Dominion Lending Centres Inc.

Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2022 & September 30, 2021

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

		As at September 30, 2022		As at December 31, 2021
Assets				
Current assets				
Cash and cash equivalents	**$**	**17,343**	$	20,886
Trade and other receivables		**15,157**		17,990
Prepaid expenses and deposits		**2,931**		1,564
Notes receivable		**113**		343
Total current assets		**35,544**		40,783
Non-current assets				
Trade, other receivables and other assets		**1,423**		302
Investments		**246**		246
Equity-accounted investments (note 5)		**7,944**		28,517
Capital assets		**266**		352
Right-of-use assets		**1,921**		1,859
Intangible assets (note 6)		**121,833**		121,429
Goodwill		**60,437**		60,437
Total assets	**$**	**229,614**	$	253,925
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities (note 7)	**$**	**26,960**	$	46,884
Loans and borrowings (note 8)		**4,662**		1,233
Deferred contract liabilities		**633**		1,129
Lease obligations		**521**		436
Preferred Share liability (note 9)		**8,980**		14,908
Total current liabilities		**41,756**		64,590
Non-current liabilities				
Loans and borrowings (note 8)		**33,133**		35,233
Deferred contract liabilities		**320**		552
Other long-term liabilities		**1,875**		2,540
Lease obligations		**1,742**		1,860
Deferred tax liabilities		**14,143**		11,777
Preferred Share liability (note 9)		**101,355**		103,552
Total liabilities		**194,324**		220,104
Equity				
Share capital (note 10)		**136,258**		118,018
Contributed surplus		**11,783**		15,573
Accumulated other comprehensive income (loss)		**891**		(21)
Deficit		**(113,860)**		(101,830)
Total equity attributable to shareholders		**35,072**		31,740
Non-controlling interest (note 4)		**218**		2,081
Total liabilities and equity	**$**	**229,614**	$	253,925

Commitments and contingencies (note 18)
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, 2022	2021	For the nine months ended September 30, 2022	2021
Revenue (note 13)	**$ 17,934**	$ 22,346	**$ 56,786**	$ 57,550
Direct costs	**1,948**	2,547	**6,754**	6,905
Gross profit	**15,986**	19,799	**50,032**	50,645
General and administrative expenses	**6,692**	6,781	**22,505**	18,653
Share-based payments (recovery) expense (note 11)	**(308)**	(542)	**(319)**	581
Depreciation and amortization	**951**	1,041	**3,014**	3,151
	7,335	7,280	**25,200**	22,385
Income from operations	**$ 8,651**	$ 12,519	**$ 24,832**	$ 28,260
Other (expense) income				
Finance expense (note 14)	**(678)**	(1,212)	**(1,710)**	(3,809)
Finance recovery (expense) on the Preferred Share liability (note 9)	**27,758**	(6,576)	**(492)**	(16,868)
(Loss) income from equity-accounted investments (note 5)	**(198)**	(406)	**835**	234
Gain on sale of equity-accounted investment (note 5)	**525**	-	**525**	-
Non-cash impairment of an equity-accounted investment (note 5)	**(4,778)**	-	**(4,778)**	-
Other income (expense)	**200**	(125)	**531**	700
	22,829	(8,319)	**(5,089)**	(19,743)
Income before tax	**$ 31,480**	$ 4,200	**$ 19,743**	$ 8,517
Income tax expense				
Current tax expense	**(1,117)**	(1,990)	**(3,777)**	(4,923)
Deferred tax expense	**(982)**	(1,198)	**(2,366)**	(2,074)
	(2,099)	(3,188)	**(6,143)**	(6,997)
Net income	**$ 29,381**	$ 1,012	**$ 13,600**	$ 1,520
Attributable to:				
Common shareholders	**$ 29,367**	$ 496	**$ 13,388**	$ 213
Non-controlling interest	**$ 14**	$ 516	**$ 212**	$ 1,307
Earnings per Common Share attributable to common shareholders (note 15)				
Basic	**$ 0.61**	$ 0.01	**$ 0.28**	$ 0.00
Diluted	**$ 0.61**	$ 0.01	**$ 0.28**	$ 0.00

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

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,			
		2022		2021		**2022**		2021
Net income	**$**	**29,381**	$	1,012	**$**	**13,600**	$	1,520
Other comprehensive income								
Items that will be subsequently reclassified to net income:								
Foreign exchange translation income from equity-accounted investments (net of tax) (note 5)		**748**		323		**912**		3
Total other comprehensive income		**748**		323		**912**		3
Comprehensive income	**$**	**30,129**	$	1,335	**$**	**14,512**	$	1,523
Attributable to:								
Common shareholders	**$**	**30,115**	$	819	**$**	**14,300**	$	216
Non-controlling interest	**$**	**14**	$	516	**$**	**212**	$	1,307

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

(in thousands of Canadian dollars)

