Dominion Lending Centres Inc.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2021 September 30, 2020 (unaudited)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)
(in thousands of Canadian dollars)

		As at September 30, 2021		As at December 31, 2020
Assets				
Current assets				
Cash and cash equivalents	**$**	**19,755**	$	10,316
Trade and other receivables		**17,274**		13,977
Prepaid expenses and deposits		**1,987**		1,651
Notes receivable		**489**		531
Total current assets		**39,505**		26,475
Non-current assets				
Trade, other receivables and other assets		**332**		1,010
Investments		**246**		246
Equity accounted investments (note 4)		**29,294**		29,786
Capital assets		**241**		321
Right-of-use assets		**1,934**		2,177
Intangible assets (note 5)		**123,248**		123,088
Goodwill		**60,437**		60,437
Deferred tax asset (note 9)		**-**		16,654
Total assets	**$**	**255,237**	$	260,194
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities (note 6)	**$**	**32,584**	$	24,128
Loans and borrowings (note 7)		**9,252**		7,410
Deferred contract liabilities		**1,317**		900
Foreign exchange forward contract liabilities (note 18)		**2,715**		-
Lease obligations		**428**		417
Preferred share liability (note 8)		**10,678**		9,164
Total current liabilities		**56,974**		42,019
Non-current liabilities				
Loans and borrowings (note 7)		**28,331**		33,368
Deferred contract liabilities		**643**		1,712
Foreign exchange forward contract liabilities (note 18)		**-**		2,623
Other long-term liabilities		**2,975**		4,504
Lease obligations		**1,972**		2,296
Deferred tax liabilities (note 9)		**11,681**		26,261
Preferred share liability (note 8)		**101,587**		96,521
Total liabilities		**204,163**		209,304
Equity				
Share capital (note 10)		**129,784**		130,216
Contributed surplus		**15,573**		15,573
Accumulated other comprehensive income		**3**		-
Deficit		**(96,109)**		(96,322)
Total equity attributable to shareholders		**49,251**		49,467
Non-controlling interest		**1,823**		1,423
Total liabilities and equity	**$**	**255,237**	$	260,194

Commitments and contingencies (note 19)
Subsequent events (note 20)
The accompanying notes form an integral part of these condensed consolidated financial statements.

Signed on behalf of the Board of Directors,

(signed)
Gary Mauris, Director

(signed)
Dennis Sykora, Director

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	**2021**	2020
Revenue (note 13)	**$ 22,346**	$ 14,069	**$ 57,550**	$ 34,936
Direct costs	**2,547**	1,486	**6,905**	3,944
Gross profit	**19,799**	12,583	**50,645**	30,992
General and administrative	**6,781**	4,895	**18,653**	14,247
Share-based payments (recovery) expense (note 11)	**(542)**	137	**581**	399
Depreciation and amortization	**1,041**	1,079	**3,151**	3,250
	7,280	6,111	**22,385**	17,896
Income from operations	**$ 12,519**	$ 6,472	**$ 28,260**	$ 13,096
Other (expense) income				
Finance expense (note 14)	**(1,212)**	(1,381)	**(3,809)**	(4,401)
Finance expense on the Preferred Share liability (note 8)	**(6,576)**	-	**(16,868)**	-
Foreign exchange (loss) gain (note 18)	**(174)**	168	**37**	(187)
(Loss) income from equity accounted investments (note 4)	**(406)**	157	**234**	424
Loss on contract settlement	**(90)**	(53)	**(531)**	(256)
Other income	**139**	25	**1,194**	148
	(8,319)	(1,084)	**(19,743)**	(4,272)
Income before tax from continuing operations	**$ 4,200**	$ 5,388	**$ 8,517**	$ 8,824
Income tax (expense) recovery				
Current tax expense	**(1,990)**	(2,025)	**(4,923)**	(4,310)
Deferred tax (expense) recovery	**(1,198)**	142	**(2,074)**	667
	(3,188)	(1,883)	**(6,997)**	(3,643)
Income from continuing operations	**$ 1,012**	$ 3,505	**$ 1,520**	$ 5,181
Discontinued operations				
Net income (loss) from discontinued operations (note 16)	**-**	1,540	**-**	(2,265)
Net income	**$ 1,012**	$ 5,045	**$ 1,520**	$ 2,916
Attributable to (notes 15 and 16)**:**				
Common shareholders	**$ 496**	$ 2,082	**$ 213**	$ (814)
Non-controlling interest	**$ 516**	$ 2,963	**$ 1,307**	$ 3,730
Earnings (loss) per Common Share attributable to common shareholders (note 15)				
Basic	**$ 0.01**	$ 0.05	**$ 0.00**	$ (0.02)
Diluted	**$ 0.01**	$ 0.05	**$ 0.00**	$ (0.02)
Earnings per Common Share from continuing operations attributable to common shareholders (note 15)				
Basic	**$ 0.01**	$ 0.03	**$ 0.00**	$ 0.01
Diluted	**$ 0.01**	$ 0.03	**$ 0.00**	$ 0.01

The accompanying notes form an integral part of these condensed consolidated financial statements.
Prior year information in the condensed consolidated statements of income has been restated, see note 16.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(in thousands of Canadian dollars)

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	**2021**	2020
Net income	**$ 1,012**	$ 5,045	**$ 1,520**	$ 2,916
Other comprehensive income (loss)				
Items that will be subsequently reclassified to net loss:				
Foreign exchange translation (loss) income (net of tax)	**-**	(445)	**-**	548
Foreign exchange translation income from equity accounted investments (net of tax) (note 4)	**323**	-	**3**	-
Total other comprehensive income (loss)	**323**	(445)	**3**	548
Comprehensive income	**$ 1,335**	$ 4,600	**$ 1,523**	$ 3,464
Attributable to:				
Common shareholders	**$ 819**	$ 1,850	**$ 216**	$ (530)
Non-controlling interest	**$ 516**	$ 2,750	**$ 1,307**	$ 3,994

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

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)
(in thousands of Canadian dollars)

	Attributable to Shareholders of Dominion Lending Centres Inc.						
	Share capital	**Contributed surplus**	**AOCI (1)**	**Deficit**	**Total shareholders' equity**	**Non-controlling interest**	**Total equity**
Balance at January 1, 2020	$ 115,390	$ 15,296	$ (223)	$ (56,752)	$ 73,711	$ 84,131	$ 157,842
Share cancellation	(174)	-	-	-	(174)	-	(174)
Capital contribution from non-controlling interest (2)	-	-	-	-	-	999	999
Net loss and comprehensive income	-	-	284	(814)	(530)	3,994	3,464
Distributions to non-controlling interest	-	-	-	-	-	(4,795)	(4,795)
Balance at September 30, 2020	$ 115,216	$ 15,296	$ 61	$ (57,566)	$ 73,007	$ 84,329	$ 157,336
Balance at January 1, 2021	$ 130,216	$ 15,573	$ -	$ (96,322)	$ 49,467	$ 1,423	$ 50,890
Share repurchases and cancellation (note 10)	**(432)**	**-**	**-**	**-**	**(432)**	**-**	**(432)**
Net income and comprehensive income	**-**	**-**	**3**	**213**	**216**	**1,307**	**1,523**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(907)**	**(907)**
Balance at September 30, 2021	**$ 129,784**	**$ 15,573**	**$ 3**	**$ (96,109)**	**$ 49,251**	**$ 1,823**	**$ 51,074**

(1) Accumulated other comprehensive income.
(2) The capital contribution was made to Club16 Limited Partnership from the non-controlling interest holder.

