

Dye & Durham Limited

Condensed consolidated interim financial statements

[Expressed in thousands of Canadian dollars]

Unaudited

For the three months ended September 30,

2021 and 2020

Dye & Durham Limited

**Condensed Consolidated Interim Statements of
Financial Position [unaudited]**

[Expressed in thousands of Canadian dollars]

As at

	September 30, 2021	June 30, 2021
	\$	\$
Assets		
Current		
Cash and cash equivalents	135,039	429,335
Receivables	56,678	47,077
Prepaid expenses and other assets	12,643	8,094
	204,360	484,506
Non-current		
Other assets	3,025	2,601
Property and equipment, net	3,914	3,290
Right-of-use assets, net	12,688	9,360
Intangible assets, net <i>[note 6]</i>	683,418	564,306
Goodwill <i>[note 7]</i>	702,299	494,303
Total assets	1,609,704	1,558,366
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	74,759	59,931
Customer advances	10,795	10,249
Holdbacks and contingent consideration on acquisitions <i>[note 5]</i>	6,382	15,883
Lease liabilities	4,409	3,150
Loans and borrowings <i>[note 8]</i>	13,906	17,407
	110,251	106,620
Non-current		
Holdbacks and contingent consideration on acquisitions <i>[note 5]</i>	5,003	5,326
Lease liabilities	9,126	7,229
Loans and borrowings <i>[note 8]</i>	219,678	222,140
Derivative liability <i>[note 9]</i>	3,786	4,180
Other liabilities	2,643	1,002
Deferred tax liabilities	140,985	110,939
Convertible debentures <i>[note 10]</i>	348,402	350,013
Total liabilities	839,874	807,449
Contingencies <i>[note 16]</i>		
Equity		
Capital stock <i>[note 11]</i>	850,973	845,742
Contributed surplus	29,770	26,213
Accumulated other comprehensive income	(14,676)	(729)
Deficit	(99,422)	(120,309)
Non-controlling interests	3,185	—
	769,830	750,917
Total liabilities and equity	1,609,704	1,558,366

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

On behalf of the Board:

"Signed"
Director - Randy Fowlie

"Signed"
Director - Brian Derksen

Dye & Durham Limited

Condensed Consolidated Interim Statements of Operations [unaudited]

[Expressed in thousands of Canadian dollars and thousands of shares, except per share amounts]

Three months ended September 30,

	2021	2020
	\$	\$
Revenue [note 19]	112,622	21,901
Expenses		
Direct costs	(15,640)	(2,408)
Technology and operations [note 13]	(20,111)	(4,509)
General and administrative [note 13]	(9,186)	(2,035)
Sales and marketing [note 13]	(5,328)	(504)
Stock-based compensation [note 11]	(3,605)	(268)
Income before the following	58,752	12,177
Finance costs, net [notes 12]	12,599	(22,664)
Amortization and depreciation [notes 6]	(30,960)	(4,179)
Acquisition, restructuring and other costs [note 14]	(10,643)	(4,820)
Income before taxes	29,748	(19,486)
Income tax (expense) recovery	(7,650)	4,494
Net income	22,098	(14,992)
Attributable to		
Non-controlling interests	(76)	—
Shareholders	22,174	(14,992)
	22,098	(14,992)
Net earnings per common share [note 17]		
Basic	0.32	(0.38)
Diluted	0.18	(0.38)
Weighted average number of shares outstanding [note 17]		
Basic	68,637	39,730
Diluted	75,971	39,730

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

Dye & Durham Limited

Condensed Consolidated Interim Statements of Comprehensive Income [unaudited]

[Expressed in thousands of Canadian dollars and thousands of shares, except per share amounts]