	Attributable to Shareholders of Dominion Lending Centres Inc.						
	Share capital	**Contributed surplus**	**AOCI(L) (1)**	**Deficit**	**Total shareholders' equity**	**Non-controlling interest**	**Total equity**
Balance at January 1, 2021	$ 130,216	$ 15,573	$ -	$ (96,322)	$ 49,467	$ 1,423	$ 50,890
Share repurchases and cancellation	(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
Balance at January 1, 2022	$ 118,018	$ 15,573	$ (21)	$ (101,830)	$ 31,740	$ 2,081	$ 33,821
Substantial issuer bid ("SIB") (note 10)	**4,568**	**-**	**-**	**-**	**4,568**	**-**	**4,568**
Acquisition of Newton Connectivity Systems Inc. (notes 4 and 10)	**7,098**	**-**	**-**	**(22,507)**	**(15,409)**	**(1,475)**	**(16,884)**
Warrants exercised (notes 10 and 11)	**6,755**	**(3,767)**	**-**	**-**	**2,988**	**-**	**2,988**
Share options exercised (notes 10 and 11)	**248**	**(23)**	**-**	**-**	**225**	**-**	**225**
Normal course issuer bid ("NCIB") (note 10)	**(429)**	**-**	**-**	**-**	**(429)**	**-**	**(429)**
Net income and comprehensive income	**-**	**-**	**912**	**13,388**	**14,300**	**212**	**14,512**
Dividends declared (note 10)	**-**	**-**	**-**	**(2,911)**	**(2,911)**	**-**	**(2,911)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(600)**	**(600)**
Balance at September 30, 2022	**$ 136,258**	**$ 11,783**	**$ 891**	**$ (113,860)**	**$ 35,072**	**$ 218**	**$ 35,290**

(1) Accumulated other comprehensive income (loss)

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,		2022		2021
Operating Activities				
Net income	$	**13,600**	$	1,520
Items not affecting cash:				
Share-based payments (recovery) expense (note 11)		**(319)**		581
Depreciation and amortization		**3,014**		3,151
Amortization of debt issuance costs (note 14)		**114**		818
Amortization of franchise rights (note 6)		**2,376**		1,996
Finance expense on the Preferred Share liability (note 9)		**492**		16,868
Deferred tax expense		**2,366**		2,074
Income from equity-accounted investments (note 5)		**(835)**		(234)
Gain on sale of an equity-accounted investment (note 5)		**(525)**		-
Non-cash impairment of an equity-accounted investment (note 5)		**4,778**		-
Interest on lease liabilities		**90**		103
Other non-cash items		**(822)**		(2,566)
Changes in non-cash working capital (note 16)		**(7,156)**		5,282
Cash provided by operating activities		**17,173**		29,593
Investing Activities				
Expenditures on capital assets		**(1)**		-
Investment in intangible assets (note 6)		**(5,439)**		(5,005)
Proceeds on disposal of capital and intangible assets		**-**		27
Distributions from equity-accounted investees (note 5)		**627**		1,029
Investments in equity-accounted investees (note 5)		**(250)**		(300)
Proceeds from the sale of an equity-accounted investee (note 5)		**16,500**		-
Distributions to non-controlling interests		**(600)**		(907)
Cash provided by / (used in) investing activities		**10,837**		(5,156)
Financing Activities				
Proceeds from debt financing, net of transaction costs (note 8)		**31,475**		5,835
Acquisition of Newton Connectivity Systems Inc. (note 4)		**(16,884)**		-
SIB purchase (note 10)		**(6,682)**		-
Repayment of debt (note 8)		**(30,260)**		(9,750)
Lease payments		**(453)**		(416)
NCIB share repurchase (note 10)		**(429)**		(432)
Warrants exercised (notes 10 and 11)		**2,988**		-
Share options exercised (notes 10 and 11)		**225**		-
Dividends paid to Common Shareholders (note 10)		**(2,911)**		-
Dividends paid to Preferred Shareholders (note 9)		**(8,617)**		(10,288)
Cash used in financing activities		**(31,548)**		(15,051)
(Decrease) / increase in cash and cash equivalents		**(3,538)**		9,386
Impact of foreign exchange on cash and cash equivalents		**(5)**		53
Cash and cash equivalents, beginning of period		**20,886**		10,316
Cash and cash equivalents, end of period	$	**17,343**	$	19,755
Cash flows include the following amounts:				
Interest paid	$	**1,507**	$	2,642
Interest received	$	**93**	$	41
Income taxes paid	$	**8,168**	$	4,498

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 and data connectivity provider with operations across Canada. As of February 3, 2022, the Corporation is listed on the Toronto Stock Exchange (the "Exchange") under the symbol "DLCG" (previously listed on the TSX Venture Exchange). 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 Corporations 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, 2022	December 31, 2021
MCC Mortgage Centre Canada Inc. ("MCC")	**100%**	100%
MA Mortgage Architects Inc. ("MA")	**100%**	100%
Newton Connectivity Systems Inc. ("Newton") (note 4)	**100%**	70%

At September 30, 2022, 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.

At September 30, 2022, the Non-Core Business Asset Management segment includes the Corporation's interest in Cape Communications Ltd. ("Impact"). On August 31, 2022, the Corporation sold its interest in Club16 Limited Partnership ("Club16"), which was previously included in the Non-Core Business Asset Management segment (see note 5). Collectively, Impact and Club16 are referred to as the "Non-Core Assets". The Non-Core Business Asset Management segment contains the expenses, assets and liabilities associated with management of the Non-Core Assets, the Junior Credit Facility (as defined herein), 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 10, 2022.

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.

4. ACQUISITION OF THE NON-CONTROLLING INTEREST IN NEWTON

On February 15, 2022, the Corporation entered into a purchase agreement with Next4 Holdings Inc. ("Next4") to acquire the remaining 30% of 10017078 Canada Inc. ("Newton Holdco") that the Corporation did not already own (the "Newton Acquisition") for an aggregate purchase price of $24,000 (the "Purchase Price"). The Purchase Price was comprised of a cash payment of $16,865 and the issuance of 1,853,247 Common Shares of the Corporation, having a deemed value of $3.85 per share (the "Share Consideration") (see note 10). As Geoff Willis (President of Newton) and Kevin Dear (Vice-President of Newton) are both directors and indirect 25% shareholders of Next4, the Newton Acquisition was a related-party transaction (see note 19). The Newton Acquisition closed on February 28, 2022.