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,		**2021**		2020
Operating Activities				
Net income	**$**	**1,520**	$	2,916
Items not affecting cash:				
Share-based payments expense (note 11)		**581**		410
Depreciation and amortization		**3,151**		10,582
Amortization of debt issuance costs (note 14)		**818**		580
Depreciation and amortization of franchise renewals (note 5)		**1,996**		1,451
Rent abatements		**-**		(409)
Foreign exchange (gain) loss (note 18)		**(37)**		187
Finance expense on the Preferred Share liability (note 8)		**16,868**		-
Deferred tax expense (recovery)		**2,074**		(1,117)
Income from equity accounted investments (note 4)		**(234)**		(424)
Interest on lease liabilities		**103**		1,993
Other non-cash items		**(2,529)**		(195)
Changes in non-cash working capital (note 17)		**5,282**		8,295
Cash provided by operating activities		**29,593**		24,269
Investing Activities				
Expenditures on capital assets		**-**		(2,104)
Investment in intangible assets (note 5)		**(5,005)**		(4,163)
Proceeds on disposal of capital and intangible assets		**27**		-
Distributions from equity accounted investee (note 4)		**1,029**		400
Investment in equity accounted investee (note 4)		**(300)**		-
Distributions to non-controlling interests		**(907)**		(4,795)
Capital contribution from non-controlling interest		**-**		999
Cash used in investing activities		**(5,156)**		(9,663)
Financing Activities				
Proceeds from debt financing, net of transaction costs (note 7)		**5,835**		1,550
Proceeds from settlement of foreign exchange forward contract (note 18)		**-**		1,469
Repayment of debt (note 7)		**(9,750)**		(10,450)
Net lease payments		**(416)**		(3,074)
Normal course issuer bid share repurchase (note 10)		**(432)**		-
Dividends paid to Preferred Shareholders (note 8)		**(10,288)**		-
Cash used in financing activities		**(15,051)**		(10,505)
Increase in cash and cash equivalents		**9,386**		4,101
Impact of foreign exchange on cash and cash equivalents		**53**		(53)
Cash and cash equivalents, beginning of period		**10,316**		5,458
Cash and cash equivalents, end of period	**$**	**19,755**	$	9,506
Cash flows include the following amounts:				
Interest paid	**$**	**2,642**	$	3,723
Interest received	**$**	**41**	$	17
Income taxes paid	**$**	**4,498**	$	4,322

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

(in thousands of Canadian dollars)

1. NATURE OF OPERATIONS

Dominion Lending Centres Inc. ("we", "our", or the "Corporation") is a Canadian mortgage brokerage franchisor and mortgage broker data connectivity provider with operations across Canada. It is listed on the TSX Venture Exchange (the "Exchange") under the symbol "DLCG". The head office of the Corporation is located at Suite 400, 2207 4th Street S.W., Calgary, Alberta, T2S 1X1. The Corporation is governed by the *Business Corporation Act* (Alberta).

Entity overview

The DLC group of companies (the "DLC Group") consists of the Corporation and its three main subsidiaries:

	Ownership interest	
	September 30, 2021	December 31, 2020 (1)
MCC Mortgage Centre Canada Inc. ("MCC")	**100%**	100%
MA Mortgage Architects Inc. ("MA")	**100%**	100%
Newton Connectivity Systems Inc. ("Newton")	**70%**	70%

(1) At December 31, 2020, Dominion Lending Centres Inc. was a wholly owned subsidiary of Dominion Lending Centres LP.

At September 30, 2021, the Corporation has two operating segments: the Core Business Operations segment and the Non-Core Business Asset Management segment.

The Core Business Operations segment represents the core operations of the Corporation. These core operations are the business of mortgage brokerage franchising and mortgage broker data connectivity services across Canada, which is comprised of the DLC Group.

The Non-Core Business Asset Management segment includes the Corporation's interests in Club16 Limited Partnership ("Club16") and Cape Communications Ltd. ("Impact") (collectively the "Non-Core Assets"), and the expenses, assets and liabilities associated with management of the Non-Core Assets, the Sagard credit facility, and public company costs.

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 Standards 34 – Interim Financial Reporting.

These interim financial statements were authorized for issuance by the Audit Committee of the Corporation, on behalf of the Board of Directors, on November 16, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these interim financial statements are the same as those in the most recent annual financial statements.

Certain prior period balances in the condensed consolidated financial statements have been restated to conform to current period presentation.

4. EQUITY ACCOUNTED INVESTMENTS

Club16

The Corporation owns a 58.4% interest in Club16. The principal place of business is Surrey, British Columbia, Canada.

On December 31, 2020, the Corporation and the principals of Club16 entered into an amending agreement to amend the terms of the shareholders agreement. Though the Corporation has maintained its ownership interest, as of December 31, 2020, the Corporation no longer had the ability to unilaterally determine matters requiring approval by the Board of Directors. Given that the shareholders' agreement requires all decisions of shareholders to be unanimous, the Corporation was determined to have joint control of Club16 with the minority interest holders. The Corporation is entitled to the net assets of Club16, and therefore, this joint arrangement is considered a joint venture and accounted for using the equity method. As a result of the disposal of the previous parent-subsidiary relationship, the Corporation has presented the results of Club16 as discontinued operations for the comparative period in the Corporation's condensed consolidated statements of income (see note 16).

(in thousands of Canadian dollars)

During the three and nine months ended September 30, 2021, the Corporation did not receive any distributions from Club16.

The following table summarizes the statement of financial position information of Club16:

		September 30, 2021		December 31, 2020
Current assets	**$**	**6,951**	$	5,897
Non-current assets		**78,892**		86,207
Current liabilities		**(13,528)**		(15,969)
Non-current liabilities		**(55,787)**		(57,882)
Net assets		**16,528**		18,253
% of ownership		**58.4%**		58.4%
		9,652		10,660
Goodwill (1)		**8,122**		7,619
Corporation share of net assets	**$**	**17,774**	$	18,279

(1) Club16's goodwill was adjusted during the nine months ended September 30, 2021, to reflect reallocations of deferred tax liabilities.

