mdf commerce

Interim Condensed Consolidated Financial Statements
For the three-month periods ended June 30, 2022 and 2021

(Unaudited)

Interim Condensed Consolidated Statements of Loss

Unaudited

For the three-month periods ended June 30, 2022 and 2021

In thousands of Canadian dollars except number of shares and loss per share amounts	2022 $	2021 $
Revenues (Note 6)	**32,196**	22,573
Cost of revenues	**13,700**	9,332
Gross margin	**18,496**	13,241
Operating expenses		
General and administrative	**7,275**	4,981
Selling and marketing	**8,689**	6,112
Technology	**9,507**	6,437
	25,471	17,530
Operating loss	**(6,975)**	(4,289)
Foreign exchange gain (loss)	**607**	(827)
Finance expenses (Note 13b))	**(623)**	5
Change in fair value of purchase price contingent consideration (Note 15)	**(1)**	-
Loss before income taxes	**(6,992)**	(5,111)
Income tax recovery	**(669)**	(826)
Net loss	**(6,323)**	(4,285)
Loss per share		
Basic and diluted	**(0.14)**	(0.15)
Weighted average number of shares outstanding		
Basic and diluted	**43,970,943**	28,404,116
Number of shares outstanding at end of periods (Note 9b))	**43,970,943**	28,404,116

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

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

Unaudited

For the three-month periods ended June 30, 2022 and 2021

In thousands of Canadian dollars	**2022** **$**	**2021** **$**
Net loss	**(6,323)**	(4,285)
Other comprehensive loss items:		
Items that may be reclassified subsequently to loss		
Change in unrealized gains on foreign currency forward contracts, net of deferred taxes of nil in 2022 ($25 in 2021)	**-**	70
Reclassification of realized losses on foreign currency forward contracts, net of deferred taxes of nil in 2022 ($53 in 2021)	**-**	(148)
Translation adjustments on financial instruments designated as net investment hedges	**(129)**	-
Foreign exchange differences on translation of foreign operations	**6,880**	-
Total other comprehensive income (loss)	**6,751**	(78)
Comprehensive income (loss)	**428**	(4,363)

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

Interim Condensed Consolidated Statements of Financial Position
Unaudited

In thousands of Canadian dollars	As at June 30, 2022 $	As at March 31, 2022 $
Assets		
Current assets		
Cash and cash equivalents	**5,939**	5,985
Cash held for the benefit of third parties	**21,513**	20,544
Trade and other receivables (Note 6)	**11,546**	10,391
Current portion of unbilled receivables (Note 6)	**7,682**	8,540
Income taxes receivable	**2,190**	2,660
Current portion of tax credits receivable	**11,864**	10,727
Prepaid expenses and deposits	**4,633**	5,251
Derivative financial instruments	**-**	22
	65,367	64,120
Non-current assets		
Unbilled receivables (Note 6)	**10,830**	7,400
Property and equipment	**2,128**	2,258
Right-of-use assets	**9,129**	8,917
Intangible assets and acquired intangible assets	**100,209**	100,777
Goodwill (Note 7)	**279,669**	273,397
Tax credits receivable	**2,884**	2,858
Deferred tax assets	**2,818**	3,580
	473,034	463,307
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**20,948**	21,193
Other accounts payable	**21,513**	20,544
Deferred revenues (Note 6)	**32,584**	29,253
Current portion of purchase price contingent consideration (Note 15)	**722**	49
Income taxes payable	**167**	84
Current portion of long-term debt (Note 8)	**2,062**	1,500
Current portion of lease liabilities	**2,268**	2,013
Derivative financial instruments	**106**	-
	80,370	74,636
Non-current liabilities		
Purchase price contingent consideration	**-**	680
Long-term debt (Note 8)	**53,381**	48,262
Deferred tax liabilities	**12,018**	13,049
Lease liabilities	**7,675**	7,739
	153,444	144,366
Shareholders' equity		
Share capital (Note 9)	**336,621**	336,621
Reserves	**9,793**	2,821
Retained earnings (deficit)	**(26,824)**	(20,501)
	319,590	318,941
	473,034	463,307