(in thousands of Canadian dollars)

Changes in the Corporation's interest in a subsidiary that do not result in a change in control are accounted for within shareholders' equity. The following summarizes the change to the Corporation's deficit as a result of the Newton Acquisition:

For the nine months ended		**September 30, 2022**
Issuance of Common Shares (1)(2)	**$**	**(7,117)**
Cash consideration (2)		**(16,865)**
Elimination of non-controlling interest		**1,475**
Net increase to deficit	**$**	**(22,507)**

(1) The Corporation recognized the issuance of the Common Shares at the fair market value of $3.84 per share (see note 10).
(2) Gross of transaction costs (see note 10).

5. EQUITY-ACCOUNTED INVESTMENTS

Club16 – Non-Core Business Asset Management Segment

On August 31, 2022, the Corporation closed the sale of its 58.4% interest in Club16 (the "Sale of Club16") to Club16 management (the "Purchaser") for aggregate gross proceeds of $18,000 (the "Purchase Price"). The Purchase Price was comprised of: (i) a cash payment of $16,500; and (ii) a non-interest-bearing promissory note issued by the Purchaser for $1,500 (the "Promissory Note"). The Promissory Note is to be paid in 24 equal monthly payments of $62.5, with the first monthly payment commencing on August 31, 2023. The Corporation has recognized a gain on the sale of the equity-accounted investment of $525 within the condensed consolidated statements of income, for the difference between the carrying value of the Corporation's investment in Club16 and the Purchase Price.

The principal place of Club16's business is Surrey, British Columbia, Canada.

During the three and nine months ended September 30, 2022, the Corporation received distributions of $146 and $277 from Club16, respectively (September 30, 2021—$nil and $nil).

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

		December 31, 2021
Current assets	$	5,921
Non-current assets		76,211
Current liabilities		(12,314)
Non-current liabilities		(54,509)
Net assets		15,309
% of ownership		58.4%
		8,940
Goodwill		8,122
Corporation share of net assets	$	17,062

		Three months ended September 30,				**Nine months ended September 30,**		
		2022 (1)		2021		**2022 (1)**		2021
Revenue	**$**	**5,802**	$	8,049	**$**	**24,156**	$	24,722
Expenses		**6,407**		9,458		**24,021**		26,900
(Loss) income before tax		**(605)**		(1,409)		**135**		(2,178)
Income tax recovery		**114**		272		**515**		1,314
Net (loss) income		**(491)**		(1,137)		**650**		(864)
% of ownership		**58.4%**		58.4%		**58.4%**		58.4%
Corporation share of net (loss) income	**$**	**(286)**	$	(664)	**$**	**380**	$	(505)

(1) As the Sale of Club16 was completed on August 31, 2022, the 2022 results are up to August 31, 2022.

(in thousands of Canadian dollars)

Impact – Non-Core Business Asset Management Segment

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

During the three and nine months ended September 30, 2022, the Corporation did not receive distributions from Impact (September 30, 2021—$208 and $468).

During the three and nine months ended September 30, 2022, the Corporation recognized a non-cash impairment loss of $4,778 within the condensed consolidated statements of income representing the difference between the carrying value of Impact and its estimated recoverable amount. The Corporation identified Impact's financial performance as an indicator of impairment as of September 30, 2022 and determined the fair value less costs of disposal of its investment through a capitalized earnings before interest, tax and depreciation ("EBITDA") approach. The capitalized EBITDA approach takes into account the historical EBITDA of Impact and an estimated multiple of EBITDA (the "Multiple") (level 3 within the fair value hierarchy). The Multiple is an estimate based on comparable companies and recent comparable transactions for companies in a similar industry.

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

		September 30, 2022		December 31, 2021
Current assets	**$**	**4,677**	$	4,964
Non-current assets [2]		**10,809**		10,917
Current liabilities		**(425)**		(1,669)
Non-current liabilities (including contributed surplus)		**(3,173)**		(3,137)
Net assets		**11,888**		11,075
% of ownership		**52.0%**		52.0%
		6,182		5,759
Goodwill [1][2]		**-**		4,170
Corporation share of net assets	**$**	**6,182**	$	9,929

(1) Impact's goodwill is adjusted for foreign exchange translation differences at the end of each reporting period.
(2) Net of the non-cash impairment loss of $4,778.

		Three months ended September 30, 2022		2021		**Nine months ended September 30, 2022**		2021
Revenue	**$**	**2,481**	$	2,793	**$**	**7,108**	$	7,053
Expenses		**2,354**		2,303		**6,853**		6,272
Income before tax		**127**		490		**255**		781
Income tax recovery (expense)		**25**		(146)		**(21)**		(256)
Net income		**152**		344		**234**		525
% of ownership		**52.0%**		52.0%		**52.0%**		52.0%
Corporation share of net income	**$**	**79**	$	179	**$**	**122**	$	273

		Three months ended September 30, 2022		2021		**Nine months ended September 30, 2022**		2021
Other comprehensive income	**$**	**1,439**	$	621	**$**	**1,754**	$	6
% of ownership		**52.0%**		52.0%		**52.0%**		52.0%
Corporation share of other comprehensive income	**$**	**748**	$	323	**$**	**912**	$	3

(in thousands of Canadian dollars)

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%.

