Founders Advantage Capital Corp.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018 (unaudited)

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(in thousands of Canadian dollars)

		As at September 30, 2019		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**5,313**	$	5,492
Trade and other receivables		**13,868**		27,627
Prepaid expenses and deposits		**2,877**		2,758
Notes receivable		**359**		299
Inventories		**3,380**		5,847
Total current assets		**25,797**		42,023
Non-current assets				
Trade, other receivables and other assets		**497**		599
Investments		**557**		557
Equity accounted investment (note 5)		**1,220**		-
Capital assets		**17,034**		33,805
Right-of-use assets (note 6)		**47,587**		-
Intangible assets (note 7)		**139,783**		159,380
Goodwill (note 7)		**89,041**		110,257
TOTAL ASSETS	**$**	**321,516**	$	346,621
LIABILITIES AND EQUITY				
Current liabilities				
Bank indebtedness	**$**	**-**	$	397
Accounts payable and accrued liabilities		**14,545**		22,970
Loans and borrowings (note 8)		**16,211**		25,698
Deferred contract liability		**1,028**		650
Other current liabilities		**811**		788
Lease obligations (note 9)		**2,211**		573
Non-controlling interest liability		**-**		2,000
Total current liabilities		**34,806**		53,076
Non-current liabilities				
Loans and borrowings (note 8)		**44,292**		61,007
Deferred contract liability		**2,041**		2,076
Other long-term liabilities		**1,548**		3,293
Lease obligations (note 9)		**47,900**		1,173
Deferred tax liabilities		**31,193**		39,553
Non-controlling interest liability		**-**		11,621
TOTAL LIABILITIES		**161,780**		171,799
Equity				
Share capital		**115,390**		115,390
Contributed surplus		**15,292**		14,759
Accumulated other comprehensive loss		**(15)**		332
Deficit		**(56,077)**		(50,525)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**74,590**		79,956
NON-CONTROLLING INTEREST		**85,146**		94,866
TOTAL LIABILITIES AND EQUITY	**$**	**321,516**	$	346,621

Discontinued operations (note 4)
Commitments and contingencies (note 17).
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) INCOME (unaudited)

(in thousands of Canadian dollars)

	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
CONTINUING OPERATIONS				
REVENUES (note 12)	**$ 23,248**	$ 20,833	**$ 67,427**	$ 59,202
Direct costs	**3,689**	3,277	**12,937**	10,077
GROSS PROFIT	**19,559**	17,556	**54,490**	49,125
General and administrative	**8,955**	11,882	**29,574**	31,767
Share-based payments (note 10)	**22**	31	**300**	356
Depreciation and amortization	**3,451**	2,741	**10,392**	7,999
	12,428	14,654	**40,266**	40,122
INCOME FROM CONTINUING OPERATIONS	**7,131**	2,902	**14,224**	9,003
OTHER INCOME (EXPENSES)				
Finance expense (note 13)	**(6,069)**	(2,055)	**(11,200)**	(6,041)
Foreign exchange gain (loss)	**(623)**	928	**1,643**	(1,718)
Income equity accounted investment (note 5)	**83**	-	**95**	-
Net (loss) gain on sale of capital and intangible assets	**(19)**	1	**(29)**	(64)
Change in fair value of non-controlling interest liability	**-**	70	**-**	-
Loss on contract settlement (note 17)	**(117)**	(96)	**(353)**	(1,513)
Other income	**65**	(22)	**210**	320
	(6,680)	(1,174)	**(9,634)**	(9,016)
INCOME (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**451**	1,728	**4,590**	(13)
INCOME TAX (EXPENSE) RECOVERY				
Current tax expense	**(2,212)**	(2,003)	**(4,395)**	(3,915)
Deferred tax recovery (expense)	**506**	(8,942)	**952**	(6,505)
	(1,706)	(10,945)	**(3,443)**	(10,420)
NET (LOSS) INCOME FROM CONTINUING OPERATIONS	**(1,255)**	(9,217)	**1,147**	(10,433)
DISCONTINUED OPERATIONS				
Net loss after tax from discontinued operations (note 4)	**(83)**	(992)	**(6,879)**	(1,152)
NET LOSS	**$ (1,338)**	$ (10,209)	**$ (5,732)**	$ (11,585)
ATTRIBUTABLE TO (note 4, 14):				
Shareholders of Founders Advantage Capital Corp.	**$ (3,157)**	$ (11,080)	**$ (6,917)**	$ (14,347)
Non-controlling interest	**$ 1,819**	$ 871	**$ 1,185**	$ 2,762
NET LOSS PER COMMON SHARE ATTRIBUTABLE TO SHAREHOLDERS (note 4, 14)				
Basic	**$ (0.08)**	$ (0.29)	**$ (0.18)**	$ (0.38)
Diluted	**$ (0.08)**	$ (0.29)	**$ (0.18)**	$ (0.38)

The accompanying notes form an integral part of these condensed consolidated financial statements.
Prior year information in the condensed consolidated statement of (loss) income has been restated to conform to current year presentation, see note 4.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(in thousands of Canadian dollars)