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

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

Unaudited

For the three-month periods ended June 30, 2022 and 2021

		Reserves				
In thousands of Canadian dollars	**Share capital $**	**Stock option plan $**	**Accumulated other comprehensive income (loss) $**	**Total $**	**Retained earnings (Deficit) $**	**Total $**
Balance as at March 31, 2022	336,621	4,752	(1,931)	2,821	(20,501)	318,941
Net loss	-	-	-	-	(6,323)	(6,323)
Other comprehensive income, net of income taxes	-	-	6,751	6,751	-	6,751
Comprehensive income (loss) for the period	-	-	6,751	6,751	(6,323)	428
Compensation under the stock option plan (Note 10)	-	221	-	221	-	221
Balance as at June 30, 2022	**336,621**	**4,973**	**4,820**	**9,793**	**(26,824)**	**319,590**

		Reserves				
In thousands of Canadian dollars	**Share capital $**	**Stock option plan $**	**Accumulated other comprehensive loss $**	**Total $**	**Retained earnings $**	**Total $**
Balance as at March 31, 2021	216,975	3,680	475	4,155	3,437	224,567
Net loss	-	-	-	-	(4,285)	(4,285)
Other comprehensive loss, net of income taxes	-	-	(78)	(78)	-	(78)
Comprehensive loss for the period	-	-	(78)	(78)	(4,285)	(4,363)
Compensation under the stock option plan (Note 10)	-	199	-	199	-	199
Balance as at June 30, 2021	**216,975**	**3,879**	**397**	**4,276**	**(848)**	**220,403**

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

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

For the three-month periods ended June 30, 2022 and 2021

In thousands of Canadian dollars	2022 $	2021 $
CASH FLOWS RELATED TO		
Operating activities		
Net loss for the periods	**(6,323)**	(4,285)
Adjustments for the following items:		
Amortization and depreciation (Note 12)	**4,492**	2,271
Amortization of deferred financing costs (Note 13b))	**77**	57
Interest expense (Note 13b))	**528**	(62)
Change in fair value of purchase price contingent consideration	**1**	-
Share-based compensation (Note 10)	**221**	199
Unrealized foreign exchange (gain) loss	**(752)**	136
Deferred income tax recovery	**(558)**	(531)
Current income tax recovery	**(111)**	(296)
Changes in non-cash working capital items (Note 13a))	**3,902**	3,672
Changes in non-current unbilled receivables	**(3,430)**	-
Changes in non-current tax credits receivable	**(26)**	-
Interest received (paid)	**54**	76
Income taxes received (paid)	**671**	(353)
Net cash inflow (outflow) from operating activities	**(1,254)**	884
Investing activities		
Purchase price contingent consideration paid	**(30)**	-
Acquisition of property and equipment	**(109)**	(100)
Acquisition of intangible assets	**(457)**	(734)
Net cash outflow from investing activities	**(596)**	(834)
Financing activities		
Increase in long-term debt	**6,524**	-
Repayment of long-term debt	**(1,922)**	-
Interest paid on long-term debt	**(411)**	(14)
Lease payments	**(661)**	(468)
Net cash inflow (outflow) from financing activities	**3,530**	(482)
Net increase (decrease) in cash and cash equivalents	**1,680**	(432)
Effect of foreign exchange rate changes on cash and cash equivalents	**(757)**	(127)
Cash and cash equivalents at beginning of periods	**26,529**	110,782
Cash and cash equivalents at end of periods	**27,452**	110,223

Cash and cash equivalents consist of the following statements of financial position items:

Cash and cash equivalents	**5,939**	107,700
Cash held for the benefit of third parties	**21,513**	2,523

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

1 Incorporation and nature of operations

mdf commerce inc. (the "Corporation") provides e-business solutions to consumers and businesses. It operates its activities through its wholly-owned subsidiaries.

The Corporation, incorporated on February 16, 1996 under the *Canada Business Corporations Act*, is listed on the Toronto Stock Exchange (the "TSX") under the ticker symbol "MDF." Its head office is located at 1111 St-Charles West, East Tower, Suite 255, Longueuil, Quebec, Canada.

The Corporation's Board of Directors approved the interim condensed consolidated financial statements for the three-month periods ended June 30, 2022 and 2021 on August 11, 2022.

2 Basis of presentation

The accounting policies applied in these interim condensed consolidated financial statements are based on IFRS issued and effective as at June 30, 2022 and are the same as the accounting policies applied in the preparation of the annual consolidated financial statements of the Corporation for the years ended March 31, 2022 and 2021, except as set out below. The Corporation's reporting currency is the Canadian dollar.

Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, *Interim Financial Reporting*, through the application of accounting principles that are compliant with International Financial Reporting Standards (IFRS). These interim condensed consolidated financial statements do not include all of the information required for complete financial statements under IFRS, including the notes, and should be read in conjunction with the annual consolidated financial statements of the Corporation for the years ended March 31, 2022 and 2021. The annual financial statements of the Corporation are available on SEDAR at www.sedar.com.

Comparative figures

Certain comparative figures have been reclassified to conform with the current period presentation.

3 New and revised IFRS, issued but not yet effective

a) Adopted in the current period

IFRS 3, Business Combinations

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The amendments were effective for annual periods beginning on or after January 1, 2022 and they were adopted with no impact on the interim condensed consolidated financial statements.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The amendments were effective for annual periods beginning on or after January 1, 2022 and they were adopted with no impact on the interim condensed consolidated financial statements.

IAS 16, Property, Plant and Equipment

In September 2020, IAS 16, *Property, Plant and Equipment* was amended to prohibit the deduction from the cost of an item of property and equipment of any proceeds from selling items produced before the asset is available for use. The proceeds from selling this property and equipment, as well as the related costs, will instead be recognized in profit or loss. The amendments were effective for annual periods beginning on or after January 1, 2022 and they were adopted with no impact on the interim condensed consolidated financial statements.

b) Issued but not yet effective

IAS 1, Presentation of Financial Statements

In January 2020, the IASB issued amendments to IAS 1, *Presentation of Financial Statements* regarding the classification of liabilities as current or non-current. These amendments clarify that the classification of liabilities as either current or non-current should be based on the entity's rights at the end of the reporting period and make clear the link between the settlement of the liability and the outflow of the entity's resources. These amendments are effective for fiscal years beginning on or after January 1, 2023 and should be applied retrospectively. The Corporation does not intend to early adopt these amendments and is assessing their impact on its consolidated financial statements.

In February 2021, the IASB issued amendments to IAS 1 requiring entities to disclose their material accounting policies rather than their significant accounting policies. The IASB has developed guidance and examples to help entities apply materiality judgments to accounting policy disclosure. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and earlier application is permitted. The Corporation does not intend to early adopt these amendments and is assessing their impact on its consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021, the IASB issued amendments to IAS 8 introducing a definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period and earlier application is permitted. The Corporation does not intend to early adopt these amendments and is assessing their impact on its consolidated financial statements.

IAS 12, Income Taxes

In May 2021, IASB issued amendments to IAS 12 clarifying the accounting for deferred tax on transactions such as leases and decommissioning obligations. The scope of the recognition exemption in IAS 12 no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and earlier application is permitted. The Corporation does not intend to early adopt these amendments and is assessing their impact on its consolidated financial statements.

4 Management's significant estimates and judgments

In preparing interim condensed consolidated financial statements in accordance with IFRS, management must exercise judgment when applying accounting policies and rely on estimates and assumptions, both affecting the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the reporting date. Management reviews its estimates regularly, and revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the period being reviewed and future periods. Actual results may differ from these estimates. Explanations about the main assumptions and estimates are presented in note 5 of the Corporation's audited consolidated financial statements for the years ended March 31, 2022 and March 31, 2021. Included hereafter are the most significant estimates and judgments used in the preparation of these interim condensed consolidated financial statements relating to the TRX model.

Estimating variable consideration of TRX model agreements

Under the TRX model agreement, the transaction price is based entirely on variable consideration that is a significant estimate. The total contract value (TCV) represents the total convenience fee expected to be collected over the contract term, estimated based on a percentage of the customer's spend on eligible goods and services over the contract term. Customers spend is estimated based on historical purchases of goods and services and estimated growth from customers over the contract term.

Revenue recognized based on the TCV involves management judgement and significant assumptions including estimating the amount of government agency spend on eligible goods and services on which the convenience fees are estimated over the term of the contract, and on the collectability of convenience fees from suppliers.

After the initial determination of the TCV at inception of the contract, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount or timing of the transaction price, the consideration to which the Corporation expects to be entitled to in exchange for the promised goods and services to the government agencies, changes in the assessment of whether the variable consideration is constrained or a contract modification. At the end of each reporting period, the Corporation reviews the TCV, and assesses the key assumptions. Changes to the TCV could result in additional revenue or a reduction in revenue based on a cumulative adjustment from inception of the contract with the customer to the end of the current reporting period.