During the three and nine months ended September 30, 2022, the Corporation made an investment of $nil and $250 in non-significant joint arrangements, respectively (during the three and nine months ended September 30, 2021—$nil and $300, respectively) and received distributions of $nil and $350, respectively (September 30, 2021—$100 and $561, respectively).

		September 30, 2022		December 31, 2021
Current assets	**$**	**1,330**	$	978
Non-current assets		**175**		163
Current liabilities		**(546)**		(616)
Non-current liabilities		**(6)**		-
Net assets		**953**		525
% of ownership		**30%-50%**		30%-50%
		459		223
Goodwill		**1,303**		1,303
Corporation share of net assets	**$**	**1,762**	$	1,526

	Three months ended September 30,				**Nine months ended September 30,**			
		2022		2021		**2022**		2021
Revenue	**$**	**1,335**	$	1,376	**$**	**4,593**	$	4,585
Expenses (1)		**1,323**		1,217		**3,970**		3,667
Net income		**12**		159		**623**		918
% of ownership		**30%-50%**		30%-50%		**30%-50%**		30%-50%
Corporation share of net income	**$**	**9**	$	79	**$**	**333**	$	466

(1) Includes income tax.

6. INTANGIBLE ASSETS

		Franchise rights, relationships and agreements		Brand names		Other (1)		Total intangible assets
Cost								
Balance at December 31, 2021	$	101,398	$	45,700	$	5,297	$	152,395
Additions		**5,439**		**-**		**-**		**5,439**
Disposals		**(951)**		**-**		**(195)**		**(1,146)**
Balance at September 30, 2022	**$**	**105,886**	**$**	**45,700**	**$**	**5,102**	**$**	**156,688**
Accumulated amortization								
Balance at December 31, 2021	$	(26,520)	$	-	$	(4,446)	$	(30,966)
Disposals		**951**		**-**		**195**		**1,146**
Amortization recognized as a charge against revenue		**(2,376)**		**-**		**-**		**(2,376)**
Amortization expense		**(2,430)**		**-**		**(229)**		**(2,659)**
Balance at September 30, 2022	**$**	**(30,375)**	**$**	**-**	**$**	**(4,480)**	**$**	**(34,855)**
Carrying value								
December 31, 2021	$	74,878	$	45,700	$	851	$	121,429
September 30, 2022	**$**	**75,511**	**$**	**45,700**	**$**	**622**	**$**	**121,833**

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

(in thousands of Canadian dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2022	December 31, 2021
Accrued liabilities		
Commissions payable	**$ 15,854**	$ 18,253
SIB liability (note 10)	**-**	11,250
Share-based compensation liability (note 11)	**477**	1,577
Other accrued liabilities	**9,314**	10,733
	25,645	41,813
Trade payables	**740**	1,471
Income tax payable	**-**	3,322
Government agencies payable	**340**	223
Other	**235**	55
	$ 26,960	$ 46,884

8. LOANS AND BORROWINGS

	September 30, 2022	December 31, 2021
Core Business Operations		
Revolving Facility	**$ -**	$ -
Acquisition Facility	**27,241**	6,165
Non-Revolving Term Loan (“DDTL”) Facility	**6,400**	-
Non-Core Business Asset Management		
Junior Credit Facility	**4,513**	30,648
	38,154	36,813
Debt issuance costs	**(359)**	(347)
Total loans and borrowings	**37,795**	36,466
Less current portion	**(4,662)**	(1,233)
	$ 33,133	$ 35,233

The credit facilities are comprised of three senior term credit facilities (collectively, the “Senior Credit Facilities”) and a junior term credit facility (the “Junior Credit Facility”). The Senior Credit Facilities are held within the Core Business Operations and the Junior Credit Facility is held within the Non-Core Business Asset Management segment.

Quarterly financial covenants for all facilities include the requirement to maintain an adjusted total debt-to-EBITDA ratio of less than 2.75:1.00 and an interest coverage ratio of not less than 3.00:1.00. At September 30, 2022, the Corporation’s adjusted total debt-to-EBITDA ratio and interest coverage ratio were 0.65:1.00 and 20.77:1.00, respectively. At September 30, 2022, the Corporation was in compliance with all such covenants.

Core Business Operations

On February 28, 2022, the Corporation entered into an amending agreement with TD, whereby the Corporation increased its Acquisition Facility by $24,000, from $10,000 to $34,000. An aggregate of $16,865 was drawn on the Acquisition Facility to pay the cash consideration at closing to the vendors of the Newton Acquisition (see note 4) and an aggregate of $7,135 was drawn on the Acquisition Facility to transfer to the Corporation’s Non-Core Business Asset Management segment as compensation for the issuance of the Share Consideration (which amount was paid against the Corporation’s Junior Credit Facility). As such, the Newton Acquisition resulted in net additional borrowings of $16,865, with borrowings by the Corporation’s Core Business Operations increasing by $24,000 and borrowings by the Corporation’s Non-Core Business Asset Management segment decreasing by $7,135.

The DDTL Facility is a delayed draw term loan that allowed the Corporation to withdraw predefined amounts. During the nine months ended September 30, 2022, the Corporation drew $7,600 on its DDTL Facility, of which $4,560 was used to fund the SIB completed on January 11, 2022 and $3,040 was paid as a pro-rata (40%) dividend to the Preferred Shareholders. The Corporation’s cash on hand was used to fund the balance of $2,120 to complete the purchase of tendered shares under the SIB. The remaining $12,400 credit available under the $20,000 DDTL facility was cancelled.