	For the three months ended September 30, 2019	For the three months ended September 30, 2018	For the nine months ended September 30, 2019	For the nine months ended September 30, 2018
NET LOSS	**$ (1,338)**	$ (10,209)	**$ (5,732)**	$ (11,585)
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be subsequently reclassified to comprehensive income:				
Foreign exchange translation gain (loss) (net of tax)	**265**	(329)	**(668)**	755
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**265**	(329)	**(668)**	755
COMPREHENSIVE LOSS	**$ (1,073)**	$ (10,538)	**$ (6,400)**	$ (10,830)
ATTRIBUTABLE TO:				
Shareholders of Founders Advantage Capital Corp.	**$ (3,020)**	$ (11,252)	**$ (7,264)**	$ (13,954)
Non-controlling interest	**$ 1,947**	$ 714	**$ 864**	$ 3,124

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 loss	Deficit	Total shareholders' equity	Non-controlling interest	Total equity
Balance at January 1, 2018	$ 115,055	$ 14,569	$ (683)	$ (27,555)	$ 101,386	$ 101,862	$ 203,248
Share-based payments (note 10)	-	361	-	-	361	-	361
Exercise of broker warrants	335	(222)	-	-	113	-	113
Net loss and comprehensive income	-	-	393	(14,347)	(13,954)	3,124	(10,830)
Non-controlling interest put option	-	-	-	-	-	(941)	(941)
Distributions to non-controlling interest	-	-	-	-	-	(6,236)	(6,236)
Dividends declared	-	-	-	(1,431)	(1,431)	-	(1,431)
Balance at September 30, 2018	$ 115,390	14,708	(290)	(43,333)	86,475	97,809	184,284
Balance at December 31, 2018	**$ 115,390**	**$ 14,759**	**$ 332**	**$ (50,525)**	**$ 79,956**	**$ 94,866**	**$ 174,822**
Adoption of IFRS 16 (note 3)	**-**	**-**	**-**	**845**	**845**	**474**	**1,319**
Balance at January 1, 2019	**115,390**	**14,759**	**332**	**(49,680)**	**80,801**	**95,340**	**176,141**
Share-based payments (note 10)	**-**	**83**	**-**	**-**	**83**	**-**	**83**
Lender warrants (note 10)	**-**	**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 4)	**-**	**-**	**-**	**520**	**520**	**(4,486)**	**(3,966)**
Balance at September 30, 2019	**$ 115,390**	**15,292**	**(15)**	**(56,077)**	**74,590**	**85,146**	**159,736**

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,		2019		2018
OPERATING ACTIVITIES				
Net loss	**$**	**(5,732)**	$	(11,585)
Items not affecting cash:				
Share-based payments (note 10)		**300**		356
Depreciation and amortization		**16,096**		12,843
Net (gain) loss on disposal of capital assets		**(52)**		61
Change in fair value of non-controlling interest liability		**132**		139
Dividends paid to non-controlling interest shareholders		**-**		1,500
Unrealized foreign exchange (gain) loss		**(1,588)**		1,669
Non-cash impairment (note 4)		**6,832**		-
Loss on disposal of discontinued operations (note 4)		**(438)**		-
Deferred tax (recovery) expense		**(1,675)**		5,644
Income from equity accounted investment		**(95)**		-
Other non-cash items		**4,879**		2,922
Changes in non-cash working capital (note 15)		**3,229**		89
CASH PROVIDED BY OPERATING ACTIVITIES		**21,888**		13,638
INVESTING ACTIVITIES				
Expenditures on capital assets		**(4,349)**		(4,758)
Investment in intangible assets (note 7)		**(3,071)**		(4,452)
Proceeds on disposal of capital and intangible assets		**277**		86
Purchase of investments		**-**		(200)
Investment in equity accounted investee (note 5)		**(1,125)**		-
Proceeds on disposal of investments, net of cash disposed (note 4)		**13,468**		-
Dividends paid to non-controlling interest shareholders		**-**		(1,500)
Distributions to non-controlling interests		**(6,572)**		(6,236)
Changes in other non-cash items		**-**		386
Changes in non-cash investing capital (note 15)		**-**		75
CASH USED BY INVESTING ACTIVITIES		**(1,372)**		(16,599)
FINANCING ACTIVITIES				
Proceeds from debt financing, net of transaction costs (note 8)		**4,096**		4,435
Proceeds from capital lease financing		**-**		753
Repayment of debt (note 8)		**(19,549)**		(3,879)
Net lease payments		**(4,321)**		(334)
Dividends paid to common shareholders		**(477)**		(1,431)
Exercise of warrants		**-**		113
CASH USED BY FINANCING ACTIVITIES		**(20,251)**		(343)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**265**		(3,304)
Impact of foreign exchange on cash and cash equivalents		**(47)**		11
NET CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**5,095**		9,550
NET CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**5,313**	$	6,257
Net cash and cash equivalents is comprised of:				
Cash and cash equivalents		**5,313**		6,257
Bank indebtedness		**-**		-
NET CASH AND CASH EQUIVALENTS, END OF PERIOD		**5,313**		6,527
Cash flows include the following amounts:				
Interest paid	**$**	**10,040**	$	5,226
Interest received	**$**	**44**	$	6
Income taxes paid	**$**	**5,461**	$	3,858

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, 2019	December 31, 2018
Dominion Lending Centres Limited Partnership ("DLC")	**60%**	60%
Club16 Limited Partnership ("Club16")	**60%**	60%
Cape Communications International Inc. (operating as Impact Radio Accessories; "Impact")	**52%**	52%
Astley Gilbert Limited ("AG") (1)	**-%**	50%

(1) On September 30th, 2019 the Corporation sold its 50% interest in AG, see note 4 for additional details.

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").

These interim financial statements were authorized for issuance by the Audit Committee of the Corporation, on behalf of the Board of Directors on November 21, 2019.