		Three months ended September 30, 2021		**Nine months ended September 30, 2021**
Revenue	**$**	**8,049**	**$**	**24,722**
Expenses		**9,458**		**26,900**
Loss before tax		**(1,409)**		**(2,178)**
Income tax recovery		**272**		**1,314**
Net loss		**(1,137)**		**(864)**
% of ownership		**58.4%**		**58.4%**
Corporation share of net loss	**$**	**(664)**	**$**	**(505)**

Impact

The Corporation owns a 52.0% interest in Impact. The principal place of business is Kelowna, British Columbia, Canada.

On December 31, 2020, the Corporation and the principal of Impact entered into an amending agreement to amend the terms of the shareholders agreement. Though the Corporation has maintained its ownership interest, as of December 31, 2020, the Corporation no longer had the ability to unilaterally determine matters requiring approval by the Board of Directors. Given that the shareholders' agreement requires all decisions of shareholders to be unanimous, the Corporation was determined to have joint control of Impact with the minority interest holder. The Corporation is entitled to the net assets of Impact, and therefore, the joint arrangement is considered a joint venture and accounted for using the equity method.

As a result of the disposal of the previous parent-subsidiary relationship, the Corporation has presented the results of Impact as discontinued operations for the comparative period in the Corporation's condensed consolidated statements of income (see note 16).

During the three and nine months ended September 30, 2021, the Corporation received distributions from Impact of $208 and $468, respectively.

(in thousands of Canadian dollars)

The following table summarizes the statement of financial position information of Impact:

		September 30, 2021		December 31, 2020
Current assets	**$**	**4,594**	$	4,106
Non-current assets		**11,120**		11,662
Current liabilities		**(1,024)**		(534)
Non-current liabilities		**(3,207)**		(3,378)
Net assets		**11,483**		11,856
% of ownership		**52.0%**		52.0%
		5,971		6,165
Goodwill (1)		**4,179**		4,178
Corporation share of net assets	**$**	**10,150**	$	10,343

(1) Impact's goodwill is adjusted for foreign exchange translation differences at the end of each reporting period.

		Three months ended September 30, 2021		**Nine months ended September 30, 2021**
Revenue	**$**	**2,793**	**$**	**7,053**
Expenses		**2,303**		**6,272**
Income before tax		**490**		**781**
Income tax expense		**(146)**		**(256)**
Net income		**344**		**525**
% of ownership		**52.0%**		**52.0%**
Corporation share of net income	**$**	**179**	**$**	**273**

Other comprehensive income	**$**	**621**	**$**	**6**
% of ownership		**52.0%**		**52.0%**
Corporation share of other comprehensive income	**$**	**323**	**$**	**3**

Other Core Business Operations' Equity Accounted Investments

The following tables summarize the financial information of the Corporation's investments in its non-significant joint arrangements. The Corporation's ownership interest in these entities ranges from 30%-50%. The Corporation is entitled to the net assets of these entities, and therefore, the joint control arrangements are considered joint ventures and accounted for using the equity method.

During the three and nine months ended September 30, 2021, the Corporation made investments of $nil and $300 in non-significant joint arrangements, respectively (September 30, 2020—$nil and $nil, respectively); and received distributions from its non-significant joint arrangements of $100 and $561, respectively (September 30, 2020—$400 and $400, respectively).

		September 30, 2021		December 31, 2020
Current assets	**$**	**711**	$	442
Non-current assets		**161**		114
Current liabilities		**(675)**		(294)
Non-current liabilities		**-**		(60)
Net assets		**197**		202
% of ownership		**30%-50%**		50%
		67		101
Goodwill		**1,303**		1,063
Corporation share of net assets	**$**	**1,370**	$	1,164

(in thousands of Canadian dollars)

	For the three months ended September 30, **2021**	2020	For the nine months ended September 30, **2021**	2020
Revenue	**$ 1,376**	$ 1,007	**$ 4,585**	$ 2,643
Expenses (1)	**1,217**	694	**3,667**	1,796
Net income	**159**	313	**918**	847
% of ownership	**30%-50%**	50%	**30%-50%**	50%
Corporation share of net income	**$ 79**	$ 157	**$ 466**	$ 424

(1) Includes income tax.

5. INTANGIBLE ASSETS

	Franchise rights, relationships and agreements	Brand names	Other (1)	Total intangible assets
Cost				
Balance at December 31, 2020	$ 98,037	$ 45,700	$ 5,214	$ 148,951
Additions	**4,370**	-	**635**	**5,005**
Disposals	**(25)**	-	-	**(25)**
Balance at September 30, 2021	**$ 102,382**	**$ 45,700**	**$ 5,849**	**$ 153,931**
Accumulated amortization				
Balance at December 31, 2020	$ (21,817)	$ -	$ (4,046)	$ (25,863)
Disposals	**4**	-	-	**4**
Depreciation and amortization recognized as a charge against revenue	**(1,996)**	-	-	**(1,996)**
Depreciation and amortization expense	**(2,494)**	-	**(334)**	**(2,828)**
Balance at September 30, 2021	**$ (26,303)**	**$ -**	**$ (4,380)**	**$ (30,683)**
Carrying value				
December 31, 2020	$ 76,220	$ 45,700	$ 1,168	$ 123,088
September 30, 2021	**$ 76,079**	**$ 45,700**	**$ 1,469**	**$ 123,248**

(1) Other intangible assets are comprised of software acquired on the initial acquisition of the Core Business Operations (including Newton) purchased by the Core Business Operations and software developed within Newton.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2021	December 31, 2020
Accrued liabilities		
Commissions payable	**$ 19,005**	$ 13,216
Operational lender credit	**2,052**	1,921
Other accrued liabilities	**7,609**	5,199
	28,666	20,336
Trade payables	**1,091**	799
Income tax payable	**2,446**	2,020
Government agencies payable	**374**	931
Other	**7**	42
	$ 32,584	$ 24,128

(in thousands of Canadian dollars)

7. LOANS AND BORROWINGS

		September 30, 2021		December 31, 2020
Core Business Operations				
Term loan facility (multiple draws)	$	**5,543**	$	-
Term loan facilities (single draw)		**1,328**		3,263
Revolving operating facility		**-**		-
Non-Core Business Asset Management				
Sagard credit facility (1)		**30,712**		37,515
Total loans and borrowings		**37,583**		40,778
Less current portion		**(9,252)**		(7,410)
	$	**28,331**	$	33,368

(1) Net of debt issuance costs. At September 30, 2021, the Sagard credit facility's principal balance owing was USD $24,727 (CAD $31,495) (December 31, 2020—USD $30,735 (CAD $39,132)).