Borrowings under the Senior Credit Facilities are comprised of floating-rate advances or Canadian banker's acceptances ("BA"). Floating-rate advances bear interest at a rate equal to prime plus 0.00% to 0.50%. BAs bear interest at a rate determined at the time of their acceptance plus a stamping fee of 1.75% to 2.25%. As at September 30, 2022, the outstanding Senior Credit Facilities were BAs with a blended annual interest rate of 3.57% plus a stamping fee of 1.75%.

As at September 30, 2022, $4,662 of the balance outstanding on the Acquisition Facility is classified as current (December 31, 2021—$1,233).

Non-Core Business Asset Management

Borrowings under the Junior Credit Facility are comprised of floating-rate advances or BAs. Floating-rate advances bear interest at a rate equal to prime plus 0.75% to 1.25%. BAs bear interest at a rate determined at the time of their acceptance plus a stamping fee of 2.50% to 3.00%. As at September 30, 2022, the Junior Credit Facility was solely a floating-rate advance and bore an annual interest rate of prime plus 0.75%.

As the Corporation's repayments on the Junior Credit Facility are voluntary, the full amount outstanding as at September 30, 2022 and December 31, 2021 was classified as long-term.

9. 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 ("Dividend Entitlement"), 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 the Dividend Entitlement 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 future Dividend Entitlement of the Preferred Shareholders. The Preferred Share liability is revised for any changes in the estimated future Dividend Entitlement at the end of each reporting period using an income approach based on the 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 the estimated future Dividend Entitlement 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 recovery (expense) on the Preferred Share liability.

The Dividend Entitlement is determined by 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 the defined cash flows 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 Dividend Entitlement, which may be more or less than the actual Dividend Entitlement based on seasonality of cash flows. During the three and nine months ended September 30, 2022, the Corporation paid Interim Dividends of $1,680 and $8,080, respectively (September 30, 2021—$3,280 and $10,288). During the nine months ended September 30, 2022, the Corporation paid a true-up of the Dividend Entitlement payable as at December 31, 2021 of $537 to the Preferred Shareholders (September 30, 2021—$nil). During the three and nine months ended September 30, 2022, the Dividend Entitlement attributable to Preferred Shareholders was $3,002 and $10,127, respectively (September 30, 2021—$3,817 and $11,112), resulting in an increase of the Dividend Entitlement to the Preferred Shareholders at September 30, 2022 of $2,047, which is included in the Preferred Share liability.

(in thousands of Canadian dollars)

During the nine months ended September 30, 2022, the Board of Directors of the Corporation passed a resolution to reduce the Dividend Entitlement for the year ended December 31, 2021, resulting in an unpaid reversal of $481 of the Dividend Entitlement payable to the Preferred Shareholders as at December 31, 2021. The reduction in the Dividend Entitlement was allocated to repayments on the Corporation's non-revolving term loan within the Core Business Operations.

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 Dividend Entitlement 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.

	Number of Preferred Shares		Amount
Balance at December 31, 2021 (1)	26,774,054	$	118,460
Dividends paid	-		(8,617)
Finance expense on the Preferred Share liability	-		492
Balance at September 30, 2022 (1)	**26,774,054**	**$**	**110,335**
Current		**$**	**8,980**
Non-Current		**$**	**101,355**

(1) Net of transaction costs.

	Three months ended September 30,				**Nine months ended September 30,**			
		2022		2021		**2022**		2021
Accretion expense on the Preferred Share liability	**$**	**5,427**	$	4,145	**$**	**15,182**	$	12,301
Revaluation (recovery) expense of the Preferred Share liability		**(33,185)**		2,431		**(14,690)**		4,567
Finance (recovery) expense on the Preferred Share liability	**$**	**(27,758)**	$	6,576	**$**	**492**	$	16,868

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 9).

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

	Number of Common Shares		Amount
Balance at December 31, 2021	46,357,841	$	118,018
Share repurchases and cancellations (SIB)	**(1,781,790)**		**4,568**
Share issuance (Newton Acquisition)	**1,853,247**		**7,098**
Warrants exercised	**2,078,568**		**6,755**
Share repurchases and cancellations (NCIB)	**(138,065)**		**(429)**
Share options exercised	**75,000**		**248**
Balance at September 30, 2022	**48,444,801**	**$**	**136,258**

Share Repurchases and Cancellations (SIB)

The Corporation implemented a SIB that commenced on December 1, 2021 and expired on January 11, 2022. The Corporation offered to purchase up to 3,000,000 Common Shares from the common shareholders at a price of $3.75 per share. The Corporation purchased 1,781,790 Common Shares that were validly tendered for an aggregate cost of $6,682, which were cancelled and returned to treasury. As the SIB was outstanding at December 31, 2021, the Corporation had recognized a liability at December 31, 2021 for the full commitment of the SIB of $11,250, with the offset to share capital. During the nine months ended September 30, 2022, the Corporation settled the SIB liability and recognized the reduction in the number of Common Shares outstanding and derecognized $4,568 of the commitment for shares that were not tendered (see note 7).

(in thousands of Canadian dollars)

Share Issuance (Newton Acquisition)

On completion of the Newton Acquisition, the Corporation issued 1,853,247 Common Shares (see note 4). These were valued at the closing trading price of the Corporation's Common Shares on February 28, 2022 of $3.84 per share. The Corporation recognized $19 of transaction costs directly attributable to the issuance of the Common Shares as an offset to share capital.

Warrants Exercised

The Corporation issued 2,078,568 Common Shares at a fair market value of $3.25 per Common Share, for warrants exercised on May 16, 2022 (see note 11).