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) New standard and interpretations

i. Adoption of IFRS 16 Leases

The Corporation adopted IFRS 16 Leases ("IFRS 16") at the required effective date of January 1, 2019, using the modified retrospective approach with the cumulative effect of adopting IFRS 16 recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

ii. Definition of a lease

At inception of a contract, the Corporation assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation and our subsidiaries have leases for office and buildings, machinery and equipment and vehicles.

iii. Accounting for lease arrangements

IFRS 16 introduces a single accounting model for leases; the standard eliminates lessee's classification of leases as either operating leases or finance leases.

Right-of-use assets are measured at costs, which comprises the initial amount of the lease obligation, adjusted for any lease payments made at or before the commencement date of the lease, any direct costs incurred less any lease incentives received. Right-of-use assets are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term; right-of-use assets are assessed for impairment losses if any and adjusted for certain remeasurements on the related lease obligation.

Lease obligations are measured at the present value of future lease payments at the lease commencement date discounted using the interest rate implicit in the lease, or if not readily determinable, the Corporation's incremental borrowing rate.

(in thousands of Canadian dollars)

Lease obligations are subsequently measured at amortized costs using the effective interest rate method. Lease obligations are remeasured when there is a lease modification, with a corresponding adjustment made to the carrying amount of the right-of-use asset or is recorded in the statements of loss if the carrying amount of the right-of-use asset has been reduced to zero.

Purchase, renewal and termination options which are reasonably certain of being exercised are also included in the measurement of right-of-use assets and lease obligations.

iv. Leases in which the Corporation is Lessee

The Corporation previously classified leases as operating or finance based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Corporation. Under IFRS 16, the Corporation recognizes right-of-use asset and lease obligations for all contracts that are or contain a lease as defined above.

The Corporation elected to apply the following practical expedients upon adoption of IFRS 16:

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Adjusted the opening right-of-use asset for provisions of onerous leases recognized as of December 31, 2018
- Applied the exemption to not recognize right-of-use asset and lease obligations for leases that are short-term and of low value
- Used hindsight for determining the lease term for leases that contains options to extend or terminate.

v. Impact on the financial statements

On adoption of IFRS 16, the Corporation recognized an addition of $52,399 of right-of-use assets and $53,168 of lease obligations.

The lease obligations payments were discounted using the incremental borrowing rate determined for each portfolio of similar leases as of January 1, 2019. The weighted average incremental borrowing rate is 4.92%. The following table reconciles the Corporations lease commitments outstanding as of December 31, 2018 and the opening lease obligation as at January 1, 2019.

		As at January 1, 2019
Operating lease commitment as at December 31, 2018	$	40,836
Operating lease commitment discounted using the weighted average incremental borrowing rate as at January 1, 2019		**32,703**
Less: Recognition exemption for short term leases		**(76)**
Add: Lease renewal options reasonably certain to be exercised (1)		**20,541**
Lease liabilities recognized as at January 1, 2019	**$**	**53,168**

(1) The impact of renewal options excluded from the calculation of lease obligations is $8,150.

The following table reconciles the opening transition effect on the Corporations statement of financial position.

		As at January 1, 2019
Opening retained earnings adjustment	**$**	**(1,319)**
Comprised of:		
Addition to lease obligation		**53,168**
Addition to right-of-use asset		**(52,399)**
Lease liabilities recorded as of December 31, 2018 (1)		**(1,682)**
Recognition of lease receivable		**(273)**
Deferred income tax recognized on transition		**(133)**
	$	**(1,319)**

(1) Lease liabilities as of December 31, 2018 include provisions for an onerous lease liability and straight-line lease liabilities.

b) Classification changes

Effective January 1, 2019, the Corporation changed how we classify depreciation and amortization of certain Franchise non-competition agreements and relationships to be classified as a charge against revenue instead of being recognized as depreciation and amortization expense. The change in treatment is to due to our view that the costs incurred for acquiring and renewing contracts corresponds to securing future revenue, therefore amortization of these payments is a reduction in revenue.

c) Share-based payments

Restricted Share Units ("RSU")

RSUs are cash settled share-based payments awarded to directors and employees. The fair value of the RSUs are recognized as share-based compensation expense, with a corresponding increase in the accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimated number of RSUs expected to vest. RSUs are measured at their fair value at each reporting period, which is determined using the share price at the closing date, plus any dividends paid, less an estimate for expected forfeited shares.

d) Equity accounted investments

Equity accounted investments are investments over which the Corporation has significant influence, or joint control through a joint venture, but not control. Generally, the Corporation is considered to exert significant influence when it holds at least a 20% interest in an entity. The financial results of the Corporation's significantly influenced investments are included in the Corporation's consolidated financial statements using the equity method of accounting, whereby the investment is initially recognized at cost, and the carrying amount is then subsequently adjusted to recognize the Corporation's share of earnings or losses of the underlying investment. If the Corporation's carrying value in the equity accounted investment is reduced to zero, further losses are not recognized except to the extent that the Corporation has incurred legal or constructive obligations or has made payments on behalf of the equity accounted investee.

At the end of each reporting period, the Corporation assesses whether there is objective evidence that the investment is impaired. If the investment is considered impaired, the Corporation estimates its recoverable amount, and any difference is charged to the consolidated statement of (loss) income.