Core Business Operations

On June 28, 2021, the Corporation entered into a $10,000 term loan facility allowing for multiple draws to finance franchise recruiting and renewals. The facility matures 60 months from the date of each drawdown, with amortization up to 84 months. At September 30, 2021, the Corporation had $5,543 drawn on the multiple draw term facility.

On June 28, 2021, the Corporation amended its credit facilities, which increased the frequency of the financial covenants from annually to quarterly and decreased the interest rate. Borrowings under the term loan facilities (single draw), term loan facility (multiple draws) and revolving operating facility bear interest at a rate equal to prime plus 0.00% to 0.75% per annum (previously prime plus 1.0% per annum). As at September 30, 2021, the facilities bore annual interest at prime. The facilities are secured by a general security agreement with a first charge over the Core Business Operations' assets of the Corporation (and a second priority charge on the Non-Core Assets). Quarterly financial covenants (previously annual) for all facilities include the requirement to maintain a debt service coverage ratio of not less than 1.05:1.00 and a debt-to-EBITDA ratio of less than 3.75:1.00. The Corporation's debt service coverage ratio and debt-to-EBITDA ratio at September 30, 2021 was 3.81:1.00 and 0.43:1.00, respectively. As at September 30, 2021, the Corporation was in compliance with all such covenants.

Non-Core Asset Management

On January 1, 2021, the Corporation amended its Sagard credit facility agreement which provides the Corporation with the option, at any time after June 14, 2021 but prior to December 14, 2021, to extend the maturity of the facility by an additional twelve months until June 14, 2023. To date, the Corporation has not exercised the option to extend the maturity.

On March 10, 2021, the Corporation amended its Sagard credit facility to restate the definition of a covenant breach, to exclude Club16 from the cross-default provision for the quarter-ended December 31, 2020 and the fiscal year 2021, while Club16 navigates COVID-19.

The Corporation is obligated to make quarterly repayments on the Sagard credit facility based on defined free cash flow. At September 30, 2021, the Corporation had $7,396 classified as current debt based on forecasted defined free cash flows (December 31, 2020—$4,921). During the nine months ended September 30, 2021, the Corporation made repayments on the Sagard credit facility of CAD $7,524 (USD $6,008) (September 30, 2020—CAD $1,491 (USD $1,126)). Subsequent to September 30, 2021, the Corporation made a repayment on the Sagard credit facility of CAD $3,221 (USD $2,587) (see note 20). Quarterly financial covenants in the Sagard 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 not greater than 3.75:1.00. The Corporation's fixed charge coverage ratio and total leverage ratio at September 30, 2021 was 4.11:1.00 and 1.05:1.00, respectively (September 30, 2020—1.42:1.00 and 2.64:1.00). As at September 30, 2021, the Corporation was in compliance with all such covenants.

(in thousands of Canadian dollars)

8. PREFERRED SHARE LIABILITY

The Corporation is authorized to issue an unlimited number of non-voting, non-convertible series 1, class B preferred shares (the "Preferred Shares"). The Preferred Shares are not publicly traded. The Preferred Shares are a liability as the Corporation has an unavoidable obligation to pay dividends on the Preferred Shares into perpetuity. The holders of the Preferred Shares (the "Preferred Shareholders") are entitled to dividends equal to 40% of Core Business Distributable Cash ("CDC"), as defined in the Preferred Share terms, which represents cash generated by Core Business Operations after spending what is required to maintain or expand the current asset base. To match cash flows, capital expenditures are deducted from CDC when incurred or when the debt is repaid for any amounts financed from debt.

The Preferred Shares were initially measured at their fair value net of any directly attributable transaction costs and are subsequently recognized at amortized cost. The fair value of the Preferred Shares was determined using an income approach based on the estimated CDC future cash flows to which the Preferred Shareholders are entitled. The Preferred Share liability is revised for any changes in CDC cash flow estimates at the end of each reporting period using an income approach based on the initial discount rate applied (15.2%), the change in the time-value of money, and dividends paid. The change in the time-value of money is reflected as accretion expense. The change in CDC cash flow estimates is reflected as revaluation recovery or expense. The revaluation recovery or expense and accretion expense are non-cash items, recognized on the condensed consolidated statements of income within finance expense on the Preferred Share liability.

CDC is a contractual measurement as defined in the Preferred Share terms, representing 95% of the total of the Core Business Operations': adjusted cash flows from operating activities, cash flows used in investing activities, adjusted cash flows from financing activities, taxes attributable, and any other adjustments approved by the Board of the Corporation and the majority Preferred Shareholder. The Preferred Shareholders are entitled to an annual dividend equal to 40% of CDC ("Annual Preferred Share Dividend") and the remaining 60% is retained for use in the Non-Core Business Asset Management segment. The Corporation pays interim monthly cash dividends ("Interim Dividends") to the Preferred Shareholders in an amount determined by the Board of the Corporation that represents a good faith estimate of the monthly instalment of the Annual Preferred Share Dividend, which may be more or less than actual CDC based on seasonality. During the three and nine months ended September 30, 2021, the Corporation paid Interim Dividends to the Preferred Shareholders of $3,280 and $10,288, respectively (September 30, 2020—$nil). During the nine months ended September 30, 2021, the CDC attributable to Preferred Shareholders was $11,112.

The Preferred Shareholders are further entitled, in the event of a liquidation or winding-up of the Corporation's assets and property, or the sale of the Core Business Operations, to receive the amount equal to any accrued but unpaid Annual Preferred Share Dividend plus an amount equal to 40% of the net proceeds of any liquidation event of the sale of the Core Business Operations. The Preferred Shareholders are not entitled, upon liquidation, dissolution or winding up of the Corporation or on the sale of any part of the Non-Core Assets, to share in any proceeds received by the Corporation from the disposition of the Non-Core Assets.

A summary of activity in the period is as follows:

	Number of Preferred Shares		Amount
Balance at December 31, 2020 [(1)]	26,774,054	$	105,685
Dividends paid	-		(10,288)
Finance expense on the Preferred Share liability	-		16,868
Balance at September 30, 2021 [(1)]	**26,774,054**	**$**	**112,265**
Current		**$**	**10,678**
Non-Current		**$**	**101,587**

(1) Net of transaction costs.