Changes in revenue would have an impact on the amount allocated to the SaaS performance obligation as the residual and would affect the corresponding contract asset or liability.

Allocation of the TCV to performance obligations in a TRX Model

The TRX model agreement includes performance obligations of right of use and professional services including implementation and managed services. For revenue recognition purposes the total transaction price (TCV) is first allocated to professional services based on a cost-plus a profit margin approach, and the residual amount is allocated to the right of use.

Changes in the revenue recognized from professional services would have an impact on the TCV amount allocated to the right of use performance obligation as the residual.

5 Segment information

The Corporation has determined that there is only one reportable segment, e-commerce services.

Geographical information for the three-month periods ended June is as follows:

In thousands of Canadian dollars	**Three-month period ended June 30, 2022** $	**Three-month period ended June 30, 2021** $
Revenues		
United States	**16,514**	9,701
Canada	**13,462**	10,778
Europe	**1,089**	1,776
Asia and other	**1,131**	318
	32,196	22,573

In thousands of Canadian dollars	**As at June 30, 2022** $	**As at March 31, 2022** $
Non-current assets		
United States	**305,253**	295,570
Canada	**99,545**	97,114
Asia and other	**51**	65
	404,849	392,749

Revenues are attributed to countries based on the location of customers.

The total non-current assets, other than financial instruments and deferred taxes include property and equipment, right-of-use assets, intangible assets, acquired intangible assets, goodwill, unbilled receivables and tax credits receivable.

As at June 30, 2022, non-current assets presented above exclude deferred tax assets of $2,818,083 ($3,579,862 as at March 31, 2022).

6 Revenues

Revenues for the three-month periods ended June 30 are detailed as follows:

In thousands of Canadian dollars	**2022** **$**	**2021** **$**
Revenues from right of use	**22,756**	16,435
Revenues from professional services	**6,424**	3,540
Revenues from transaction fees	**2,391**	2,262
Revenues from maintenance and hosting services	**208**	42
Other	**417**	294
	32,196	22,573

Contract assets and liabilities

Below are the receivables, unbilled receivables, contract assets, and contract liabilities recognized in the Interim Condensed Consolidated Statements of Financial Position:

In thousands of Canadian dollars	**As at June 30, 2022** **$**	**As at March 31, 2022** **$**
Receivables (included in trade and other receivables)	**11,546**	10,391
Contract assets (included in unbilled receivables)	**18,512**	15,940
Deferred revenues	**32,584**	29,253

Contract assets

The change in contract assets is as follows:

In thousands of Canadian dollars	**2022** **$**	**2021** **$**
Balance as at March 31	**15,940**	1,680
Increase in contract assets related to stage of completion	**4,966**	1,493
Decrease in contract assets related to billing or collection	**(2,874)**	(1,575)
Foreign exchange	**480**	-
Balance as at June 30	**18,512**	1,597

All contract assets included in the current portion of unbilled receivables as at June 30, 2022 are expected to be collected from customers within the following year.

There were no impairment losses recognized on receivables and contract assets arising from contracts with customers during the three-month periods ended June 30, 2022 and 2021.

As at June 30, 2022, the Corporation did not provide for an allowance for doubtful accounts on unbilled amounts, as amounts were deemed collectible (nil as at March 31, 2022).

Deferred revenues

The following table provides information related to deferred revenues (contract liabilities):

In thousands of Canadian dollars	**2022** **$**	**2021** **$**
Balance as at March 31	**29,253**	20,310
Increase in deferred revenues upon invoicing customers	**20,030**	13,053
Decrease in deferred revenues upon recognition in revenues of services rendered during the periods	**(17,362)**	(10,672)
Foreign exchange	**663**	(197)
Balance as at June 30	**32,584**	22,494

Deferred revenues arise mainly from prepaid rights-of-use or professional services revenue.

Remaining Performance Obligations

Transaction prices for unfulfilled (or partially unfulfilled) performance obligations represent services that have not yet been performed, that will be recognized as revenue in future periods. The total was $32,583,553 as at June 30, 2022 ($22,494,381 as at June 30, 2021), approximately 96% of which the Corporation expects to account for as revenues within the next 12 months and 4% in subsequent fiscal years (97% and 3% respectively as at June 30, 2021).