4. DISCONTINUED OPERATIONS

On September 30, 2019 the Corporation sold its 50% interest in AG for proceeds of $16,987 ("the Purchase Price"). The purchase price is comprised of: (i) a cash payment of $14,200; and (ii) the cancellation of the interest-bearing promissory note, which had a principal balance owing of $2,500 and accrued interest of $287. The Corporation used $11,429 of the cash proceeds from the transaction to repay Corporate debt and $2,771 of the cash proceeds against the make-whole payments for the early debt repayment (see note 13). No income tax was incurred from the gain on the sale of AG. The Corporation incurred transaction costs of $64 for the sale.

As a result of the transaction, the Corporation has presented the results of AG as discontinued operations for both current and comparative periods in the Corporation's condensed consolidated statement of loss. The assets and liabilities of AG have been removed from the Corporation's condensed consolidated balance sheet at September 30, 2019 as a result of the sale; however, are still included in the 2018 comparative. As AG is classified as a discontinued operation, AG is no longer presented as a component of the Business Products and Services segment within the segment note (see note 11).

During the six months ended June 30, 2019 the Corporation recognized a non-cash impairment loss of $6,832 to reflect the fair value of AG based on the Purchase Price. The non-cash impairment was recognized as the difference between the carrying amount of the AG CGU and the recoverable amount. The Corporation used the AG Purchase Price of the AG CGU to determine the recoverable amount. AG's goodwill has been derecognized from the balance sheet for the period ended September 30, 2019 (2018—$nil) (see note 7).

Considering the previously recognized impairment loss, a net gain on sale included within income from discontinued operations of $440 was recognized when the Corporation completed the sale of its 50% interest in AG.

AG was not previously classified as an asset held for sale.

(in thousands of Canadian dollars)

The following are the results of discontinued operations (AG) for the periods presented as follows:

	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Revenue	**$ 12,120**	$ 12,284	**$ 38,224**	$ 39,682
Expenses (1)	**12,726**	13,443	**45,560**	40,877
Loss before tax from discontinued operations	**(606)**	(1,159)	**(7,336)**	(1,195)
Current tax (expense)	**(177)**	(190)	**(706)**	(818)
Deferred tax recovery	**260**	357	**723**	861
	83	167	**17**	43
Gain on sale of discontinued operations	**440**	-	**440**	-
Net loss from discontinued operations	**$ (83)**	$ (992)	**$ (6,879)**	$ (1,152)
Attributable to:				
Shareholders	**$ 180**	$ (134)	**$ (3,220)**	$ 214
Non-controlling interest	**$ (263)**	$ (858)	**$ (3,659)**	$ (1,366)
Net loss from discontinued operations per common share attributable to shareholders				
Basic loss per share	**$ -**	$ -	**$ (0.08)**	$ 0.01
Diluted loss per share	**$ -**	$ -	**$ (0.08)**	$ 0.01

(1) Included in expenses is non-cash impairment of $nil and $6,832 for the three and nine months ended September 30, 2019 (September 30, 2018 - $nil and $nil).

The cash flows of the Corporation include AG for all periods up to the date of disposal. The following are the cash flows from the Corporation's discontinued operations for the nine-months ended September 30, 2019 and the nine months ended September 30, 2018.

	September 30, 2019	September 30, 2018
Net cash from operating activities	**$ 5,948**	$ 5,318
Net cash used in investing activities	**(1,466)**	(5,554)
Net cash (used in)/from financing activities	**(4,199)**	723
Cash flows from discontinued operations	**$ 283**	$ 487

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

5. EQUITY ACCOUNTED INVESTMENT

The Corporation owns a 60% interest in DLC. On April 1, 2019, DLC acquired a 50% equity interest in both Real Estate and Mortgage Institute of Canada Inc. and Conversational Artificial Intelligence Technologies Inc., herein collectively referred to as "REMIC". DLC holds joint control of REMIC as each shareholder of REMIC holds a 50% voting interest in the entity. DLC is entitled to the net assets of the REMIC corporation, and therefore, the joint control arrangement is considered a joint venture and accounted for using the equity method. On April 1, 2019, the Corporation recognized an initial cost of $1,125 and for the three and nine months ended September 30, 2019 recorded its share of net income in the amount of $83 and $95. The carrying value of the investment at September 30, 2019 is $1,220. The principal place of business of REMIC is Toronto, Ontario, Canada.

The following table summaries the financial information of REMIC:

	September 30, 2019	December 31, 2018
Assets (including goodwill)	**$ 2,637**	$ -
Liabilities	**197**	-
Net Assets	**2,440**	-
DLC (%) percentage of ownership	**50%**	-
Corporation share of net assets	**$ 1,220**	**$ -**

(in thousands of Canadian dollars)

6. RIGHT-OF-USE ASSET

	Office and Buildings	Machinery and equipment	Vehicles	Total
Cost				
Balance at December 31, 2018	$ -	$ -	$ -	$ -
Adoption of IFRS 16	**52,273**	**-**	**126**	**52,399**
Transfer from capital assets	**-**	**2,261**	**-**	**2,261**
Additions	**7,421**	**-**	**-**	**7,421**
Disposals (1)	**(9,206)**	**(2,261)**	**(23)**	**(11,490)**
Change in fair value	**(43)**	**-**	**-**	**(43)**
Balance at September 30, 2019	**$ 50,445**	**$ -**	**$ 103**	**$ 50,548**
Accumulated amortization				
Balance at December 31, 2018	$ -	$ -	$ -	$ -
Transfer from capital assets	**-**	**(521)**	**-**	**(521)**
Disposals (1)	**984**	**969**	**10**	**1,963**
Depreciation and amortization expense	**(3,915)**	**(448)**	**(40)**	**(4,403)**
Balance at September 30, 2019	**$ (2,931)**	**-**	**(30)**	**(2,961)**
Carrying value				
December 31, 2018	$ -	$ -	$ -	$ -
September 30, 2019	**$ 47,514**	**$ -**	**$ 73**	**$ 47,587**

(1) As a result of the sale of AG, the Corporation disposed of all right-of-use assets relating to the operations of AG (see note 4). The sale of these right-of-use assets have been included in the disposals line above.

