

**FAX Capital Corp.**

**Condensed Interim Financial Statements**

**September 30, 2021**

(Presented in Canadian Dollars)

(Unaudited)

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

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**FAX Capital Corp.**  
**Condensed interim statements of financial position**  
**As at September 30, 2021 and December 31, 2020**

**(Unaudited)**  
(In Canadian Dollars)

	September 30 2021	December 31 2020
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	78,261,260	109,800,255
Accounts and other receivables (Note 3)	638,678	1,426,365
Prepaid expenses	43,551	33,235
Investments, at fair value (Note 4)	151,682,463	98,826,035
Capital assets (Note 5)	15,134	26,582
	<b>230,641,086</b>	<b>210,112,472</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 6)	4,010,103	2,287,480
Due to broker	44,305	606,366
Income taxes payable	256,505	250,651
Deferred income tax liability	2,055,853	48,600
	<b>6,366,766</b>	<b>3,193,097</b>
<b>Shareholders' equity</b>		
Share capital (Note 8)	183,976,366	184,666,952
Founder Warrants (Note 10)	4,888,632	4,888,632
Contributed surplus	493,754	171,180
Retained earnings	34,915,568	17,192,611
	<b>224,274,320</b>	<b>206,919,375</b>
	<b>230,641,086</b>	<b>210,112,472</b>

**Approved on Behalf of the Board:**

Signed: "Blair Driscoll", Director

Signed: "Paul Gibbons", Director

(See accompanying notes to the condensed interim financial statements.)

**FAX Capital Corp.****Condensed Interim statements of comprehensive income (loss)**

For the three and nine month periods ended September 30, 2021 and 2020

**(Unaudited)**

(In Canadian Dollars)

	Three month period ended September 30		Nine month period ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Revenues</b>				
Realized gain on sale of investments	-	-	15,502,896	-
Net change in unrealized gain (loss) on investments (Note 4)	(8,686,995)	10,972,203	6,009,355	7,498,234
Interest	166,806	323,539	637,127	1,581,152
Dividends	239,173	197,753	2,000,826	442,062
Other income	-	-	884,040	-
	<b>(8,281,016)</b>	11,493,495	<b>25,034,244</b>	9,521,448
<b>Expenses</b>				
Compensation (Note 13)	574,915	529,458	1,711,924	1,582,735
Share-based compensation (Note 11)	883,694	317,765	2,380,790	376,426
Office, general and administration (Note 13)	190,996	166,289	633,576	580,357
Professional fees	121,424	64,126	359,971	318,136
Director fees (Note 13)	52,500	52,500	157,500	173,333
Brokerage fees and commissions	41,189	18,980	94,329	191,613
Depreciation	3,816	3,485	11,448	10,402
Reimbursement of expenses (Note 13)	(186,055)	-	(357,719)	-
	<b>1,682,479</b>	1,152,603	<b>4,991,819</b>	3,233,002
<b>Income (loss) before income taxes</b>	<b>(9,963,495)</b>	10,340,892	<b>20,042,425</b>	6,288,446
Provision for income taxes (Note 7)	(1,521,025)	-	2,007,253	-
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(8,442,470)</b>	10,340,892	<b>18,035,172</b>	6,288,446
<b>Earnings (loss) per share (Note 12)</b>				
Basic	(0.20)	0.24	0.42	0.15
Diluted	(0.19)	0.24	0.42	0.15

(See accompanying notes to the condensed interim financial statements.)

**FAX Capital Corp.**  
**Condensed interim statements of changes in equity**  
**For the nine month periods ended September 30, 2021 and 2020**

**(Unaudited)**  
(In Canadian Dollars)

	Share Capital			Contributed Surplus	Retained Earnings	Total Shareholders' Equity
	Subordinate Voting Shares (Note 8)	Multiple Voting Shares (Note 8)	Founder Warrants (Note 10)			
	\$	\$	\$	\$	\$	\$
<b>Balance at January 1, 2020</b>	61,230,274	122,726,486	4,800,044	-	(1,981,840)	186,774,964
Exercise of Founder Warrants	2,404	-	(154)	-	-	2,250
Repurchase and cancellation of shares (Note 9)	(210,956)	-	-	-	30,214	(180,742)
Share based compensation (Note 11 (b))	-	-	-	110,765	-	110,765
Refundable dividend taxes	-	-	-	-	(169,455)	(169,455)
Net income	-	-	-	-	6,288,446	6,288,446
<b>Balance at September 30, 2020</b>	<b>61,021,722</b>	<b>122,726,486</b>	<b>4,799,890</b>	<b>110,765</b>	<b>4,167,365</b>	<b>192,826,228</b>
<b>Balance at January 1, 2021</b>	<b>61,616,141</b>	<b>123,050,811</b>	<b>4,888,632</b>	<b>171,180</b>	<b>17,192,611</b>	<b>206,919,375</b>
Repurchase and cancellation of shares (Note 9)	(690,586)	-	-	-	(55,707)	(746,293)
Share based compensation (Note 11 (b))	-	-	-	322,574	-	322,574
Refundable dividend taxes	-	-	-	-	(256,508)	(256,508)
Net income	-	-	-	-	18,035,172	18,035,172
<b>Balance at September 30, 2021</b>	<b>60,925,555</b>	<b>123,050,811</b>	<b>4,888,632</b>	<b>493,754</b>	<b>34,915,568</b>	<b>224,274,320</b>

(See accompanying notes to the condensed interim financial statements.)