Share Repurchases and Cancellations (NCIB)

The Corporation implemented a NCIB on May 24, 2022. The NCIB has a twelve-month duration, which commenced on May 27, 2022 and ends the earlier of May 26, 2023 or the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Under the NCIB, the Corporation may purchase up to 1,200,000 Common Shares. During the three and nine months ended September 30, 2022, the Corporation made repurchases under the NCIB of 106,140 at an average price of $3.04 per Common Share and 138,065 at an average price of $3.11 per Common Share, respectively. The repurchased shares were cancelled and returned to treasury.

Share Options Exercised

On May 20, 2022, the Corporation issued 75,000 Common Shares at a fair market value of $3.30 per Common Share, for share options exercised (see note 11).

Dividends

In April 2022, the Corporation implemented a quarterly dividend on its Common Shares. During the three and nine months ended September 30, 2022, the Corporation declared quarterly dividends of $0.03 per Common Share, resulting in dividend payments of $1,454 and $2,911 (September 30, 2021—$nil).

11. SHARE-BASED PAYMENTS

The Corporation recorded total share-based payments recoveries of $308 and $319 for the three and nine months ended September 30, 2022 (September 30, 2021—$542 recovery and $581 expense). These amounts include share-based payments recoveries related to the Corporation's restricted share units ("RSUs") of $249 and $308 (September 30, 2021—$310 recovery and $508 expense), and phantom share options ("PSOs") recoveries of $59 of $11 for the three and nine months ended September 30, 2022, respectively (September 30, 2021—$232 recovery and $73 expense).

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 upon issuance of the share options, which cannot be less than the market price, 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, 2021	75,000	$	3.00
Exercised	**(75,000)**		**3.00**
Outstanding share options, September 30, 2022	**-**	**$**	**-**

During the nine months ended September 30, 2022, the Corporation issued 75,000 Common Shares at a fair market value of $3.30 per Common Share, for share options exercised. The share options were exercised at $3.00 per Common Share, with the offset recognized to contributed surplus.

(in thousands of Canadian dollars)

PSO Plan

The Corporation's PSOs outstanding as of December 31, 2021 were issued to employees with an exercise price of $2.75 (the "employee PSOs"). Each employee 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 employee PSOs have a five-year term and vest one-third on the first, second and third anniversary from the date of grant. At September 30, 2022, there were no employee PSOs outstanding (at December 31, 2021—$335 liability).

During the nine months ended September 30, 2022, the Corporation issued 250,000 PSOs to Newton executives with an exercise price of $3.85 (the "Newton PSOs"). Each Newton 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 Newton PSOs have a three-year term and vest one-half on the first and second anniversary from the date of grant. At September 30, 2022 none were in-the-money.

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

Outstanding PSOs, December 31, 2021	295,000
Settled	**(295,000)**
Issued	**250,000**
Outstanding PSOs, September 30, 2022	**250,000**

During the nine months ended September 30, 2022, the Corporation settled 295,000 employee PSOs at a 5-day volume average weighted in-the-money price of $0.99 per PSO (September 30, 2021—nil).

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 maturity date. The Corporation's directors determine the number of units issued, their term, and their vesting period at the time of the grant.

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

Outstanding RSUs, December 31, 2021	657,040
Settled	**(191,866)**
Outstanding RSUs, September 30, 2022	**465,174**

The following table summarizes the outstanding RSUs as at September 30, 2022:

Grant date	Issued to	Vesting date	Outstanding RSUs		Liability at September 30, 2022
May 1, 2019	Directors	Immediately (1)	173,000	$	477
June 11, 2020	Directors	Immediately (1)	292,174		806
			465,174	$	1,283

(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 warrants, December 31, 2021	1.45	2,078,568	$	1.44
Exercised	-	**(2,078,568)**		**1.44**
Outstanding warrants, September 30, 2022	-	-	**$**	-

During the nine months ended September 30, 2022, the Corporation issued 2,078,568 Common Shares for warrants exercised. The warrants were exercised at a price of $1.44, and the Common Shares were issued at a fair market value of $3.25 per Common Share, with the offset recognized in contributed surplus.

(in thousands of Canadian dollars)

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, 2022, 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 Junior Credit Facility, and public company costs. Club16 income from equity-accounted investments is included in other (income) expense up to the date of disposal on August 31, 2022 (see note 5).

As at September 30, 2022	Core Business Operations	Non-Core Business Asset Management	Consolidated
Cash and cash equivalents	$ **15,550**	$ **1,793**	$ **17,343**
Trade, other receivables and other assets	**15,283**	**1,297**	**16,580**
Right-of-use assets	**1,921**	**-**	**1,921**
Intangible assets	**121,833**	**-**	**121,833**
Goodwill	**60,437**	**-**	**60,437**
Capital and other assets	**4,961**	**6,539**	**11,500**
Total assets	$ **219,985**	$ **9,629**	$ **229,614**
Accounts payable and accrued liabilities	$ **26,160**	$ **800**	$ **26,960**
Lease obligations	**2,061**	**202**	**2,263**
Loans and borrowings	**33,429**	**4,366**	**37,795**
Deferred tax liability (asset)	**25,428**	**(11,285)**	**14,143**
Preferred Share liability	**110,335**	**-**	**110,335**
Other liabilities	**1,023**	**1,805**	**2,828**
Total liabilities	$ **198,436**	$ **(4,112)**	$ **194,324**