	Three months ended September 30,				Nine months ended September 30,			
		2021		2020		**2021**		2020
Accretion expense on the Preferred Share liability	**$**	**4,145**	$	-	**$**	**12,301**	$	-
Revaluation expense of the Preferred Share liability		**2,431**		-		**4,567**		-
Finance expense on the Preferred Share liability	**$**	**6,576**	$	-	**$**	**16,868**	$	-

(in thousands of Canadian dollars)

9. DEFERRED TAX LIABILITY

On January 1, 2021, the amalgamation of Dominion Lending Centres Inc. and Founders Advantage Capital Corp. resulted in the non-capital losses previously shown as gross deferred income tax assets, no longer occurring within a different entity. As such, the Corporation has presented the deferred tax asset as a reduction to deferred tax liabilities as at September 30, 2021.

Deferred tax assets as at September 30, 2021, and December 31, 2020, consist of the following:

		September 30, 2021		December 31, 2020
Recognized non-capital loss	**$**	**-**	$	16,654
Deferred tax asset	**$**	**-**	$	16,654

The deferred tax asset movement is as comprised of:

		September 30, 2021		December 31, 2020
Balance, beginning of year	**$**	**16,654**	$	-
Deferred tax asset reclassed to offset deferred tax liability		**(16,654)**		-
Deferred tax recovery recognized in net loss from continuing operations		**-**		16,654
Deferred tax asset	**$**	**-**	$	16,654

Deferred tax liabilities as at September 30, 2021, and December 31, 2020, consist of the following:

		September 30, 2021		December 31, 2020
Deferred tax (liabilities)				
Intangible assets	**$**	**(26,207)**	$	(26,948)
Right-of-use assets		**(517)**		(582)
		(26,724)		(27,530)
Deferred tax assets				
Recognized non-capital loss		**13,627**		64
Capital assets		**18**		39
Share capital issuance costs		**626**		518
Debt issuance costs		**95**		99
Lease liabilities, net of lease receivable		**612**		686
Other		**65**		(137)
		15,043		1,269
Net deferred tax (liability)	**$**	**(11,681)**	$	(26,261)

For the purposes of the preceding table, deferred income tax liabilities are shown net of offsetting deferred income tax assets where these occur in the same entity and jurisdiction. As at September 30, 2021, the Corporation has a deferred tax asset recognized from the Non-Core Business Asset Management segment's non-capital loss carry-forwards of $13,615 (December 31, 2020—$16,654). These Canadian tax losses expire between 2025 and 2039.

The deferred tax liability movement is comprised of:

		September 30, 2021		December 31, 2020
Balance, beginning of year	**$**	**(26,261)**	$	(30,978)
Deferred tax (expense) recovery recognized in net income from continuing operations		**(2,074)**		672
Deferred tax asset reclassified to offset deferred tax liability		**16,654**		-
Deferred tax recovery recognized in net loss from discontinued operations		**-**		523
Deferred tax derecognized on discontinued operations		**-**		3,522
Net deferred tax (liability)	**$**	**(11,681)**	$	(26,261)

(in thousands of Canadian dollars)

10. SHARE CAPITAL

Authorized share capital

The Corporation is authorized to issue an unlimited number of class A common shares ("Common Shares") without par value, and an unlimited number of Preferred Shares (see note 8).

A summary of changes in Common Share capital in the period is as follows:

	Number of Common Shares		Amount
Balance at December 31, 2020	46,653,941	$	130,216
Share repurchases and cancellation	**(126,700)**		**(432)**
Balance at September 30, 2021	**46,527,241**	**$**	**129,784**

The Corporation implemented a normal-course issuer bid on January 13, 2021 (the "NCIB"). The NCIB has a twelve-month duration, commencing on January 18, 2021 and ending on January 17, 2022. Under the NCIB, the Corporation may purchase up to 2,332,697 Common Shares. During the three and nine months ended September 30, 2021, the Corporation made repurchases under the NCIB of 102,500 at an average price of $3.36 per Common Share and 126,700 at an average price of $3.41 per Common Share, respectively. The repurchased shares were cancelled and returned to treasury.

11. SHARE-BASED PAYMENTS

Share options

Under the Corporation's share option plan (the "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, 2020	323,893	$	3.65
Expired	**(248,893)**		**3.84**
Outstanding share options, September 30, 2021	**75,000**	**$**	**3.00**

The following table summarizes the share options outstanding and exercisable under the Plan as at September 30, 2021:

Grant date	Share options outstanding	Years to Maturity	Share options exercisable		Weighted average exercise price
July 3, 2017	75,000	0.8	75,000	$	3.00

The Corporation recorded total share-based payment (recovery)/expense of $(542) and $581 for the three and nine months ended September 30, 2021, respectively (September 30, 2020—$137 and $399) for continuing operations. These amounts include share-based payment (recovery)/expense related to the Corporation's restricted share units ("RSUs") for the three and nine months ended September 30, 2021, of $(310) and $508 (September 30, 2020—$137 and $399), and a (recovery)/expense of $(232) and $73 related to the Corporation's phantom share options ("PSOs") for the three and nine months ended September 30, 2021, respectively (September 30, 2020—$nil and $nil).

PSO plan

The Corporation's PSOs were issued to employees with an exercise price of $2.75. Each PSO entitles the holder thereof to cash payments equal to the difference between the PSO price and the market price upon the exercise date. The PSOs have a five-year term and vest one-third on each of the first, second and third anniversary from the date of grant. At September 30, 2021, all PSOs have fully vested.

At September 30, 2021 and December 31, 2020, the Corporation had 295,000 PSOs outstanding. At September 30, 2021, the PSOs were in-the-money and the Corporation recognized a liability of $180 (December 31, 2020—$107).

(in thousands of Canadian dollars)

RSU plan

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

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

Outstanding RSUs, December 31, 2020	747,040
Settled	**(90,000)**
Outstanding RSUs, September 30, 2021	**657,040**

During the nine months ended September 30, 2021, the Corporation settled 90,000 RSUs at a 5-day volume average weighted price of $4.15 per share (September 30, 2020—68,333 RSUs at a 5-day volume average weighted price of $1.00 per share).

The following table summarizes the outstanding RSUs as at September 30, 2021:

Grant date	Issued to	Vesting date	Outstanding RSUs		Liability at September 30, 2021
May 1, 2019	Directors	Immediately (1)	173,000	$	569
June 11, 2020	Directors	Immediately (1)	292,174		961
June 11, 2020	Employees	May 1, 2022	191,866		436
			657,040	$	1,966

(1) The payment date for the RSUs granted on May 1, 2019 and June 11, 2020 to Directors is December 15, 2022 and December 15, 2023, respectively.

Warrants

The following table summarizes the warrants outstanding:

	Years to Maturity	Warrants Outstanding		Exercise price
Outstanding lender warrants, December 31, 2020	2.45	2,078,568	$	1.44
Outstanding lender warrants, September 30, 2021	**1.70**	**2,078,568**	**$**	**1.44**

12. 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, who are comprised of the Corporation's senior management. At September 30, 2021, the Corporation has two operating segments: the Core Business Operations segment and the Non-Core Business Asset Management segment.