**FAX Capital Corp.**
**Condensed interim statements of cash flows**
**For the three and nine month periods ended September 30, 2021 and 2020**
**(Unaudited)**

(In Canadian Dollars)

	Three month period ended September 30		Nine month period ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Operating activities</b>				
Net income (loss)	<b>(8,442,470)</b>	10,340,892	<b>18,035,172</b>	6,288,446
<b>Adjustments for non-cash items:</b>				
Realized gain on sale of investments	-	-	<b>(15,502,896)</b>	-
Net change in unrealized gain (loss) on investments	<b>8,686,995</b>	(10,972,203)	<b>(6,009,355)</b>	(7,498,234)
Share-based compensation	<b>127,083</b>	60,418	<b>322,574</b>	110,766
Depreciation of capital assets	<b>3,816</b>	3,485	<b>11,448</b>	10,402
Refundable dividend taxes	<b>(91,682)</b>	(75,805)	<b>(256,508)</b>	(169,455)
Provision for income taxes	<b>(1,521,025)</b>	-	<b>2,007,253</b>	-
Purchase of investments	<b>(6,809,506)</b>	(5,326,486)	<b>(62,925,377)</b>	(68,421,120)
Proceeds from sale of investments	-	-	<b>31,581,200</b>	-
<b>Changes in non-cash working capital:</b>				
Accounts and other receivables	<b>311,523</b>	23,143	<b>787,687</b>	(156,298)
Prepaid expenses	<b>45,089</b>	23,013	<b>(10,316)</b>	83,751
Accounts payable and accrued liabilities	<b>1,044,114</b>	473,623	<b>1,722,623</b>	(864,178)
(Decrease) increase in due to broker	<b>(3,543,787)</b>	53,684	<b>(562,061)</b>	53,684
Income taxes payable	<b>91,682</b>	75,805	<b>5,854</b>	169,455
	<b>(10,098,168)</b>	(5,320,431)	<b>(30,792,702)</b>	(70,392,781)
<b>Investing activities</b>				
Purchase of capital assets	-	-	-	(20,935)
	-	-	-	(20,935)
<b>Financing activities</b>				
Proceeds from exercise of Founder Warrants	-	-	-	2,250
Subordinate Voting Shares purchased for cancellation	<b>(494,073)</b>	(171,744)	<b>(746,293)</b>	(180,742)
	<b>(494,073)</b>	(171,744)	<b>(746,293)</b>	(178,492)
<b>Net change in cash and cash equivalents</b>	<b>(10,592,241)</b>	(5,492,175)	<b>(31,538,995)</b>	(70,592,208)
Cash and cash equivalents, beginning of period	<b>88,853,501</b>	122,891,679	<b>109,800,255</b>	187,991,712
<b>Cash and cash equivalents, end of period</b>	<b>78,261,260</b>	117,399,504	<b>78,261,260</b>	117,399,504
<b>Cash and cash equivalents is comprised of</b>				
Cash	<b>78,261,260</b>	17,399,504	<b>78,261,260</b>	17,399,504
Cash equivalents	-	100,000,000	-	100,000,000
	<b>78,261,260</b>	117,399,504	<b>78,261,260</b>	117,399,504
<b>Supplemental Cash Flow Information</b>				
Interest paid	-	-	-	-
Income taxes paid, net of refunds	-	-	<b>250,654</b>	-

(See accompanying notes to the condensed interim financial statements.)

**FAX Capital Corp.**  
**Condensed interim schedule of investment portfolio**  
**As at September 30, 2021**

**(Unaudited)**  
(In Canadian Dollars)

Description	Number of securities	Cost	Fair value
		\$	\$
<b>Public company investments</b>			
Information Services Corporation	1,074,967	16,316,862	29,733,587
Hamilton Thorne Ltd.	17,495,500	21,599,766	31,666,855
Points International Ltd.	1,032,155	20,065,507	22,366,799
Quisitive Technology Solutions Inc. (i)	19,333,333	25,000,000	24,606,452
BioSyent Inc.	2,121,100	15,348,129	15,059,810
Avante Logixx Inc.	2,000,000	3,500,000	4,180,000
Other (ii)		7,635,512	10,668,960
		109,465,776	138,282,463
<b>Private company investments</b>			
2794677 Ontario Corp. (iii)		12,883,819	13,400,000
		122,349,595	151,682,463

(i) Includes 16,000,000 common shares, purchased under a private placement arrangement that are subject to a 12 month hold period from the transaction close date of March 22, 2021.

(ii) Other includes common shares of a Canadian public company in which the Company is in the process of accumulating its targeted position.

(iii) The Company's investment in Carson, Dunlop & Associates Ltd. is held in its majority owned subsidiary 2794677 Ontario Corp.

(See accompanying notes to the condensed interim financial statements.)