For the three months ended September 30, 2022	Core Business Operations	Non-Core Business Asset Management	Consolidated
Revenue	$ **17,934**	$ **-**	$ **17,934**
Direct costs	**1,948**	**-**	**1,948**
General and administrative expenses	**6,058**	**634**	**6,692**
Share-based payments recovery	**-**	**(308)**	**(308)**
Depreciation and amortization	**946**	**5**	**951**
Finance expense	**453**	**225**	**678**
Finance recovery on the Preferred Share liability	**(27,758)**	**-**	**(27,758)**
Other (income) expense	**(195)**	**4,446**	**4,251**
Income (loss) before tax from operations	$ **36,482**	$ **(5,002)**	$ **31,480**

(in thousands of Canadian dollars)

For the nine months ended September 30, 2022		Core Business Operations		Non-Core Business Asset Management		Consolidated
Revenue	**$**	**56,786**	**$**	**-**	**$**	**56,786**
Direct costs		**6,754**		**-**		**6,754**
General and administrative expenses		**20,355**		**2,150**		**22,505**
Share-based payments recovery		**-**		**(319)**		**(319)**
Depreciation and amortization		**2,998**		**16**		**3,014**
Finance expense		**983**		**727**		**1,710**
Finance expense on the Preferred Share liability		**492**		**-**		**492**
Other (income) expense		**(852)**		**3,739**		**2,887**
Income (loss) before tax from operations	**$**	**26,056**	**$**	**(6,313)**	**$**	**19,743**

For the nine months ended September 30, 2022		Core Business Operations		Non-Core Business Asset Management		Consolidated
Cash flows provided by / (used in) operating activities	**$**	**20,946**	**$**	**(3,773)**	**$**	**17,173**
Cash flows (used in) / provided by investing activities		**(18,865)**		**29,702**		**10,837**
Cash flows used in financing activities		**(5,577)**		**(25,971)**		**(31,548)**
Decrease in cash and cash equivalents	**$**	**(3,496)**	**$**	**(42)**	**$**	**(3,538)**

As at December 31, 2021		Core Business Operations		Non-Core Business Asset Management		Consolidated
Cash and cash equivalents	$	19,046	$	1,840	$	20,886
Trade, other receivables and other assets		18,179		113		18,292
Right-of-use assets		1,859		-		1,859
Intangible assets		121,429		-		121,429
Goodwill		60,437		-		60,437
Capital and other assets		3,668		27,354		31,022
Total assets	$	224,618	$	29,307	$	253,925
Accounts payable and accrued liabilities	$	33,714	$	13,170	$	46,884
Lease obligations		1,966		330		2,296
Loans and borrowings		6,018		30,448		36,466
Deferred tax liability (asset)		26,016		(14,239)		11,777
Preferred Share liability		118,460		-		118,460
Other liabilities		2,126		2,095		4,221
Total liabilities	$	188,300	$	31,804	$	220,104

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 operations	$	6,066	$	(1,866)	$	4,200

(in thousands of Canadian dollars)

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 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

13. REVENUE

		Three months ended September 30,				**Nine months ended September 30,**		
		2022		2021		**2022**		2021
Franchising revenue, mortgage brokerage services	**$**	**15,627**	$	18,140	**$**	**47,052**	$	47,373
Newton revenues		**1,978**		3,928		**8,783**		9,525
Brokering of mortgages		**329**		278		**951**		652
	$	**17,934**	$	22,346	**$**	**56,786**	$	57,550

Quarterly results may vary because of seasonal fluctuations, 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 $18,631 and $58,796 for the three and nine months ended September 30, 2022, respectively (September 30, 2021—$22,907 and $59,238). Revenues earned from contracts with customers not earned over time is $139 and $366 for the three and nine months ended September 30, 2022, respectively (September 30, 2021—$144 and $308).

14. FINANCE EXPENSE

		Three months ended September 30,				**Nine months ended September 30,**		
		2022		2021		**2022**		2021
Interest expense on debt obligations	**$**	**606**	$	894	**$**	**1,506**	$	2,888
Interest on lease obligations		**28**		34		**90**		103
Amortization of debt issuance costs		**44**		284		**114**		818
	$	**678**	$	1,212	**$**	**1,710**	$	3,809

(in thousands of Canadian dollars)

15. EARNINGS PER COMMON SHARE

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	**2022**	2021
Net income attributable to shareholders	**$ 29,367**	$ 496	**$ 13,388**	$ 213
Basic weighted average number of shares	**48,484,042**	46,600,507	**47,147,067**	46,634,557
Effect of dilutive securities:				
Share options	**-**	9,593	**-**	13,859
Warrants	**-**	1,209,980	**-**	1,266,627
Diluted weighted average number of shares	**48,484,042**	47,820,080	**47,147,067**	47,915,043
Basic earnings per share	**0.61**	0.01	**0.28**	0.00
Diluted earnings per share	**0.61**	0.01	**0.28**	0.00

As at September 30, 2022, the Corporation did not have any share options or warrants outstanding (September 30, 2021—75,000 and 2,078,568 outstanding, respectively).

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

For the nine months ended September 30,	**2022**	2021
Trade and other receivables	**$ 2,833**	$ (3,297)
Prepaid expenses and deposits	**(1,367)**	(336)
Notes receivable	**230**	42
Accounts payable and accrued liabilities	**(8,356)**	8,456
Deferred contract liability	**(496)**	417
	$ (7,156)	$ 5,282

17. 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 its 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, and preferred share 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 interest rate risk.

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 a $211 decrease of income before tax for the three months ended September 30, 2022 and a $391 decrease of income before tax for the nine months ended September 30, 2022 (September 30, 2021—$105 decrease of income before tax and $274 decrease of income before tax).