7. INTANGIBLE ASSETS AND GOODWILL

	Franchise rights, relationships and agreements	Brand names	Customer relationships	Other (1)	Total intangible assets
Cost					
Balance at December 31, 2018	$ 89,057	$ 50,585	$ 34,513	$ 6,241	$ 180,396
Additions	**3,034**	**-**	**-**	**37**	**3,071**
Disposals (2)	**-**	**(2,800)**	**(15,450)**	**(180)**	**(18,430)**
Effect of movements in exchange rates	**-**	**(5)**	**(311)**	**(18)**	**(334)**
Balance at September 30, 2019	**$ 92,091**	**$ 47,780**	**$ 18,752**	**$ 6,080**	**$ 164,703**
Accumulated amortization					
Balance at December 31, 2018	$ (11,212)	$ (1,125)	$ (5,552)	$ (3,127)	$ (21,016)
Disposals (2)	**-**	**1,074**	**2,961**	**172**	**4,207**
Depreciation and amortization recognized against revenue	**(1,051)**	**-**	**-**	**-**	**(1,051)**
Depreciation and amortization expense	**(2,750)**	**(600)**	**(2,615)**	**(1,095)**	**(7,060)**
Balance at September 30, 2019	**$ (15,013)**	**(651)**	**(5,206)**	**(4,050)**	**(24,920)**
Carrying value					
December 31, 2018	$ 77,845	$ 49,460	$ 28,961	$ 3,114	$ 159,380
September 30, 2019	**$ 77,078**	**$ 47,129**	**13,546**	**2,030**	**139,783**

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

(2) As a result of the sale of AG, the Corporation disposed of all intangible assets relating to the operations of AG (see note 4). The sale of these right-of-use assets have been included in the disposals line above.

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

No indicators of impairment were identified for any of the Company's continuing CGU's at September 30, 2019.

(in thousands of Canadian dollars)

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

Goodwill by CGU		**September 30, 2019**		December 31, 2018
DLC Franchise	**$**	**57,097**	$	57,097
NCS		**3,340**		3,340
Club16		**22,431**		22,431
Impact (1)		**6,173**		6,359
AG (2)		**-**		21,030
	$	**89,041**	$	110,257

(1) Goodwill acquired upon acquisition of Impact is adjusted for foreign exchange translation differences at the end of each reporting period.
(2) As a result of the sale of AG, the Corporation disposed of all goodwill relating to the operations of AG (see note 4).

8. LOANS AND BORROWINGS

		September 30, 2019		December 31, 2018
Corporate				
Term credit facility (1)	**$**	**41,295**	$	54,927
Promissory note (2)		**-**		2,500
Subsidiaries				
DLC term loan facility		**4,862**		5,095
DLC operating facility		**7,335**		7,340
Club16 demand credit facility		**7,011**		6,108
Club16 operating facility		**-**		989
AG term loan facilities (2)		**-**		3,677
AG operating facility (2)		**-**		5,500
AG vehicle and equipment loans (2)		**-**		569
Total loans and borrowings		**60,503**		86,705
Less current portion		**(16,211)**		(25,698)
	$	**44,292**	$	61,007

(1) Net of debt issuance costs.
(2) Upon the sale of AG, the Corporation disposed of all facilities relating to the operations of AG and the promissory note was cancelled (see note 4).

Corporate credit facilities

Corporate term credit facility

On March 12, 2019, the Corporation amended its term credit facility ("Corporate Credit Facility") to require the Corporation to repay debt at par with all excess free cashflow as defined in the agreement and to increase the total leverage ratio. In consideration for the amendments, the Corporation agreed to pay a cash fee of 1.5% ($630 USD, $816 CAD) of the principal loan balance and reprice the existing 2,078,568 lender warrants to $1.4375 per share (half of which were previously exercisable at $3.508 per share and half were exercisable at $3.965 per share). 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:

- 4.25:1.00 for the fiscal quarters ending September 30, 2019, and December 31, 2019;
- 4.00:1:00 for the fiscal quarters ending March 31, 2020 and June 30, 2020; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

As at September 30, 2019, the Corporation was in compliance with all such covenants.

Subsidiaries credit facilities

DLC

On July 23, 2019 DLC entered into a $1,100 term loan facility to refinance the acquisition of REMIC. The term loan matures 60 months from the date of drawdown and bears interest at prime + 1.00%. The loan requires annual covenants of a senior net debt to EBIDTA ratio of less than 2:50:1 and a debt service coverage ratio equal or greater than 105%.

On July 23, 2019, DLC amended its existing demand operating facility. The amendment decreased the frequency of the financial covenants for the debt service charge ratio and senior net debt to EBITDA from quarterly to annually.