7 Goodwill

The change in goodwill is as follows:

In thousands of Canadian dollars	**2022** **$**	**2021** **$**
Balance as at March 31	**273,397**	101,029
Foreign exchange	**6,272**	-
Balance as at June 30	**279,669**	101,029

For the purposes of goodwill impairment testing, the Corporation has two cash-generating units (CGUs), the Corporation without Periscope Intermediate Corporation ("Periscope"), a wholly owned U.S. subsidiary of the Corporation acquired on August 31, 2022, and Periscope.

During the three-month period ended June 30, 2022, the U.S. Federal Reserve increased the interest rate by 125 basis points. This increase in interest rate is likely to materially affect the discount rate used in calculating the value in use and the recoverable amount for the Periscope CGU. As a result, an impairment test was performed for this CGU.

As at June 30, 2022, the recoverable amount was determined using a value in use approach based on discounted future cash flow projections according to management's financial budget for fiscal year 2023 and the forecasts for the following four years. These future cash flows consider the Periscope's historical performance and the current economic situation and therefore include significant estimates that may differ from actual results. The Corporation used a long-term growth rate of 4.5% and a pre-tax discount rate of 17.1%. Based on this test, the recoverable amount for Periscope exceeded the carrying amount and as a result, there is no impairment loss for the three-month period ended June 30, 2022.

For the impairment test performed during the three-month period ended June 30, 2022, a decrease of 0.6% in the long-term growth rate, an increase of 0.4% to the discount rate or a decrease of 4.8% in forecasted operating cash flow would result in the recoverable value being equal to the carrying value.

8 Long-term debt

Long-term debt is detailed as follows:

In thousands of Canadian dollars	**As at June 30, 2022 $**	**As at March 31, 2022 $**
Term Facility denominated in USD bearing interest at the US base rate, plus 2.25%, maturing on August 31, 2024	**20,618**	19,994
Revolving Facility denominated in CAD, bearing interest at the Canadian prime rate, plus 0.75% as at June 30, 2022, maturing on August 31, 2024	**24,338**	18,000
Revolving Facility denominated in USD, bearing interest at the US prime rate, plus 0.75% as at June 30, 2022, maturing on August 31, 2024	**11,139**	12,496
	56,095	50,490
Less: Deferred financing fees	**(652)**	(728)
	55,443	49,762
Current portion	**2,062**	1,500
Long-term portion	**53,381**	48,262

On August 31, 2021, the Corporation and Tim USA Inc., a wholly-owned subsidiary of the Corporation, entered into a new credit agreement (the "Credit Agreement") with a Canadian financial institution under which the lender has provided a three-year secured revolving facility (the "Revolving Facility") of up to $50,000,000 with an accordion amount on the Revolving Facility up to $20,000,000 subject to the lender's approval, and a non-revolving credit facility (the ''Term Facility'') of up to US$16,000,000. The Credit Agreement matures on August 31, 2024, and any unpaid amounts are due in full at maturity.

Revolving Facility

The maximum amount available under the Revolving Facility is calculated monthly using a percentage of the balance of eligible accounts receivable (as defined in the Credit Agreement), and a multiple of the Corporation's monthly recurring revenue (as defined in the Credit Agreement), up to a maximum amount of $50,000,000. As at June 30, 2022, the maximum borrowing base under the Revolving Facility was at $50,000,000.

Borrowings under the Revolving Facility can be made by way of the following options: i) prime rate ii) US dollar base rate loans; iii) bankers' acceptances; iv) LIBOR; and v) letters of credit up to a maximum amount of $5,000,000 and for a term not exceeding one year.

Borrowings under the Revolving Facility bear interest at rates varying according to the chosen option, plus a margin based on the rate of use of the Revolving Facility.

The unused portion of the Revolving Facility bears interest at rates from 0.35% to 0.45% as standby fees.

Term Facility

The Term Facility of US$16,000,000 was available by way of a single borrowing on the closing date of the acquisition of Periscope. As at June 30, 2022, the borrowing under the Term facility is at the full available amount.

Loans under the Term Facility can be made by way of the following options: i) prime rate; ii) U.S. dollar base rate loans; iii) bankers' acceptances; and iv) LIBOR.