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

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**1. Nature of Business**

FAX Capital Corp. (the “Company”) was incorporated in Ontario in 1923, until it was continued federally under the laws of Canada in 1978. The Company is an investment holding company.

The Company’s Subordinate Voting Shares and the Founder Warrants are listed on the Toronto Stock Exchange (“TSX”) under the symbols FXC and FXC.WT, respectively. The Company’s Multiple Voting Shares are not listed on any exchange.

The Company is domiciled in the Province of Ontario, and its registered office address is 2 Bloor Street East, Suite 701, PO Box 76, Toronto, Ontario, M4W 1A8.

**2. Significant Accounting Policies**

*Statement of Compliance*

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Specifically, these statements have been prepared in accordance with International Accounting Standards 34 (“IAS 34”), *Interim Financial Reporting*.

The accounting policies and methods of computation applied by the Company in these condensed interim financial statements are the same as those applied in the Company’s annual financial statements as at and for the year ended December 31, 2020. The condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements for the year ended December 31, 2020.

The Company qualifies as an investment entity under IFRS 10, *Consolidated Financial Statements*.

*Basis of Presentation*

These financial statements have been prepared using the historical cost convention except for certain financial instruments which are measured at fair value.

*Functional and Presentation Currency*

The Company’s functional and presentation currency is the Canadian dollar.

*Segmented Information*

The Company has one operating and geographic segment, which is that of an investment holding company. All of the Company’s operations, assets, and revenues belong to this segment.



## **2. Significant Accounting Policies (continued)**

### *Critical Accounting Judgments, Estimates, and Assumptions*

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, and contingent liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates, and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Information about significant areas of estimation uncertainty considered by management in preparing the financial statements are as follows:

### *Classification and measurement of investments*

In classifying and measuring financial instruments held by the Company, the Company is required to make significant judgements about its business model for managing its financial instruments, and whether or not the business of the Company is to manage the financial assets with the objective of realizing cash flows through the sale of the assets for the purpose of classifying certain financial instruments at fair value through profit or loss ("FVTPL").

### *Valuation of investments*

Investments are measured at fair value in accordance with IFRS 13, *Fair Value Measurement*. Publicly traded securities are valued at the close price on the recognized stock exchange on which the securities are listed and/or principally traded, provided the close price is within the bid-ask spread.

Securities which are listed on a stock exchange or traded over-the-counter and which are subject to a hold period or other trading restrictions are valued as described above, with an appropriate discount as determined by management.

Investments for which reliable quotations are not readily available, or for which there is no closing bid price, including securities of private issuers, are valued at fair value using management's best estimates. Several valuation methodologies may be considered in arriving at fair value, including comparable company transactions, earnings multiples, the price of a recent investment, net assets, discounted cash flows and industry valuation benchmarks. During the initial period after an investment has been made, cost may represent the most reasonable estimate of fair value. Unrealized gains and losses on investments are recognized in the Statements of Comprehensive Income.

### *Income Taxes*

Income taxes relating to uncertain tax positions are recognized based on the expected value of the tax settlement with the related tax authority. Judgment is required to determine the amount of tax provision relating to these uncertain tax positions.

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

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**2. Significant Accounting Policies (continued)**

*Critical Accounting Judgments, Estimates, and Assumptions (continued)*

*Deferred Tax Assets*

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income, together with future tax planning strategies.

*Founder Warrants*

The Company used the Black-Scholes model to calculate the value of Founder Warrants issued as part of the Company's public offering on November 21, 2019 (the "Offering"). The Black-Scholes model requires six key inputs to determine a value for a warrant: risk-free interest rate, exercise price, market price at date of issuance, expected yield, expected life and expected volatility. Certain of the inputs are estimates, which involve considerable judgment and are or could be affected by significant factors that are out of the Company's control. Proceeds from the Offering, net of issuance costs, were allocated between Subordinate Voting Shares and Founder Warrants issued according to their relative fair value.

*Interest in Other Entity*

The Company does not consolidate its subsidiary 2794677 Ontario Corp. As at September 30, 2021, the Company held 95.9% of the equity interest of 2794677 Ontario Corp. and 100% of the voting rights. This subsidiary entity held the Company's investment in Carson, Dunlop & Associates Ltd. ("Carson Dunlop").

**3. Accounts and Other Receivables**

Accounts and other receivables consist of the following:

	<b>September 30</b>	December 31
	<b>2021</b>	2020
	\$	\$
Dividends	<b>227,083</b>	211,818
Interest	<b>52,695</b>	870,957
Accounts receivable (Note 13 (c))	-	343,590
Due from 2794677 Ontario Corp.	<b>1,181</b>	-
Due from Fax Investments Inc. (Note 13 (b))	<b>357,719</b>	-
	<b>638,678</b>	1,426,365

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

**4. Investments**

The Company's investments are financial instruments and have been classified at FVTPL with gains and losses recorded in net income. Investment transactions are recorded on a trade date basis.