(in thousands of Canadian dollars)

Club16

On August 12, 2019, Club16 amended its existing demand credit facility. The amendment decreased the frequency of the financial covenant for the debt service charge ratio from quarterly to annually and amended the interest rate. The interest rate is calculated based on prime plus a variable rate of 0.5% to 2.0% (from prime plus 1.25% previously), lowering the current interest rate.

9. LEASE OBLIGATIONS

Balance at December 31, 2018	$	1,746
Adoption of IFRS 16		**53,168**
Additions of new leases		**7,421**
Lease payments		**(5,190)**
Tenant allowances		**869**
Change in fair value		**(43)**
Interest on lease obligations (1)		**1,755**
Disposals (2)		**(9,615)**
Balance at September 30, 2019		**50,111**
Less current portion		**(2,211)**
	$	**47,900**

(1) Interest on lease obligations includes interest expense for discontinued operations
(2) As a result of the sale of AG, the Corporation disposed of all lease obligations relating to the operations of AG (see note 4).

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 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, 2018	2,418,911	$	3.81
Expired	**(133,333)**		**4.40**
Cancelled(1)	**(500,000)**		**3.68**
Outstanding share options, September 30, 2019	**1,785,578**		**3.81**

(1) On August 22, 2019, the Corporation entered into an agreement with a former employee to cancel 500,000 share options.

The following table summarizes the share options outstanding and exercisable under the Plan as at September 30, 2019:

Grant date	Share options outstanding	Years to Maturity	Share options exercisable	Weighted average exercise price
July 15, 2015	96,666	5.8	96,666	2.40
February 23, 2016	543,912	1.4	510,948	3.00
July 7, 2016	1,070,000	1.8	1,070,000	4.40
July 3, 2017	75,000	2.8	75,000	3.00
	1,785,578		1,752,614	3.82

The Corporation recorded total share-based payment expense of $22 and $300 for the three and nine months ended September 30, 2019 (September 30, 2018—$31 and $356). These amounts include share-based payment expense related to the Corporation's share options for the three and nine months ended September 30, 2019 of $4 and $83 (September 30, 2018—$59 and $361), share-based expense/(recovery) related to Impact's share appreciation rights ("SARs") of $5 and $(82) (September 30, 2018—$18 and $55), and restricted share unit expense of $13 and $299 (September 30, 2018 - $nil and $nil). The Corporation had no recoveries of the Corporation's phantom share options for the three and nine months ended September 30, 2019 (September 30, 2018 - $(46) and $(60)).

(in thousands of Canadian dollars)

Restricted Share Unit Plan

On May 1, 2019, the Corporation issued restricted share units ("RSUs") to directors and employees. The Corporation's RSU plan provides RSUs to be issued and 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:

	Total
Outstanding RSUs, December 31, 2018	-
Granted	371,333
Vested	-
Forfeited	(40,000)
Outstanding RSUs, September 30, 2019	**331,333**

The fair value of the RSUs are measured using the Corporation's share price at the end of the period.

Warrants

The following table summarizes the warrants outstanding:

	Years to Maturity	Warrants Outstanding		Exercise price
Outstanding lender warrants, December 31, 2018	3.45	2,078,568	$	3.74
Outstanding lender warrants, September 30, 2019	**2.71**	**2,078,568**		**1.44**

The Corporation repriced its outstanding lender warrants to $1.4375 per warrant from the weighted average of $3.7365 as consideration for amending our Corporate Credit Facility (see note 8). Using the Black-Scholes pricing model, the warrants have been valued at $0.24 per warrant, which resulted in an increase in the fair value of the lender warrants of $450. The increase in fair value was recognized as an increase to contributed surplus, with the offset to debt issuance costs, which is netted against loans and borrowings on the Corporations statements of financial position.

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 Franchise (DLC), Consumer Products and Services (Club16), and Business Products and Services (Impact). The Franchise segment is engaged in the business of franchising mortgage brokerage services and operates in all ten Canadian provinces. The Consumer Products and Services segment is engaged in the fitness business in the Metro Vancouver area. The Business Products and Services segment is engaged in the business of designing and retailing communication products and services and has sales throughout North America.

The results of AG are presented as discontinued operations and have been excluded from the segmented information for the current and comparative income statement information and the current period balance sheet information (see note 4).

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.

(in thousands of Canadian dollars)

		Franchise	Consumer Products and Services	Business Products and Services	Corporate and Consolidated	Consolidated
As at September 30, 2019						
Cash and cash equivalents	$	2,541	1,130	1,019	623	5,313
Trade, other receivables and other assets		10,601	1,930	991	843	14,365
Right-of-use assets		287	46,821	479	-	47,587
Intangible assets		124,329	4,975	10,479	-	139,783
Goodwill		60,437	22,432	6,172	-	89,041
Capital and other assets		3,296	17,443	3,748	940	25,427
Total assets	$	201,491	94,731	22,888	2,406	321,516
Accounts payable and accrued liabilities	$	11,378	1,619	927	621	14,545
Capital lease obligation		292	48,692	484	643	50,111
Loans and borrowings		12,197	7,011	-	41,295	60,503
Deferred tax		27,750	1,610	2,774	(941)	31,193
Other liabilities		3,543	438	225	1,222	5,428
Total liabilities	$	55,160	59,370	4,410	42,840	161,780

		Franchise	Consumer Products and Services	Business Products and Services	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 expenses		(16)	19	(33)	641	611
Income (loss) before tax from continuing operations	$	6,453	(96)	436	(6,342)	451

		Franchise	Consumer Products and Services	Business Products and Services	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 expenses		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)