The Core Business Operations segment represents the core operations of the Corporation. These core operations are the business of mortgage brokerage franchising and mortgage broker data connectivity services across Canada.

The Non-Core Business Asset Management segment includes the Corporation's interest in the Non-Core Assets and the expenses, assets and liabilities associated with management of the Non-Core Assets, the Sagard credit facility, and public company costs.

As of December 31, 2020, Club16 and Impact became equity accounted investments (see note 4). Accordingly, the results of Club16 and Impact have been excluded from the segmented information for the comparative income statement information (see note 16).

(in thousands of Canadian dollars)

As at September 30, 2021	Core Business Operations	Non-Core Business Asset Management	Consolidated
Cash and cash equivalents	$ 16,536	$ 3,219	$ 19,755
Trade, other receivables and other assets	17,462	144	17,606
Right-of-use assets	1,934	-	1,934
Intangible assets	123,248	-	123,248
Goodwill	60,437	-	60,437
Capital and other assets	3,738	28,519	32,257
Total assets	$ 223,355	$ 31,882	$ 255,237
Accounts payable and accrued liabilities	$ 31,620	$ 964	$ 32,584
Foreign exchange forward contract liability	-	2,715	2,715
Lease obligations	2,029	371	2,400
Loans and borrowings	6,871	30,712	37,583
Deferred tax liability (asset)	26,272	(14,591)	11,681
Preferred share liability	112,265	-	112,265
Other liabilities	2,405	2,530	4,935
Total liabilities	$ 181,462	$ 22,701	$ 204,163

For the three months ended September 30, 2021	Core Business Operations	Non-Core Business Asset Management	Consolidated
Revenue	$ 22,346	$ -	$ 22,346
Direct costs	2,547	-	2,547
General and administrative	6,171	610	6,781
Share-based payments recovery	-	(542)	(542)
Depreciation and amortization	1,036	5	1,041
Finance expense	70	1,142	1,212
Finance expense on the Preferred Share liability	6,576	-	6,576
Other (income) expense	(120)	651	531
Income (loss) before tax from continuing operations	$ 6,066	$ (1,866)	$ 4,200

For the nine months ended September 30, 2021	Core Business Operations	Non-Core Business Asset Management	Consolidated
Revenue	$ 57,550	$ -	$ 57,550
Direct costs	6,905	-	6,905
General and administrative	17,035	1,618	18,653
Share-based payments expense	-	581	581
Depreciation and amortization	3,138	13	3,151
Finance expense	200	3,609	3,809
Finance expense on the Preferred Share liability	16,868	-	16,868
Other (income) expense	(1,452)	518	(934)
Income (loss) before tax from continuing operations	$ 14,856	$ (6,339)	$ 8,517

For the nine months ended September 30, 2021	Core Business Operations	Non-Core Business Asset Management	Consolidated
Cash flows provided by / (used in) operating activities	$ 34,732	$ (5,139)	$ 29,593
Cash flows (used in) / provided by investing activities	(21,057)	15,901	(5,156)
Cash flows used in financing activities	(6,958)	(8,093)	(15,051)
Increase in cash and cash equivalents	$ 6,717	$ 2,669	$ 9,386

(in thousands of Canadian dollars)

As at December 31, 2020		Core Business Operations		Non-Core Business Asset Management		Consolidated
Cash and cash equivalents	$	9,819	$	497	$	10,316
Trade, other receivables and other assets		14,502		485		14,987
Right-of-use assets		2,177		-		2,177
Intangible assets		123,088		-		123,088
Goodwill		60,437		-		60,437
Deferred tax asset		-		16,654		16,654
Capital and other assets		3,389		29,146		32,535
Total assets	$	213,412	$	46,782	$	260,194
Accounts payable and accrued liabilities	$	23,455	$	673	$	24,128
Lease obligations		2,234		479		2,713
Loans and borrowings		3,263		37,515		40,778
Foreign exchange forward contract liability		-		2,623		2,623
Deferred tax liability (asset)		27,135		(874)		26,261
Preferred share liability		105,685		-		105,685
Other liabilities		4,203		2,913		7,116
Total liabilities	$	165,975	$	43,329	$	209,304

For the three months ended September 30, 2020		Core Business Operations		Non-Core Business Asset Management		Consolidated
Revenue	$	14,069	$	-	$	14,069
Direct costs		1,486		-		1,486
General and administrative		4,301		594		4,895
Share-based payments		-		137		137
Depreciation and amortization		1,075		4		1,079
Finance expense		74		1,307		1,381
Other (income) expense		(117)		(180)		(297)
Income (loss) before tax from continuing operations	$	7,250	$	(1,862)	$	5,388

For the nine months ended September 30, 2020		Core Business Operations		Non-Core Business Asset Management		Consolidated
Revenue	$	34,936	$	-	$	34,936
Direct costs		3,944		-		3,944
General and administrative		12,840		1,407		14,247
Share-based payments		-		399		399
Depreciation and amortization		3,237		13		3,250
Finance expense		330		4,071		4,401
Other (income) expense		(534)		405		(129)
Income (loss) before tax from continuing operations	$	15,119	$	(6,295)	$	8,824

For the nine months ended September 30, 2020		Core Business Operations		Non-Core Business Asset Management		Discontinued Operations		Consolidated
Cash flows provided by / (used in) operating activities	$	21,554	$	(5,462)	$	8,177	$	24,269
Cash flows (used in) / provided by investing activities		(12,313)		6,340		(3,690)		(9,663)
Cash flows used in financing activities		(7,714)		(158)		(2,633)		(10,505)
Increase in cash and cash equivalents	$	1,527	$	720	$	1,854	$	4,101

Refer to note 16 for detailed cash flows from discontinued operations.

(in thousands of Canadian dollars)

13. REVENUE

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Franchising revenue, mortgage brokerage services	**$ 18,140**	$ 11,942	**$ 47,373**	$ 29,974
Newton revenues	**3,928**	2,006	**9,525**	4,579
Brokering of mortgages	**278**	121	**652**	383
	$ 22,346	$ 14,069	**$ 57,550**	$ 34,936

Results may vary from quarter to quarter because of seasonal fluctuations. The Core Business Operations are subject to seasonal variances that tend to 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 Corporation may incur franchise agreement expenses prior to or concurrent with entering into franchise agreements, including payments to the franchises. These costs are capitalized on an agreement basis and amortized over the same term as the agreement to which they relate. The amortization of these franchise payments is recognized against revenue. Revenue earned from contracts with customers earned over time, gross of the amortization of franchise payments, included in the above for the Core Business Operations is $22,907 and $59,238 for the three and nine months ended September 30, 2021, respectively (September 30, 2020—$14,559 and $36,321). Revenues earned from contracts with customers not earned over time is $144 and $308 for the three and nine months ended September 30, 2021, respectively (September 30, 2020—$36 and $66).