Fair value measurements of the investments are classified based on a three-level hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The following table includes the disaggregation of unrealized gain (loss) on investments for the three and nine month periods ended September 30, 2021 and 2020:

	Three month period ended September 30		Nine month period ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Unrealized gain (loss) on investments - beginning of period	38,019,862	(3,473,969)	23,323,512	-
Unrealized gain (loss) on investments - end of period	29,332,867	7,498,234	29,332,867	7,498,234
<b>Net change in unrealized gain (loss) on investments</b>	<b>(8,686,995)</b>	10,972,203	<b>6,009,355</b>	7,498,234

Investments consisted of the following as at September 30, 2021:

<b>Financial assets</b>					
<b>measured at fair value</b>	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
	\$	\$	\$	\$	\$
Public company investments	109,465,776	118,076,011	20,206,452	-	138,282,463
Private company investments	12,883,819	-	-	13,400,000	13,400,000
	122,349,595	118,076,011	20,206,452	13,400,000	151,682,463

Transfers between the three levels of the fair value hierarchy are recognized on the date of the event or change in circumstances that caused the transfer. During the period ended September 30, 2021, the four month hold period on common shares purchased on May 7, 2021 ended. These securities, with a carrying amount of \$4,400,000 at September 30, 2021, were transferred from Level 2 to Level 1 of the fair value hierarchy. There were no other transfers between Level 1, 2 and 3 during the period ended September 30, 2021.

The fair value of the Company's private company investment cannot be derived from an active market and accordingly, was determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of this investment.

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

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**4. Investments (continued)**

The Company's investment in Carson Dunlop is held in its 95.9% owned subsidiary, 2794677 Ontario Corp. Carson Dunlop is a leading provider of proprietary technology-enabled education services and software for home inspectors across Canada and the United States, as well as a leading provider of home inspections services in the Greater Toronto Area.

The Company, through its subsidiary 2794677 Ontario Corp., completed the acquisition of an approximate 78% controlling interest in Carson Dunlop on March 23, 2021. The Company invested \$11,750,000, plus a working capital adjustment of \$1,633,819, for approximately 78% of Carson Dunlop, representing a total enterprise value of \$15 million. To fund the acquisition, 2794677 Ontario Corp. issued 12,883,819 new Class A common shares to the Company for proceeds of \$12,883,819 and the Company provided 2794677 Ontario Corp. with an inter-company loan of \$500,000. On June 28, 2021, 2794677 Ontario Corp. issued to the Chief Executive Officer of 2794677 Ontario Corp. and his spouse collectively 555,556 new non-voting Class B common shares for proceeds of \$500,000. This resulted in the Company's ownership interest in 2794677 Ontario Corp. decreasing from 100% to 95.9%. In July 2021, these funds were used by 2794677 Ontario Corp. to repay the \$500,000 inter-company loan to the Company.

At September 30, 2021, the Company estimated the fair value of its investment in Carson Dunlop using a discounted cash flow analysis for Carson Dunlop's three business units based on multi-year free cash flow forecasts with an assumed after-tax discount of 25.0% and a 8.8x earnings before interest, taxes, depreciation and amortization exit multiple ("Exit multiple"). At September 30, 2021 free cash flow forecasts were based on estimates derived from financial information for Carson Dunlop's three business units prepared in the third quarter of 2021 by the Company's management.

At September 30, 2021, the fair value of the Company's investment in 2794677 Ontario Corp. was \$13,400,000, comprised of its investment of \$12,883,819, and a market adjustment of \$516,181. The valuation also considered the payment of a \$1,700,000 dividend by Carson Dunlop in April 2021, of which \$1,331,667 was ultimately paid to the Company.

During the nine-month period ended September 30, 2021, the reconciliation of private company investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

	<b>September 30</b>
	<b>2021</b>
	\$
Beginning balance	-
Purchase of 12,883,819 Class A common shares of 2794677 Ontario Corp.	12,883,819
Change in unrealized gain (loss)	516,181
Ending balance	<b>13,400,000</b>

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

**4. Investments (continued)**

The significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at September 30, 2021 is shown below:

Investment	Fair value of level 3 investment	Valuation technique	Significant unobservable inputs used in the internal valuation model		Effect on fair value	
			Sensitivity used			
	\$				\$	\$
Carson Dunlop (held in 2794677 Ontario Corp.)	13,400,000	Discounted cash flow	After-tax discount rate	+10%/-10%	(960,000)	1,066,000
			Exit multiple	+10%/-10%	956,000	(956,000)

**5. Capital Assets**

The following is a continuity schedule of computer equipment:

	September 30 2021	December 31 2020
	\$	\$
Cost		
Balance - beginning of period	45,793	20,889
Additions	-	24,904
Balance - end of period	45,793	45,793
Accumulated Amortization		
Balance - beginning of period	19,211	4,993
Depreciation	11,448	14,218
Balance - end of period	30,659	19,211
Carrying value	15,134	26,582

**6. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of the following:

	September 30 2021	December 31 2020
	\$	\$
Accounts payable	39,265	220,008
Accrued liabilities	189,585	158,153
Short-term employee compensation payable	713,625	899,907
Share-based compensation payable (Note 11 (c) & (d))	3,067,628	1,009,412
	4,010,103	2,287,480