The Term Facility bears interest at a rate based either on the prime rate or U.S. base rate plus a margin of 2.25% or on the bankers' acceptances or LIBOR, plus a margin of 3.50%.

The Term Facility is repayable in equal consecutive monthly payments based on an amortization rate of 10% per annum starting on September 30, 2022.

As at June 30, 2022, $24,338,039 was drawn on the Revolving Facility in Canadian dollars and CA$11,139,315 (US$8,644,510) on the Revolving Facility in U.S. dollars. As at June 30, 2022, the amount drawn on the Term Facility in U.S. dollars was CA$20,617,600 (US$16,000,000).

All obligations under the Credit Agreement are secured by a first-ranking lien on substantially all of the Corporation's consolidated assets, tangible and intangible, present and future during the term of the Credit Agreement.

Financial and restrictive covenants

The Credit Agreement contains certain financial and restrictive covenants customary for loans of this nature, including certain limitations to the amounts of investments, acquisitions, dispositions or sale of assets or equity interest in subsidiaries, debt, capital expenditures and distributions. As at June 30, 2022 and June 30, 2021, the Corporation is in compliance with the financial ratios and restrictive covenants as set out in the Credit Agreement.

The Corporation evaluates the risk that is inherent in forecasts, that financial results may not materialize as planned, and for which significant differences could result in non-compliance with financial covenants as set out in the Credit Agreement.

Subsequent to June 30, 2022, the Corporation initiated proactive discussions with the Lender and on August 11, 2022, an amendment to the Credit Agreement was executed, and provides for a reset of the fixed charge coverage ratio from 1.20:1.00 to 0.50:1.00 for the next three fiscal quarters ending on September 30 and December 31, 2022 and March 31, 2023.

Based on current projections, Management believes that the Corporation has sufficient capital resources available to maintain its capacity to meet working capital requirements, to support the Corporation's planned growth, fund the activities of its business plan, and maintain an appropriate level of capital spending. The Corporation's capital management objectives are included in Note 14.

Deferred financing costs

Deferred financing costs, in the amount of $1,064,114, include legal and consulting fees, regulatory filing fees and other financing costs incurred in connection with the Credit Agreement. These costs are amortized over the term of the Credit Agreement. The unamortized portion of deferred financing costs amounted to $652,341 as of June 30, 2022.

9 Share capital and accumulated other comprehensive loss

a) Authorized and paid, unlimited number of:

- Common shares
- Preferred shares, issuable in series with terms, conditions and dividends to be determined by the Board of Directors upon issuance

b) The following table summarizes common share activity for the three-month periods ended June 30:

	2022		2021	
In thousands	**Shares**	**$**	**Shares**	**$**
Balance at beginning of periods	**43,971**	**336,621**	28,404	216,975
Issuance of common shares	-	-	-	-
Issuance costs	-	-	-	-
Deferred taxes on share issuance costs	-	-	-	-
Balance at end of periods	**43,971**	**336,621**	28,404	216,975

c) Dividends declared

No dividends were declared or paid during the three-month periods ended June 30, 2022 and 2021.

d) Accumulated other comprehensive loss

The components of accumulated other comprehensive loss included as at June 30:

In thousands of Canadian dollars	**2022** **$**	**2021** **$**
Cash flow hedges	**-**	397
Net investment hedges	**(200)**	-
Foreign exchange differences on translation of foreign operations	**5,020**	-
	4,820	397

10 Share-based payment

For the three-month periods ended June 30, 2022 and 2021, the compensation expense under the stock option plan amounted to $220,975 and $199,358 respectively.

Issued and outstanding stock options changed as follows during the three-month periods ended June 30:

	2022		**2021**	
	Number of options *(in thousands)*	**Weighted-average exercise price**	**Number of options *(in thousands)***	**Weighted-average exercise price**
Outstanding at beginning of periods	**1,426**	**7.47**	1,027	7.46
Options forfeited or cancelled	**(76)**	**6.37**	(18)	7.43
Outstanding at end of periods	**1,350**	**7.53**	1,009	7.46

Of the options outstanding at June 30, 2022, 25,000 were exercisable (nil as at June 30, 2021).