14. FINANCE EXPENSE

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Interest expense on debt obligations	**$ 894**	$ 1,124	**$ 2,888**	$ 3,692
Interest on lease obligations	**34**	35	**103**	101
Amortization of debt issuance costs	**284**	222	**818**	580
Accretion expense	**-**	-	**-**	28
	$ 1,212	$ 1,381	**$ 3,809**	$ 4,401

15. EARNINGS (LOSS) PER COMMON SHARE

	For the three months ended September 30, 2021	For the three months ended September 30, 2020	For the nine months ended September 30, 2021	For the nine months ended September 30, 2020
Net income (loss) attributable to shareholders	**$ 496**	$ 2,082	**$ 213**	$ (814)
Net income attributable to shareholders from continuing operations	**496**	1,198	**213**	494
Basic weighted average number of shares	**46,600,507**	38,082,513	**46,634,557**	38,108,790
Effect of dilutive securities:				
Share options	**9,593**	-	**13,859**	-
Warrants	**1,209,980**	-	**1,266,627**	-
Diluted weighted average number of shares	**47,820,080**	38,082,513	**47,915,043**	38,108,790
Basic earnings (loss) per share	**0.01**	0.05	**0.00**	(0.02)
Diluted earnings (loss) per share	**0.01**	0.05	**0.00**	(0.02)
Continuing operations:				
Basic earnings per share	**0.01**	0.03	**0.00**	0.01
Diluted earnings per share	**0.01**	0.03	**0.00**	0.01

As at September 30, 2021, there were 75,000 share options and 2,078,568 lender warrants outstanding (see note 11). For the three and nine months ended September 30, 2020, these share options and lender warrants were considered anti-dilutive.

(in thousands of Canadian dollars)

16. DISCONTINUED OPERATIONS

On December 31, 2020, the Corporation amended its shareholder agreements with the minority shareholders of Club16 and Impact (see note 4). Our ownership interest remained the same in Club16 and Impact at 58.4% and 52.0%, respectively.

As a result of the disposal of the previous parent-subsidiary relationship, the Corporation reclassified the results of Club16 and Impact for the comparative three and nine months ended September 30, 2020, as discontinued operations in the Corporation's condensed consolidated statements of income. The current period results for Club16 and Impact are reflected as income from equity accounted investments (see note 4).

The following summarizes the results of these discontinued operations in the comparative three and nine months ended September 30, 2020:

For the three months ended September 30, 2020		Club16		Impact		Total
Revenue	$	9,020	$	2,428	$	11,448
Expenses		7,764		2,155		9,919
Income before tax from discontinued operations		1,256		273		1,529
Current tax expense		-		(72)		(72)
Deferred tax recovery		6		77		83
		6		5		11
Income from discontinued operations	$	1,262	$	278	$	1,540
Attributable to:						
Shareholders	$	739	$	145	$	884
Non-controlling interest	$	523	$	133	$	656
Earnings from discontinued operations per Common Share attributable to shareholders:						
Basic earnings per share	$	0.02	$	0.00	$	0.02
Diluted earnings per share	$	0.02	$	0.00	$	0.02

For the nine months ended September 30, 2020		Club16		Impact		Total
Revenue	$	17,138	$	6,530	$	23,668
Expenses		20,065		6,066		26,131
(Loss) income before tax from discontinued operations		(2,927)		464		(2,463)
Current tax expense		-		(252)		(252)
Deferred tax recovery		258		192		450
		258		(60)		198
(Loss) income from discontinued operations	$	(2,669)	$	404	$	(2,265)
Attributable to:						
Shareholders	$	(1,518)	$	210	$	(1,308)
Non-controlling interest	$	(1,151)	$	194	$	(957)
(Loss) earnings from discontinued operations per Common Share attributable to shareholders:						
Basic (loss) earnings per share	$	(0.04)	$	0.01	$	(0.03)
Diluted (loss) earnings per share	$	(0.04)	$	0.01	$	(0.03)

The following are the cash flows from the Corporation's discontinued operations for the comparative nine months ended September 30, 2020:

For the nine months ended September 30, 2020		Club16		Impact		Total
Cash provided by operating activities	$	7,180	$	997	$	8,177
Cash used in investing activities		(2,660)		(1,030)		(3,690)
Cash used in financing activities		(2,573)		(60)		(2,633)
Cash flows provided by / (used in) discontinued operations	$	1,947	$	(93)	$	1,854
Impact of foreign exchange on cash and cash equivalents	$	-	$	12	$	12

(in thousands of Canadian dollars)

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

For the nine months ended September 30,		2021		2020
Trade and other receivables	$	(3,297)	$	725
Prepaid expenses and deposits		(336)		(138)
Notes receivable		42		(155)
Inventories		-		541
Accounts payable and accrued liabilities		8,491		6,999
Deferred contract liability		417		479
Other current liabilities		(35)		(156)
	$	5,282	$	8,295

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

The Corporation is exposed in varying degrees to a variety of risks from its use of financial instruments, which mainly include cash and cash equivalents, trade and other receivables, investments, accounts payable and accrued liabilities, loans and borrowings, preferred share liabilities and foreign exchange forward contract liabilities. Because of the use of these financial instruments, the Corporation and its subsidiaries are exposed to risks, 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 risks are comprised of foreign exchange risk and interest rate risk.

Foreign exchange risk

The Corporation's exposure to foreign exchange fluctuations is limited to our cash balances in USD bank accounts; USD loans and borrowings; USD foreign exchange forward contracts; and USD interest expense. At September 30, 2021, the cash balance is USD $287 (CAD $366), compared to USD $267 (CAD $340) at December 31, 2020. At September 30, 2021, the USD loans and borrowing balance is USD $24,727 (CAD $31,495); at December 31, 2020, it was USD $30,735 (CAD $39,132). A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a $784 and $284 decrease in income before tax for the three and nine months ended September 30, 2021, respectively (September 30, 2020—$15 increase and $1,103 decrease).