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

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**7. Income Taxes**

The income tax expense is represented as follows:

	Three month period		Nine month period	
	ended September 30		ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Current income taxes	-	-	-	-
Deferred income taxes	(1,521,025)	-	2,007,253	-
<b>Provision for income taxes</b>	<b>(1,521,025)</b>	<b>-</b>	<b>2,007,253</b>	<b>-</b>

**8. Share Capital**

**(a) Authorized**

- (i) An unlimited number of Multiple Voting Shares, which entitle the holder to 10 votes per Multiple Voting Share on all matters upon which shareholders are entitled to vote. Fax Investments Inc. ("Fax Investments") owns all of the issued and outstanding Multiple Voting Shares and as at September 30, 2021, the Multiple Voting Shares held by Fax Investments represent approximately 94.5% of the voting rights attached to all of the Company's outstanding voting securities;
- (ii) An unlimited number of Subordinate Voting Shares, which entitle the holder one vote per Subordinate Voting Share on all matters upon which shareholders are entitled to vote;
- (iii) The Multiple Voting Shares and the Subordinate Voting Shares rank *pari passu*, as to the right to receive dividends and to receive the remaining property and assets of the Company on the liquidation, dissolution or winding-up of the Company, whether voluntarily or involuntarily, or any other distribution of assets of the Company among its shareholders for the purposes of winding up its affairs; and
- (iv) On December 17, 2018, the Company entered into a coattail agreement with Computershare Trust Company of Canada, acting as trustee on behalf of the holders of Subordinate Voting Shares, and Fax Investments (the "Coattail Agreement") to ensure that, in the event of a take-over bid, the holders of Subordinate Voting Shares will be entitled to participate on an equal footing with holders of Multiple Voting Shares. The Coattail Agreement contains provisions designed to prevent transactions that otherwise would deprive the holders of Subordinate Voting Shares of rights under applicable provincial take-over bid legislation to which they would have been entitled if the Multiple Voting Shares had been Subordinate Voting Shares.

**FAX Capital Corp.**  
**Notes to the condensed interim financial statements**  
**September 30, 2021**  
(Unaudited)

**8. Share Capital (continued)**

**(b) Issued and outstanding**

	Nine month period ended September 30, 2021		Year ended December 31, 2020	
	Number	Amount	Number	Amount
		\$		\$
<b>Issued - Multiple voting shares</b>				
Balance - beginning of period	<b>26,971,411</b>	<b>123,050,811</b>	26,971,411	122,726,486
Income tax benefit of share issuance costs	-	-	-	324,325
Balance - end of period	<b>26,971,411</b>	<b>123,050,811</b>	26,971,411	123,050,811
<b>Issued - Subordinate voting shares</b>				
Balance - beginning of period	<b>15,866,136</b>	<b>61,616,141</b>	16,059,171	61,230,274
Issued on exercise of Founder Warrants	-	-	500	2,404
Normal Course Issuer Bid repurchases	<b>(181,122)</b>	<b>(690,586)</b>	(193,535)	(737,915)
Income tax benefit of share issuance costs	-	-	-	1,121,378
Balance - end of period	<b>15,685,014</b>	<b>60,925,555</b>	15,866,136	61,616,141
<b>Total</b>		<b>183,976,366</b>		184,666,952

**9. Normal Course Issuer Bid**

The Company's current Normal Course Issuer Bid (the "NCIB") commenced on June 8, 2021 and is effective until the earlier of June 7, 2022 and the date on which the Company has purchased the maximum number of Subordinate Voting Shares permitted under the NCIB. Pursuant to the NCIB, the Company may purchase up to 1,488,480 of its Subordinate Voting Shares, representing 10% of the public float. The price that the Company will pay for any such Subordinate Voting Shares will be the market price of such shares on the TSX, or such alternative Canadian trading systems, at the time of acquisition. All Subordinate Voting Shares acquired under the NCIB are cancelled.

In connection with its NCIB, the Company has entered into an Automatic Securities Repurchase Plan which provides standard instructions regarding how the Company's Subordinate Voting Shares are to be purchased under the NCIB during certain pre-determined trading blackout periods, subject to pre-established parameters. Outside of these pre-determined trading blackout periods, purchases under the Company's NCIB will be completed based upon management's discretion and in accordance with the TSX rules.

In the nine month period ended September 30, 2021, there were 181,122 Subordinate Voting Shares (2020 – 55,328) purchased at a cost of \$746,293 (2020 - \$180,742) under the Company's current and previous NCIB. The discount paid to purchase the shares below the stated value was allocated to Retained earnings.

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**10. Founder Warrants**

A summary of the status of the Company's Founder Warrants and changes during the year is as follows:

	Nine month period ended September 30, 2021		Year ended December 31, 2020	
	Number	Amount	Number	Amount
		\$		\$
<b>Founder Warrants</b>				
Balance - beginning of period	15,559,500	4,888,632	15,560,000	4,800,044
Exercised during the year	-	-	(500)	(154)
Income tax benefit of share issuance costs	-	-	-	88,742
Balance - end of period	15,559,500	4,888,632	15,559,500	4,888,632

Each Founder Warrant entitles the holder to purchase one Subordinate Voting Share at a price of \$4.50 per share until November 22, 2021.