	Franchise	Consumer Products and Services	Business Products and Services	Corporate and Consolidated	Consolidated
As at December 31, 2018					
Cash and cash equivalents	$ 2,452	$ 613	$ 356	$ 2,071	$ 5,492
Trade, other receivables and other assets	12,636	2,217	12,670	703	28,226
Intangible assets	125,929	5,969	27,482	-	159,380
Goodwill	60,437	22,431	27,389	-	110,257
Capital and other assets	1,689	16,158	24,594	825	43,266
Total assets	$ 203,143	$ 47,388	$ 92,491	$ 3,599	$ 346,621
Accounts payable and accrued liabilities	$ 11,887	$ 2,012	$ 7,592	$ 1,479	$ 22,970
Loans and borrowings	12,435	7,097	9,746	57,427	86,705
Deferred tax	28,338	2,102	10,279	(1,166)	39,553
Other liabilities	2,748	1,534	17,067	1,222	22,571
Total liabilities	$ 55,408	$ 12,745	$ 44,684	$ 58,962	$ 171,799

	Franchise	Consumer Products and Services	Business Products and Services	Corporate and Consolidated	Consolidated
For the three months ended September 30, 2018					
Revenue	$ 11,549	$ 6,279	$ 3,005	$ -	$ 20,833
Direct costs	1,246	614	1,417	-	3,277
General and administrative	3,535	4,353	672	3,322	11,882
Share-based payments	-	-	17	14	31
Depreciation and amortization	1,556	893	286	6	2,741
Finance expense	117	79	-	1,859	2,055
Other expenses	58	(1)	72	(1,010)	(881)
Income (loss) before tax from continuing operations	$ 5,037	$ 341	$ 541	$ (4,191)	$ 1,728

	Franchise	Consumer Products and Services	Business Products and Services	Corporate and Consolidated	Consolidated
For the nine months ended September 30, 2018					
Revenue	$ 29,704	$ 20,422	$ 9,076	$ -	$ 59,202
Direct costs	3,944	1,813	4,320	-	10,077
General and administrative	10,792	13,464	2,040	5,471	31,767
Share-based payments	-	-	54	302	356
Depreciation and amortization	4,540	2,575	861	23	7,999
Finance expense	581	223	-	5,237	6,041
Other expenses	1,336	26	103	1,510	2,975
Income (loss) before tax from continuing operations	$ 8,511	$ 2,321	$ 1,698	$ (12,543)	$ (13)

(in thousands of Canadian dollars)

12. REVENUES

	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Franchising revenue, mortgage brokerage services	**$ 12,993**	$ 11,230	**$ 31,313**	$ 28,810
Brokering of mortgages	**193**	175	**392**	395
Memberships and dues revenue	**5,077**	4,937	**17,465**	16,012
Radio and radio accessories	**2,674**	2,848	**12,082**	8,563
Supplementary services revenue and other revenue	**2,311**	1,643	**6,175**	5,422
Revenues from continuing operations	**$ 23,248**	$ 20,833	**$ 67,427**	$ 59,202

The quarterly results may vary from quarter to quarter because of seasonal fluctuations in our reporting segments. The Franchise 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 Consumer Products and Services segment revenues increase significantly in the second quarter of each year, as an annual club enhancement fee is charged to Club16 members in May of each year. The Business Products and Services segment revenues can fluctuate due to large one-time orders, can and have occurred at various times throughout the year, causing irregular increases in revenues in some quarters.

Revenue earned from contracts with customers included in the above for the Franchise and Consumer Products and Service segment for the three and nine months ended September 30, 2019 is $13,160 and $6,870; and $31,540 and $22,338 (September 30, 2018—$11,392 and $5,851; and $29,191 and $19,373).

13. FINANCE EXPENSE

	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Interest expense on debt obligations (1)	**$ 4,577**	$ 1,732	**$ 8,302**	$ 5,119
Interest on lease obligations	**611**	-	**1,496**	-
Amortization of debt issuance costs	**837**	215	**1,279**	814
Accretion expense	**44**	108	**123**	108
	$ 6,069	$ 2,055	**$ 11,200**	$ 6,041

(1) Included in interest expense is a $2,771 make-whole fee for the early partial repayment of the Corporate term loan.

14. LOSS PER SHARE

	For the three months ended September 30, 2019	2018	For the nine months ended September 30, 2019	2018
Net loss attributable to shareholders	**$ (3,157)**	$ (11,080)	**$ (6,917)**	$ (14,347)
Net loss attributable to shareholders from continuing operations	**$ (3,337)**	$ (10,946)	**$ (3,697)**	$ (14,561)
Basic and diluted weighted average number of shares	**38,182,542**	38,182,542	**38,182,542**	38,153,931
Basic loss per share	**$ (0.08)**	$ (0.29)	**(0.18)**	$ (0.38)
Diluted loss per share	**$ (0.08)**	$ (0.29)	**(0.18)**	$ (0.38)
Continuing operations:				
Basic loss per share	**$ (0.09)**	$ (0.29)	**$ (0.10)**	$ (0.38)
Diluted loss per share	**$ (0.09)**	$ (0.29)	**$ (0.10)**	$ (0.38)

As at September 30, 2019, there were 1,785,578 share options (September 30, 2018—2,568,911) and 2,078,568 warrants outstanding (September 30, 2018—2,078,568) that were considered anti-dilutive (see note 10).