As at June 30, 2022, issued and outstanding stock options were as follows:

Exercise price ($)	**Number of options (in thousands)**	**Remaining weighted average contractual life (in years)**	**Weighted-average exercise price ($)**
5.81 – 5.85	500	4.68	5.81
7.43 - 9.89	730	6.07	7.51
12.29 - 15.15	120	5.66	14.79
Total	1,350	5.52	7.53

11 Loss per share

Basic loss per share is calculated by dividing the net loss attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by adjusting the net loss attributable to shareholders of the Corporation by the weighted average number of common shares that would have been outstanding for the period assuming the conversion of all dilutive instruments.

The Corporation's potentially dilutive instruments include stock options, which are excluded from the calculation in periods during which they are anti-dilutive.

For the periods ended June 30, 2022 and 2021, all stock options were excluded from the calculation of the diluted loss per share since the impact would have been anti-dilutive as the Corporation is in a net loss position. As a result, diluted loss per share is equal to basic loss per share.

12 Expenses by type

Operating loss for the three-month periods ended June 30 includes the following items:

In thousands of Canadian dollars	**2022** **$**	2021 $
Acquisition-related costs	**907**	79
Amortization and depreciation		
Property and equipment	**255**	204
Intangible assets	**712**	696
Acquired intangible assets	**2,966**	882
Right-of-use assets	**559**	489
Total amortization and depreciation	**4,492**	2,271
Employee benefit expenses		
Salaries and employee benefits [i)]	**23,749**	16,477
Share-based compensation	**221**	199
Termination benefits	**17**	117
	23,987	16,793
Tax credits	**(1,230)**	(1,168)
Total employee benefit expenses	**22,757**	15,625

[i)] Due to the COVID-19 pandemic, the Corporation and some of its subsidiaries qualified for the Canada Emergency Wage Subsidy ("CEWS"). For the three-month period ended June 30, 2021, salaries and benefits were presented net of the CEWS in the amount of $808,683 (nil for the three-month period ended June 30, 2022)

13 Supplementary statements of Loss and cash flow information

a) Changes in non-cash operating working capital items for the three-month periods ended June 30, are as follows:

In thousands of Canadian dollars	**2022** **$**	2021 $
Decrease (increase) in:		
Trade and other receivables	**155**	667
Unbilled receivables	**1,338**	-
Tax credits receivable	**(1,137)**	(310)
Prepaid expenses and deposits	**679**	584
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(812)**	(831)
Deferred revenues	**2,710**	2,184
Changes in non-cash operating working capital excluding Other accounts payable	**2,933**	2,294
Other accounts payable [i)]	**969**	1,378
	3,902	3,672

[i)] Other accounts payable represent the offsetting entry of Cash held for the benefit of third parties on the Interim Condensed Consolidated Statements of Financial Position.

During the three-month periods ended June 30, 2022 and 2021, the Corporation reclassified an amount of nil and $44,000 respectively from Tax credits receivable to Income taxes payable because the Corporation expects to use these tax attributes against income taxes payable during the upcoming fiscal year.

b) Finance expense for the three-month periods ended June 30 consist of the following:

In thousands of Canadian dollars	**2022** **$**	2021 $
Amortization of deferred financing costs	**77**	57
Interest on lease liabilities	**86**	91
Interest on long-term debt	**496**	14
Interest income	**(54)**	(167)
Other finance costs	**18**	-
	623	(5)

14 Capital management

The Corporation's capital management objective is to ensure it has sufficient liquidity to pursue its organic growth strategy, to make selective acquisitions, and to provide an appropriate return on investment to its shareholders. When necessary, the Corporation may borrow on its Revolving Facility or issue new shares to fund its additional cash requirements and business acquisitions.

To accomplish its stated objectives, the Corporation establishes long-term strategic and operating plans which includes financial forecasts. The Corporation's capital management strategy and liquidity adequacy is assessed by monitoring the expected cash inflows and outflows, which is achieved through a forecast of the Corporation's consolidated liquidity position. The sufficiency of capital resources is assessed in view of stress-tests, growth requirements, capital expenditures, and available credit facilities, working capital requirements, and compliance with financial covenants.

Based on financial forecasts, the Corporation has sufficient capital resources available to maintain its capacity to meet working capital requirements and financial commitments, to support the Corporation's planned growth, fund the activities of its business plan, maintain an appropriate level of capital spending, and comply with financial covenants required by the Credit Agreement.