The fair value of the Founder Warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.57%
Expected life	2 years
Expected volatility	20%
Share price	\$4.17
Exercise price	\$4.50

**11. Long-term Incentive Plan**

The Company has adopted a long-term incentive plan (the "Plan") to assist in attracting, retaining and motivating directors and employees of the Company. The Plan is designed to: (i) encourage share ownership; (ii) align eligible participants' interests in the performance of the Company; (iii) encourage the retention of key employees within the Company; and (iv) attract highly qualified employees by remaining competitive in terms of total compensation arrangements. The Governance, Compensation and Nominating Committee (the "Committee") of the Company's Board of Directors (the "Board") administers the Plan.

The maximum aggregate number of Subordinate Voting Shares that may be issuable pursuant to awards granted under the Plan to insiders of the Company shall not exceed 10% of the issued and outstanding Subordinate Voting Shares of the Company. No more than 5% of the issued Subordinate Voting Shares of the Company may be granted to any one participant, and no more than 2% of the issued Subordinate Voting Shares of the Company may be granted to any one employee conducting "Investor Relations Activities" in any twelve-month period. The awards are non-transferable and non-assignable. The specific awards that may be granted under the Plan are as follows:



**11. Long-term Incentive Plan (continued)**

**(a) Options**

Options to purchase Subordinate Voting Shares may be granted to eligible persons at an exercise price which shall in no event be lower than the Market Price on the grant date. The Market Price means the volume-weighted average trading price of the Subordinate Voting Shares for the ten trading days immediately preceding such date as reported on the stock exchange on which the Subordinate Voting Shares are listed for trading or quoted. Options are subject to time vesting conditions set out at the grant date. Options vest and become exercisable in approximately equal tranches of 25% of the total award on the first anniversary of the grant date and each of the next four anniversaries of the grant date and are exercisable no later than 10 years after the grant date.

The Company did not grant any options during the nine month periods ended September 30, 2021 and 2020. The Company currently does not have any options outstanding.

**(b) Restricted Share Units**

Restricted Share Units ("RSUs") may be granted as either Discretionary Restricted Share Units ("Discretionary RSUs") or as Elective Restricted Share Units ("Elective RSUs"). Discretionary RSUs may be granted to eligible persons at such time as determined by the Board pursuant to recommendations of the Committee. In addition, the Board may, on fixed dates and upon certain conditions determined by the Board, permit an eligible employee to elect to defer receipt of all or a portion of his or her annual incentive bonus payable by the Company and receive in lieu thereof an award of RSUs, being the Elective RSUs. The value of each RSU is based on the share price of the Company's Subordinate Voting Shares. Discretionary RSUs will vest and be settled no later than December 31 of the calendar year which is no earlier than three years and no later than five years after the calendar year in which the Discretionary RSU was granted. Elective RSUs will vest immediately and be settled no later than December 31 of the calendar year which is three years after the calendar year in which the Elective RSU was granted. Discretionary RSUs are share settled in Subordinate Voting Shares and Elective RSUs are cash settled. The Committee will determine whether and to what extent dividend equivalents will be credited to a participant's account with respect to awards of RSUs.

During the nine month period ended September 30, 2021, the Company granted 205,054 Discretionary RSUs (2020 - 223,830). The Company recorded a share-based compensation expense of \$127,083 and \$322,574 in the three and nine month periods ended September 30, 2021, respectively, related to its outstanding Discretionary RSUs (2020 - \$60,418 and \$110,766). As at September 30, 2021, the Company had 428,884 Discretionary RSUs outstanding (2020 - 223,830) and no Elective RSUs outstanding (2020 - nil).

**(c) Deferred Share Units**

Deferred Share Units ("DSUs") may be granted as either Discretionary Deferred Share Units ("Discretionary DSUs") or as Elective Deferred Share Units ("Elective DSUs"). Discretionary DSUs may be granted to eligible persons at such time as determined by the Board pursuant to recommendations of the Committee. In addition, the Board may permit an eligible participant to elect to defer receipt of all or a portion of his or her annual board retainer payable by the Company and receive in lieu thereof an award of DSUs, being the Elective DSUs. The value of each DSU is based on the share price of the Company's Subordinate Voting Shares. Discretionary DSUs vest based on the period determined by the Committee at the time the award is granted. Elective DSUs vest immediately at the time the award is granted. DSUs are settled after the time a participant ceases to be a director or employee of the Company for any reason and by December 31 of the first calendar year that commences after such time. DSUs are cash settled.

**11. Long-term Incentive Plan (continued)**

**(c) Deferred Share Units (continued)**

The Committee will determine whether and to what extent dividend equivalents will be credited to a participant's account with respect to awards of DSUs.