(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 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.

The 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, 2022, $345 (December 31, 2021—$272) of the Corporation's trade receivables are greater than 90 days' outstanding and total expected credit losses as at September 30, 2022 are $323 (December 31, 2021—$410). 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 also has a source of credit risk related to the note receivable from the Sale of Club16 (see note 5). The Corporation has managed its credit risk through mandatory monthly payments. A decline in economic conditions, or other adverse conditions experienced by Club16, could impact the collectability of the Corporation's note 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, 2022		December 31, 2021
Cash and cash equivalents	**$**	**17,343**	$	20,886
Trade, other receivables and other assets		**16,580**		18,292
Notes receivable		**113**		343
	$	**34,036**	$	39,521

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 at September 30, 2022, 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	$	26,960	$	26,960	$	-	$	-
Lease obligations (1)		1,385		578		705		102
Loans and borrowings (2)		38,154		4,662		33,492		-
Preferred Share liability (3)		110,622		8,980		33,609		68,033
Long-term liabilities		876		-		876		-
	$	177,997	$	41,180	$	68,682	$	68,135

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

Capital Management

The Corporation's capital structure is comprised 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:

		September 30, 2022		December 31, 2021
Loans and borrowings	**$**	**37,795**	$	36,466
Less: cash and cash equivalents		**17,343**		20,886
Net loans and borrowings	**$**	**20,452**	$	15,580
Shareholders' equity	**$**	**35,072**	$	31,740

(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, including opportunities to grow the number of DLC Group franchises.

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, 2022 (see note 8).

Determination of Fair Value

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

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

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

	Carrying value as at September 30, 2022	Fair value as at September 30, 2022 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				
Loans and borrowings	**(37,795)**	**-**	**(37,795)**	**-**

	Carrying value as at December 31, 2021	Fair value as at December 31, 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				
Loans and borrowings	(36,466)	-	(36,466)	-

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, 2022, 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.

18. COMMITMENTS AND CONTINGENCIES

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. For claims where the outcomes are not determinable, no provision for settlement has been made in the condensed consolidated financial statements. During the nine months ended September 30, 2022, the Corporation recorded legal costs and expenses of $1,864 in the condensed consolidated financial statements, primarily related to the stay of the class action legal claim, an ongoing arbitration, the settlement of legal claims, and the completion of the Newton Acquisition.

Franchisee Claim

In July 2021, the Core Business Operations were served with a Notice of Civil Claim (the "Franchisee Claim") filed in the Supreme Court of British Columbia by a franchisee and its principal (collectively, the "Claimant"). On April 1, 2022, the Supreme Court of British Columbia ordered that the Franchisee Claim be stayed on the basis that the parties had agreed in the franchise agreement that all disputes would be resolved through arbitration. The Claimant had commenced the Franchisee Claim in the Supreme Court of British Columbia and were seeking to have the claim certified under the Class Proceedings Act (British Columbia), though the claim was unsuccessful in obtaining this certification. In the event the Claimant desires to pursue the dispute, the matter would be resolved through a prescribed arbitration process with the Claimant and the Corporation as set out in the franchise agreement. As at the date hereof, the Claimant has not taken any steps to further pursue the matter through prescribed arbitration.

Mortgage Protection Plan Claim

In February 2019, the Core Business Operations received a statement of claim (the "Claim") filed in the Ontario Superior Court of Justice by two individual plaintiffs (the "Plaintiffs"). The Plaintiffs were seeking certification of the Claim under the Class Proceedings Act (Ontario). The Claim relates to a product called Mortgage Protection Plan ("MPP"), which is mortgage creditor insurance underwritten by The Manufacturers Life Insurance Company ("Manulife"), formerly administered by Benesure Canada Inc. ("Benesure") and offered through Credit Security Insurance Agency Inc. ("CSIA"). In November 2020, the Supreme Court of British Columbia did certify the class (as all residents of Canada that purchased the MPP product, except for residents of Quebec) and ordered that the settlement agreement reached by the parties was binding on the class (the "November 2020 Decision"). The November 2020 Decision was a favourable development for the Corporation as the Claim against the Corporation was expected to be resolved by the class settlement agreement. The November 2020 Decision was appealed. In January 2022, the Court of Appeal for British Columbia dismissed the MPP Plaintiff's application for leave to appeal and upheld the November 2020 Decision and the Supreme Court of Canada has denied leave to appeal. The Corporation and Manulife made an application to the Court to have the Claim stayed and the Court dismissed the Claim on August 4, 2022.

19. RELATED PARTY TRANSACTIONS

Newton Acquisition

On February 28, 2022, the Corporation completed the Newton Acquisition for an aggregate purchase price of $24,000. Geoff Willis (President of Newton) and Kevin Dear (Vice-President of Newton), who are both directors and indirect 25% shareholders of Next4, were parties to the Newton Acquisition.

Sale of Club16

On August 31, 2022, the Corporation completed the sale of Club16 to Club16 management for an aggregate purchase price of $18,000. As part of the purchase price, the Corporation received a Promissory Note that has been recognized within non-current trade, other receivables and other assets as at September 30, 2022, on the condensed consolidated statement of financial position at its estimated fair value of $1,190. The Promissory Note will be subsequently measured at amortised cost.

20. SUBSEQUENT EVENTS

Automatic Share Purchase Plan

On October 4, 2022, the Corporation entered into an automatic share purchase plan ("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 4, 2022, to November 14, 2022, and directs the Broker to repurchase up to an aggregate of 200,000 Common Shares, up to a maximum aggregate purchase price of $600.