ 1,863	\$ 2,766	\$ 3,725
Interest on lease obligations	631	528	1,262	884
Amortization of debt issuance costs	262	200	358	442
Accretion expense	-	42	28	80
	\$ 2,204	\$ 2,633	\$ 4,414	\$ 5,131

**13. OTHER INCOME**

	For the three months ended		For the six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Government wage subsidies	\$ 668	\$ -	\$ 668	\$ -
Lease rent abatements	241	-	241	-
Other	29	88	149	145
	\$ 938	\$ 88	\$ 1,058	\$ 145

Government wage subsidies for the three and six months ended June 30, 2020 consist of Government of Canada grants received under the Canada Emergency Wage Subsidy (“CEWS”) program. The Corporation’s subsidiaries, Club16 and Impact, were eligible to receive CEWS for the period from March 15, 2020 through June 30, 2020.

**14. (LOSS) EARNINGS PER SHARE**

	For the three months ended		For the six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Net loss attributable to shareholders	\$ (697)	\$ (2,288)	\$ (2,896)	\$ (3,760)
Net (loss) income attributable to shareholders from continuing operations	(697)	858	(2,896)	(360)
Basic and diluted weighted average number of shares	38,082,513	38,182,542	38,172,016	38,182,542
Basic loss per share	(0.02)	(0.06)	(0.08)	(0.10)
Diluted loss per share	(0.02)	(0.06)	(0.08)	(0.10)
Continuing operations:				
Basic (loss) income per share	(0.02)	0.02	(0.08)	(0.01)
Diluted (loss) income per share	(0.02)	0.02	(0.08)	(0.01)

As at June 30, 2020, there were 323,893 share options (June 30, 2019—2,385,578) and 2,078,568 warrants outstanding (June 30, 2019—2,078,568) that were considered anti-dilutive (see note 9).



## 15. 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 six months ended June 30, 2019.

	Three months ended June 30, 2019	Six months ended June 30, 2019
Revenue	\$ 13,709	\$ 26,104
Expenses <sup>(1)</sup>	19,786	32,834
Loss before tax from discontinued operations	(6,077)	(6,730)
Current tax expense	(465)	(529)
Deferred tax recovery	255	463
Net loss from discontinued operations	\$ (6,287)	\$ (6,796)
Attributable to:		
Shareholders	\$ (3,146)	\$ (3,400)
Non-controlling interest	\$ (3,141)	\$ (3,396)
Net loss from discontinued operations per common share attributable to shareholders		
Basic loss per share	\$ (0.08)	\$ (0.09)
Diluted loss per share	\$ (0.08)	\$ (0.09)

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

The following are the cash flows from the Corporation’s discontinued operations for the comparative six months ended June 30, 2019.

	June 30, 2019
Net cash from operating activities	\$ 3,196
Net cash used in investing activities	(563)
Net cash used in financing activities	(2,025)
Cash flows from discontinued operations	\$ 608

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

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

For the six months ended June 30,	2020	2019
Trade and other receivables	\$ 3,292	\$ 5,894
Prepaid expenses and deposits	(567)	(364)
Notes receivable	(189)	(17)
Inventories	715	537
Accounts payable and accrued liabilities	2,116	(5,051)
Deferred contract liability	374	182
Other current liabilities	(130)	101
	\$ 5,611	\$ 1,282

## 17. 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, trade payables and accrued liabilities,

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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 June 30, 2020, the USD cash balance is USD \$1,041 (CAD \$1,419), compared to USD \$155 (CAD \$201) at December 31, 2019. Our USD loans and borrowings balance is USD \$31,984 (CAD \$43,588); 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 \$3,497 decrease and \$1,088 increase of net loss before tax for the three and six months ended June 30, 2020 (June 30, 2019—\$2 decrease and \$5,401 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 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.

During the three months ended June 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	\$ 24,000	\$ 1.383

During the six months ended June 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 six months ended June 30, 2020 of \$2,061 (June 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		For the six months ended	
	2020	June 30, 2019	2020	June 30, 2019
Unrealized (loss)	\$ (395)	\$ -	\$ (395)	\$ -
Realized gain	-	-	2,061	-
Change in fair value of foreign exchange contracts	\$ (395)	\$ -	\$ 1,666	\$ -

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

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*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 \$127 and \$288 increase in net loss for the three and six months ended June 30, 2020 (June 30, 2019—\$215 and \$428).

**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 June 30, 2020, \$418 (December 31, 2019—\$536) of our trade receivables are greater than 90 days' outstanding and total ECL as at June 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.

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.

	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 8,409	\$ 5,458
Trade, other receivables and other assets	13,339	16,826
Notes receivable	599	410
	\$ 22,347	\$ 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 June 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	\$ 18,891	\$ 18,891	\$ -	-
Lease obligations	54,513	6,951	25,385	22,177
Loans and borrowings	60,572	16,699	43,873	-
Foreign exchange forward contract liability	395	-	395	-
Long-term liabilities	1,297	-	1,297	-
	\$ 135,668	\$ 42,541	\$ 70,950	\$ 22,177

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**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 June 30, 2020, and December 31, 2019.

	June 30, 2020	December 31, 2019
Loans and borrowings	\$ 58,685	\$ 61,173
Less: cash and cash equivalents	(8,409)	(5,458)
Net loans and borrowings	\$ 50,276	\$ 55,715
Shareholders' equity	\$ 71,157	\$ 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 June 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
- 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 June 30, 2020	Fair value as at June 30, 2020		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>Financial assets</i>				
Investments	\$ 613	\$ -	\$ -	\$ 613
<i>Financial liabilities</i>				
Foreign exchange forward contract liability	(395)	-	(395)	-
Loans and borrowings	(58,685)	-	(58,685)	-
	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)
<i>Financial assets</i>				
Investments	\$ 557	\$ -	\$ -	\$ 557
<i>Financial liabilities</i>				
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 June 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 six months ended June 30, 2020, the Corporation recognized an increase to its investment and other income of \$56 from Vital Alert's debenture conversion (June 30, 2019—\$nil).

## **18. 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 \$89 and \$203 for the three and six months ended June 30, 2020 (June 30, 2019—\$118 and \$236). As of June 30, 2020, no amounts are outstanding (December 31, 2019—\$730).

### **Contingencies**

Certain of the Corporations subsidiaries has outstanding legal claims, against 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.

## **19. 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 for proceeds of \$999. As a result, the Corporation's ownership interest in Club16 has decreased from 60% to 58%.