(in thousands of Canadian dollars)

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

For the nine months ended September 30,		2019		2018
Trade and other receivables	$	**4,608**	$	79
Prepaid expenses and deposits		**(696)**		(543)
Notes receivable		**(80)**		41
Inventories		**611**		(316)
Accounts payable and accrued liabilities		**(2,393)**		1,069
Deferred contract liability		**378**		(166)
Other current liabilities		**801**		-
	$	**3,229**	**$**	164
Changes in non-cash working capital		**3,229**		89
Changes in non-cash investing capital		**-**		75
	$	**3,229**	**$**	164

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Market risk

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

Foreign exchange risk

The Corporation's exposure to foreign exchange fluctuations is limited to our balances in USD bank accounts, USD loans and borrowings, and Impact's operations, as a significant portion of its business is conducted in USD. At September 30, 2019, the USD cash balance is USD $698 (CAD $924), compared to USD $242 (CAD $330) at December 31, 2018. Our USD loans and borrowings balance is USD $32,958 (CAD $43,646); at December 31, 2018 it was USD $42,000 (CAD $57,296). A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a decrease of $147 and $5,548 of net income before tax for the three and nine months ended September 30, 2019 (September 30, 2018—$106 increase and $5,154 decrease).

Interest rate risk

The Corporation is exposed to interest rate risk on its variable rate loans and borrowings. A 1% change in interest rates on loans and borrowings would have an $190 and $618 increase of net loss for the three and nine months ended September 30, 2019 (September 30, 2018—$201 and $610).

(in thousands of Canadian dollars)

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. 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. The management teams of DLC and Impact establish an allowance for doubtful accounts based on the specific credit risk of their customers. As at September 30, 2019, $654 (December 31, 2018—$2,100) of our trade receivables are greater than 90 days outstanding and total expected credit losses as at September 30, 2019 is $11 (December 31, 2018—$19). 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.

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, 2019		December 31, 2018
Cash and cash equivalents	**$**	**5,313**	$	5,492
Trade, other receivables and other assets		**14,365**		28,226
Notes receivable		**359**		299
	$	**20,037**	$	34,017

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, 2019, contractual cash flow obligations and their maturities were as follows:

		Contractual cash flow		Within 1 year		Within 5 years		Thereafter
Bank indebtedness	$	-	$	-	$	-	$	-
Accounts payable and accrued liabilities		14,545		14,545		-		-
Lease obligations		32,436		7,368		19,931		5,137
Loans and borrowings		62,855		16,211		46,644		-
Long-term liabilities		1,548		-		1,548		-
Non-controlling interest liability		-		-		-		-
	$	111,384	$	38,124	$	68,123	$	5,137

Capital management

The Corporation's capital structure is composed of total shareholders' equity and loans and borrowings, less net cash and cash equivalents. The following table summarizes the carrying value of the Corporation's capital at September 30, 2019, and December 31, 2018.

		September 30, 2019		December 31, 2018
Loans and borrowings	**$**	**60,503**	$	86,705
Less: net cash and cash equivalents		**(5,313)**		(5,095)
Net loans and borrowings	**$**	**55,190**	$	81,610
Shareholders' equity	**$**	**74,590**	$	79,956

(in thousands of Canadian dollars)

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, 2019.

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.

		Fair value as at September 30, 2019		
	Carrying value as at September 30, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ **5,313**	$ **5,313**	$ **-**	$ **-**
Trade, other receivables and other assets	**14,365**	**-**	**-**	**-**
Notes receivable	**359**	**359**	**-**	**-**
Investments	**557**	**-**	**-**	**557**
Equity accounted investment	**1,220**	**-**	**-**	**1,220**
Financial liabilities		**-**	**-**	**-**
Bank indebtedness	**-**	**-**	**-**	**-**
Accounts payable and accrued liabilities	**(14,545)**	**-**	**-**	**-**
Loans and borrowings	**(60,503)**	**-**	**(60,503)**	**-**
Other current liabilities	**(811)**	**(618)**	**(193)**	**-**
Other long-term liabilities	**(1,548)**	**-**	**(1,548)**	**-**
Lease obligation	**(50,111)**	**-**	**(50,111)**	

(in thousands of Canadian dollars)

	Carrying value as at December 31, 2018	Fair value as at December 31, 2018 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Cash and cash equivalents	$ 5,492	$ 5,492	$ -	$ -
Trade, other receivables and other assets	28,226	-	-	-
Notes receivable	299	299	-	-
Investments	557	-	-	557
Financial liabilities				
Bank indebtedness	(397)	(397)	-	-
Accounts payable and accrued liabilities	(22,970)	-	-	-
Loans and borrowings	(86,705)	-	(86,705)	-
Other current liabilities	(788)	(486)	(302)	-
Other long-term liabilities	(3,293)	-	(3,293)	-
Lease obligation	(1,746)	-	(1,746)	-
Non-controlling interest liability	(13,621)	-	-	(13,621)

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, 2019 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.

17. COMMITMENTS AND CONTINGENCIES

Consulting agreement

In January 2019, DLC renewed a consulting agreement whereby DLC has agreed to incur an annual amount of $100, paid quarterly, for consulting services related to promotional support. The consulting agreement expires in January 2020.

Service agreement

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

In March 2018, DLC entered into an agreement with a software development company to develop and support a customized mortgage application ("app") for an annual amount of $660. 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 $117 and $353 for the three and nine months ended September 30, 2019 (September 30, 2018—$96 and $1,513). As of September 30, 2019, $1,460 is outstanding (December 31, 2018—$2,300).

Contingencies

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