During the nine month period ended September 30, 2021, the Company granted 18,220 Elective DSUs (2020 - 17,357). The Company recorded a share-based compensation expense of \$55,506 and \$99,214 in the three and nine month periods ended September 30, 2021, respectively, related to its outstanding Elective DSUs (2020 - \$48,096 and \$56,409). The liability related to the Company's Elective DSUs was \$187,772 at September 30, 2021 (2020 - \$56,410). As at September 30, 2021, the Company had 43,166 Elective DSUs outstanding (2020 - 17,357) and no Discretionary DSUs outstanding (2020 - nil).

**(d) Performance Share Units**

Performance Share Units ("PSUs") may be granted to eligible persons at such time as determined by the Board pursuant to recommendations of the Committee. PSUs are subject to performance and time vesting conditions. The performance criteria that shall be used to determine the vesting of the PSUs may include criteria based upon the achievement of Company-wide, divisional or individual goals, or as may otherwise be determined by the Board. The value of each PSU is based on the share price of the Company's Subordinate Voting Shares. PSUs will vest and be settled no later than December 31 of the calendar year which is three years after the calendar year in which the PSU was granted. The Committee will determine whether and to what extent dividend equivalents will be credited to a participant's account with respect to awards of PSUs. PSUs are cash settled.

During the nine month period ended September 30, 2021, the Company granted 205,714 PSUs (2020 - 362,756). The Company recorded a share-based compensation expense of \$701,105 and \$1,959,002 in the three and nine month periods ended September 30, 2021, respectively, related to its outstanding PSUs (2020 - \$209,251 and \$209,251). The liability related to the Company's PSUs was \$2,879,856 at September 30, 2021 (2020 - \$209,251). As at September 30, 2021, the Company had 568,470 PSUs outstanding (2020 - 362,756).

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**12. Earnings (loss) per share**

Basic and diluted earnings per common share are calculated as follows:

	<b>Three month period ended September 30</b>		<b>Nine month period ended September 30</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Net income (loss) available to common shareholders	<b>\$ (8,442,470)</b>	\$ 10,340,892	<b>\$ 18,035,172</b>	\$ 6,288,446
Weighted average number of common shares outstanding				
- basic	<b>42,725,152</b>	43,014,626	<b>42,780,254</b>	43,025,489
- diluted	<b>43,154,036</b>	43,238,456	<b>43,151,759</b>	43,163,545
Earnings (loss) per common share				
Basic	<b>\$ (0.20)</b>	\$ 0.24	<b>\$ 0.42</b>	\$ 0.15
Diluted	<b>\$ (0.19)</b>	\$ 0.24	<b>\$ 0.42</b>	\$ 0.15

The following potential common shares are anti-dilutive and are therefore excluded from the weighted average number of common shares for the purpose of diluted earnings per share.

	<b>Three month period ended September 30</b>		<b>Nine month period ended September 30</b>	
	<b>2021</b>	2020	<b>2021</b>	2020
Founder Warrants	<b>15,559,500</b>	15,559,500	<b>15,559,500</b>	15,559,500

The Company's Multiple Voting Shares and its Subordinate Voting Shares are both classes of common shares of the Company.

### **13. Related Party Transactions**

The following transactions have occurred with related parties in the normal course of operations.

- (a) The Company and Federated Capital Corp. (“Federated Capital”), the parent company of Fax Investments, entered into an agreement (the “Administrative Services Agreement”) on November 21, 2019 whereby the Company is provided access to certain office space and supplies, computers, communication equipment and administrative personnel provided by Federated Capital. As consideration for such services (including the use of office space), the Company has agreed to pay Federated Capital a fee equal to the costs and expenses of Federated Capital in providing such services and office space, plus 5%. For the nine month period ended September 30, 2021, Federated Capital charged the Company expenses under the Administrative Services Agreement of \$129,846 (2020 - \$103,048). On May 26, 2021, the Company granted the Chief Executive Officer (“CEO”) \$300,000 of RSUs in lieu of the Company paying the CEO short-term cash compensation. Prior to this, Federated Capital paid the compensation related expenses of the CEO and did not allocate these costs to the Company. In addition, Federated Capital pays the compensation related expenses of an Executive Vice-President of the Company and does not allocate these costs to the Company.
- (b) Fax Investments has agreed to pay at the end of each fiscal year of the Company, certain specified operating expenses of the Company exceeding 2.85% of the Company’s average month-end book value for such fiscal year until December 31, 2024. The Company’s specified operating expenses were above this threshold in the nine month period ended September 30, 2021. Accordingly, the Company has recorded a receivable of \$357,719 from Fax Investments for the reimbursement of excess operating expenses in the nine month period ended September 30, 2021 (2020 - \$nil).
- (c) On March 23, 2021, the Company’s subsidiary, 2794677 Ontario Corp., completed the acquisition of an approximate 78% controlling interest in Carson Dunlop for cash consideration of \$11,750,000, plus a working capital adjustment of \$1,633,819. The acquisition was funded by the Company acquiring common shares of 2794677 Ontario Corp. for \$12,883,819 and an intercompany loan of \$500,000, which was repaid by 2794677 Ontario Corp. in July, 2021.

Carson Dunlop agreed to reimburse the Company for its third-party transaction and due diligence expenses incurred in this transaction. As a result of this commitment, during the period ended September 30, 2021, Carson Dunlop reimbursed the Company \$343,590 of the third-party transaction and due diligence expenses.