Other than the financial ratios described in Note 8 and required by a financial institution, the Corporation's capital is not subject to any externally imposed capital requirements, and the Corporation does not currently use any quantitative measures to manage its capital.

15 Financial risk management

Foreign currency risk

Since October 1, 2021, the Corporation manages the foreign currency translation risk of its investments in U.S. dollar in part through the designation of its U.S. dollar foreign currency forward contracts as a hedge against net investments in foreign operations.

The Corporation designates the spot component of the U.S. dollar forward as the hedging instrument. As only the spot rate component of the forward contract is designated in the hedging relationship, no ineffectiveness is expected and no ineffectiveness was recognized in the Interim Condensed Consolidated Statement of Loss for the three-month period ended June 30, 2022.

The hedged foreign currency risk component is the change in the carrying amount of the net assets of the foreign operations arising from spot U.S. dollar to Canadian dollar exchange rate movements. At June 30, 2022, a nominal of US$3,050,000 (CA$3,930,230) of foreign currency forward contracts was designated in a net investment hedge relationship.

Fair value of financial instruments

Financial instruments recognized at fair value are classified using a hierarchy that reflects the significance of the inputs used to measure the fair value.

The fair value hierarchy requires that observable market inputs be used whenever such inputs exist. A financial instrument is classified in the lowest level of the hierarchy for which a significant input has been used to measure fair value.

An entity's own credit risk and the credit risk of the counterparty, in addition to the credit risk of the financial instrument, were factored into the fair value determination of the financial assets and financial liabilities, including derivative instruments. All financial instruments measured at fair value in the Interim Condensed Consolidated Statements of Financial Position were classified according to a three-level hierarchy:

- Level 1: valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.
- Level 2: valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for the instrument being valued; and inputs that are derived mainly from or corroborated by observable market data using correlation or other forms of relationship.
- Level 3: Valuation techniques based significantly on inputs that are not observable in the market.

The Corporation's policy is to recognize transfers made between different hierarchy levels at the date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the three-month periods ended June 30, 2022 and 2021.

The following table presents the financial instruments measured at fair value on a recurring basis, classified using the hierarchy described above:

				As at June 30, 2022
	Level 1	**Level 2**	**Level 3**	**Total**
In thousands of Canadian dollars	**$**	**$**	**$**	**$**
Financial assets				
Derivative financial instruments	**-**	**-**	**-**	**-**
Financial liabilities				
Derivative financial instruments	**-**	**106**	**-**	**106**
Purchase price contingent consideration	**-**	**-**	**722**	**722**

In thousands of Canadian dollars	Level 1 $	Level 2 $	Level 3 $	As at March 31, 2022 Total $
Financial assets				
Derivative financial instruments	-	22	-	22
Financial liabilities				
Derivative financial instruments	-	-	-	-
Purchase price contingent consideration	-	-	729	729

The fair value of the derivative financial instruments is a liability of $106,356 (US$82,536) and reflects the estimated amounts that the Corporation would receive if the contracts had been settled as at June 30, 2022, using relevant market rates. As at March 31, 2022, the fair value of derivative financial instruments was an asset of $22,237 (US$17,795).

Level 3

The fair value of purchase price contingent consideration is determined using a discounted cash flow analysis which makes use of unobservable inputs such as expected cash flows and risk adjusted discount rates.

Expected cash flows are estimated based on the terms of the contractual arrangements and the Corporation's knowledge of the business and how the current economic environment is likely to impact it.

The fair value of the purchase price contingent consideration is determined based on a discounted cash flow model. The main Level 3 inputs used by the Corporation to value the purchase price contingent consideration is the discount rate. A 1% change in the discount rate would not have a significant change in the fair value.

The reconciliation of Level 3 fair value purchase price contingent consideration measurements is as follows:

In thousands of Canadian dollars	$
Fair value as at March 31, 2022	**729**
Change in fair value of purchase price contingent consideration	**1**
Settlement of purchase price contingent consideration	**(30)**
Foreign exchange difference	**22**
Fair value as at June 30, 2022	**722**

The fair value of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and other accounts payable approximates their carrying amounts due to their short-term maturities.

The fair value of long-term debt is not significantly different from its carrying amount as the contractual interest rate is close to the interest rate that the Corporation could have had on a similar financial instrument.