The Corporation's foreign exchange (loss) gain is comprised of foreign exchange fluctuations on our USD bank accounts, USD loans and borrowings, USD interest expense (together, "foreign exchange (loss) gain on debt"), and foreign exchange fluctuations on our USD foreign exchange forward contracts ("change in the fair value of foreign exchange contracts"), as follows:

	For the three months ended September 30,				For the nine months ended September 30,			
		2021		2020		2021		2020
Foreign exchange (loss) gain on debt	$	(846)	$	862	$	129	$	(1,159)
Change in fair value of foreign exchange contracts		672		(694)		(92)		972
Foreign exchange (loss) gain	$	(174)	$	168	$	37	$	(187)

(in thousands of Canadian dollars)

To manage the Corporation's foreign exchange exposure on its USD loan, the Corporation previously entered into both an amendment of its Sagard credit facility and an intercreditor agreement, which collectively allows the Corporation to enter into foreign exchange forward contracts up to USD $25,000. The forward contracts are secured through the intercreditor agreement between the Corporation, its lender (Sagard) and the counterparty, which allows the counterparty security up to CAD $7,000. The Corporation has USD $24,000 foreign exchange forward contracts outstanding that were entered at a blended rate of $1.383. As at September 30, 2021 the blended forward rate was $1.269 (December 31, 2020—USD $24,000 at a blended forward rate of $1.273). The foreign exchange forward contracts can be settled at any time (at the Corporation's option) within a period of six months from December 14, 2021 to June 14, 2022.

During the nine months ended September 30, 2020, the Corporation unwound its USD $15,000 foreign exchange forward contract, which was entered into in December 2019, at a forward rate of $1.442 for net proceeds of $1,469. The Corporation recognized a net realized gain on the change in fair value of the foreign exchange forward contract from inception of $1,696, and during the nine months ended September 30, 2020, of $2,061. The Corporation has not unwound any forward contracts during the three and nine months ended September 30, 2021.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	**2021**	2020
Unrealized gain (loss)	**$ 672**	$ (694)	**$ (92)**	$ (1,089)
Realized gain	**-**	-	**-**	2,061
Change in fair value of foreign exchange contracts	**$ 672**	$ (694)	**$ (92)**	$ 972

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 variable rate loans and borrowings would have resulted in an $105 and $274 decrease of income before tax for the three and nine months ended September 30, 2021 (September 30, 2020—$247 and $535 decrease).

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 determined that its exposure to credit risk on its cash and cash equivalents 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 the Core Business Operations' franchisees and agents not paying receivables. The Core Business Operations manages its credit risk by performing credit risk evaluations on its franchisees and agents, and by monitoring overdue trade and other receivables. As at September 30, 2021, $333 (December 31, 2020—$340) of our trade receivables are greater than 90 days' outstanding and the provision for total expected credit losses as at September 30, 2021 are $379 (December 31, 2020—$376). A decline in economic conditions, or other adverse conditions experienced by franchisees and agents, could impact the collectability of the Corporation's accounts receivable.

The Corporation's maximum exposure to credit risk approximates the carrying value of the assets on the Corporation's condensed consolidated statements of financial position.

	September 30, 2021	December 31, 2020
Cash and cash equivalents	**$ 19,755**	$ 10,316
Trade, other receivables and other assets	**17,606**	14,987
Notes receivable	**489**	531
	$ 37,850	$ 25,834

(in thousands of Canadian dollars)

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, 2021, 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	$	32,584	$	32,584	$	-	$	-
Foreign exchange forward contract liability		2,715		2,715		-		-
Lease obligations (1)		1,614		543		1,071		-
Loans and borrowings (2)		38,366		9,252		29,114		-
Preferred share liability (3)		112,552		10,678		41,860		60,014
Long-term liabilities		1,976		-		1,976		-
	$	189,807	$	55,772	$	74,021	$	60,014

(1) Undiscounted lease payments.
(2) Gross of debt issuance costs.
(3) Gross of transaction costs.

Capital management

The Corporation's capital structure is composed of total shareholders' equity and loans and borrowings, less cash and cash equivalents. The following table summarizes the carrying value of the Corporation's capital at September 30, 2021, and December 31, 2020.

		September 30, 2021		December 31, 2020
Loans and borrowings	**$**	**37,583**	$	40,778
Less: cash and cash equivalents		**19,755**		10,316
Net loans and borrowings	**$**	**17,828**	$	30,462
Shareholders' equity	**$**	**49,251**	$	49,467

The Corporation's objectives when managing capital include maintaining an optimal capital base to support the capital requirements of the Corporation, including opportunities to grow the number of DLC Group franchises and Newton's technology platform.

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, 2021 (see note 7).

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).

(in thousands of Canadian dollars)

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

	Carrying value as at September 30, 2021	Fair value as at September 30, 2021 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Investments	$ **246**	$ **-**	$ **-**	$ **246**
Financial liabilities				
Foreign exchange forward contract liability	**(2,715)**	**-**	**(2,715)**	**-**
Loans and borrowings	**(37,583)**	**-**	**(37,583)**	**-**

	Carrying value as at December 31, 2020	Fair value as at December 31, 2020 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial assets				
Investments	$ 246	$ -	$ -	$ 246
Financial liabilities				
Foreign exchange forward contract liability	(2,623)	-	(2,623)	-
Loans and borrowings	(40,778)	-	(40,778)	-

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, 2021, 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.

19. COMMITMENTS AND CONTINGENCIES

Consulting agreement

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

Service agreement

In March 2018, the Core Business Operations 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 the Corporation and the service provider. The service agreement expires in March 2023.

Contingencies

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

In July 2021, the Core Business Operations was served with a Notice of Civil Claim (the "Civil Claim") filed in the Supreme Court of British Columbia by a franchisee and its principal (collectively, the "Claimant"). Pursuant to the Civil Claim, the

Claimant alleges various misconduct by the Corporation as a franchisor, all of which the Corporation denies. The Claimant is seeking certification of the Civil Claim under the Class Proceedings Act (British Columbia) and is seeking statutory damages for breach of the Franchise Act (British Columbia) and recission of franchise agreements between DLC and the potential class members. It is the Corporation's assessment that the Civil Claim is without merit, and as a result no provision has been recorded in these interim financial statements for the three and nine months ended September 30, 2021.

20. SUBSEQUENT EVENTS

Automatic Securities Purchase Plan ("ASPP")

On October 4, 2021, the Corporation entered into an ASPP agreement with its designated broker (the "Broker") in order to facilitate the purchases of its Common Shares under its NCIB. Under the ASPP agreement, the Corporation has directed its Broker to make purchases of its Common Shares under the NCIB, during a regulatory restricted or self-imposed blackout period. The ASPP is effective October 10, 2021, to November 26, 2021, and directs the Broker to repurchase up to 204,000 Common Shares, up to a maximum aggregate purchase price of $714,000.

Sagard Credit Facility Repayment

In October 2021, the Corporation made a repayment on its Sagard credit facility of CAD $3,221 (USD $2,587) from free cash flows.