#### **Key Management Personnel**

Key management personnel are defined as those individuals having authority and responsibility for planning, directing, and controlling the activities of the Company. The Company considers its executive officers and its directors to be its key management personnel. Prior to the grant of the RSUs to the CEO on May 26, 2021, Federated Capital paid the CEO’s annual base salary of \$200,000 and did not allocate this cost to the Company. In addition, Federated Capital pays an Executive Vice-President’s annual base salary of \$100,000 and does not allocate this cost to the Company (refer to Note 13 (a)).

Compensation related expenses for key management personnel for the nine month period ended September 30, 2021 was \$1,143,952 (2020 - \$480,938).

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**13. Related Party Transactions (continued)**

These expenditures were allocated as follows in the financial statements:

	Three month period		Nine month period	
	ended September 30		ended September 30	
	2021	2020	2021	2020
	\$	\$	\$	\$
Compensation (Refer to Note 13 (a))	<b>82,500</b>	78,639	<b>256,324</b>	235,917
Director fees	<b>52,500</b>	52,500	<b>157,500</b>	173,333
Share-based compensation	<b>326,312</b>	56,430	<b>730,128</b>	71,688
	<b>461,312</b>	187,569	<b>1,143,952</b>	480,938

**14. Management of Capital**

The Company includes the following in its managed capital:

	September 30	December 31
	2021	2020
	\$	\$
Multiple Voting Shares	<b>123,050,811</b>	123,050,811
Subordinate Voting Shares	<b>60,925,555</b>	61,616,141
Founder Warrants	<b>4,888,632</b>	4,888,632
Contributed surplus	<b>493,754</b>	171,180
Retained earnings	<b>34,915,568</b>	17,192,611
	<b>224,274,320</b>	206,919,375

The Company is not subject to externally imposed capital requirements.

**15. Financial Instruments**

**Credit Risk**

Credit risk is the risk of loss associated with a counter-party's inability to fulfil its payment obligations. The Company's maximum exposure to credit risk was \$638,678 as of September 30, 2021 (September 30, 2020 - \$784,159), being the value of its dividend receivable, interest receivable and receivables from related parties. Management believes these receivables are a low credit risk. As of September 30, 2020, the Company's exposure to credit risk consisted of its interest receivable and dividend receivable. There have been no changes to the Company's methods for managing credit risk during the period ended September 30, 2021.

## **15. Financial Instruments (continued)**

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company did not generate cash flows from its principal operations and relied on its cash balance to pay its liabilities. Management ensures it maintains sufficient cash on hand for continued operations.

There have been no changes to management's methods for managing liquidity risk since December 31, 2020. The Company has working capital of \$74,632,576 as of September 30, 2021 (September 30, 2020 - \$116,880,446) and in management's judgment, the Company has sufficient working capital to continue to fund its operations and to pay its liabilities for the next fiscal year.

### **Market Risk**

Market risk is the potential for loss to the Company from changes in the values of its financial instruments due to changes in equity prices, foreign exchange rates or interest rates.

#### *Equity Price Risk*

Equity price risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. All securities present a risk of loss of capital. Any equity and derivative instrument that the Company may hold is susceptible to market price risk arising from uncertainties about future prices of the instruments. Management moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value.

The most significant exposure for the Company to equity price risk arises from its investment in publicly and privately traded securities. As at September 30, 2021, for publicly traded securities, had the prices on the respective stock exchanges for those securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased, respectively, by approximately \$13,828,246 (December 31, 2020 - \$9,882,604) or approximately 6.0% (December 31, 2020 - 4.7%) of total assets. In practice, the actual results may differ. Management is unable to meaningfully quantify any correlation of the price of its privately owned investment to changes in a benchmark index.

There has been no change in the Company's long-term investment strategy, despite the COVID-19 pandemic.

#### *Foreign Currency Risk*

Foreign currency risk is the risk that fluctuations in the rates of exchange on foreign currency would impact the Company's future cash flows. The Company has minimal exposure to foreign exchange fluctuations as it only has an immaterial amount of cash held in a United States ("US") dollar bank account. The Company has no other assets or liabilities denominated in US dollars. There have been no changes in the Company's foreign currency risk management strategies for the year.

**15. Financial Instruments (continued)**

**Market Risk (continued)**

*Interest Rate Risk*

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash and cash equivalents. The fair value of the Company's cash and cash equivalents affected by changes of interest rates is minimal. There have been no changes to managements' strategies to mitigate interest rate risk for the year.

**16. COVID-19**

COVID-19 was declared a pandemic by the World Health Organization in early 2020. At that time, the Company implemented its business continuity plan, which included moving all employees to work from home. To date, the Company's ability to meet its investments objectives has otherwise not been materially impacted. While some regions of the world have started to roll back the emergency measures they enacted to combat the spread of COVID-19, the overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus and on actions taken by governments, businesses and individuals, which could vary by country and result in differing outcomes. As a result, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company, or its portfolio investments, in future periods.

**17. Approval of Financial Statements**

The financial statements were approved by the Board and authorized for issue on November 4, 2021.