Three months ended September 30,

	2021	2020
	\$	\$
Net income	22,098	(14,992)
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent periods		
Exchange differences on translation of foreign operations	(3,955)	1,375
Change in fair value of financial assets, net of income tax	—	154
Realized gain on derivatives designated as cash flow hedge	—	4,607
Net change in fair value of derivatives designated as cash flow hedge [note 9]	80	(573)
	(3,875)	5,563
Items that will not be reclassified to profit or loss in subsequent periods		
Net change in fair value of convertible debentures attributable to change in own credit risk, net of income taxes of \$3,600 [note 10]	(10,072)	—
	(10,072)	—
Other comprehensive income	(13,947)	5,563
Comprehensive income	8,151	(9,429)
Attributable to		
Non-controlling interests	(76)	—
Shareholders	8,227	(9,429)
	8,151	(9,429)

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Dye & Durham Limited

Condensed Consolidated Interim Statements of Changes in Equity [unaudited]

[Expressed in thousands of Canadian dollars and thousands of shares]

	Dye & Durham Limited	Dye & Durham Corporation				Accumulated other comprehensive income		Non-controlling interests	
	Number of common shares	Number of common shares	Number of preferred shares	Capital stock	Contributed surplus	\$	Deficit	\$	Total
	#	#	#	\$	\$	\$	\$	\$	\$
Balance, June 30, 2020	—	20,493	3,837	9,069	1,310	(3,597)	(75,652)	—	(68,870)
Pre-IPO Reorganization [notes 1 and 11]	24,330	(20,493)	(3,837)	—	—	—	—	—	—
Issuance of common shares, net of issuance costs [note 11]	22,382	—	—	190,217	—	—	—	—	190,217
Stock options exercised [note 11]	24	—	—	71	(6)	—	—	—	65
Stock-based compensation [note 11]	—	—	—	—	268	—	—	—	268
Comprehensive income for the period	—	—	—	—	—	5,563	(14,992)	—	(9,429)
Balance, September 30, 2020	46,736	—	—	199,357	1,572	1,966	(90,644)	—	112,251
Balance, June 30, 2021	68,511	—	—	845,742	26,213	(729)	(120,309)	—	750,917
Issuance of common shares, net of issuance costs [note 11]	106	—	—	4,992	—	—	—	—	4,992
Dividends declared [note 11]	—	—	—	—	—	—	(1,287)	—	(1,287)
Stock options exercised [note 11]	33	—	—	239	(48)	—	—	—	191
Stock-based compensation [note 11]	—	—	—	—	3,605	—	—	—	3,605
Acquisition of a subsidiary [note 5]	—	—	—	—	—	—	—	3,261	3,261
Comprehensive income for the period	—	—	—	—	—	(13,947)	22,174	(76)	8,151
Balance, September 30, 2021	68,650	—	—	850,973	29,770	(14,676)	(99,422)	3,185	769,830

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

Dye & Durham Limited

**Condensed Consolidated Interim
Statements of Cash Flows [unaudited]**

[Expressed in thousands of Canadian dollars]

Three months ended September 30,

	2021	2020
	\$	\$
	<hr/>	<hr/>
Cash flows from operating activities		
Net income for the period	22,098	(14,992)
Items not affecting cash		
Amortization and depreciation [notes 6]	30,960	4,179
Stock-based compensation expense [note 11]	3,605	268
Income tax expense (recovery)	7,650	(4,494)
Finance costs [note 12]	(12,599)	22,664
Taxes paid	(4,852)	—
Changes in non-cash working capital balances		
Receivables	6,486	(3,805)
Prepaid expenses and other assets	(2,671)	(542)
Accounts payable and accrued liabilities	(15,533)	(2,478)
Customer advances	(2,267)	(26)
Net cash provided by operating activities	<hr/> 32,877	<hr/> 774
Cash flows from financing activities		
Net proceeds from issuance of shares [note 11]	—	186,678
Net proceeds from loans and borrowings [note 8]	—	130,836
Proceeds from exercise of stock options [note 11]	191	65
Payments for loans and borrowings [note 8]	(3,084)	(238,300)
Interest paid	(9,240)	(10,305)
Payments for lease obligations	(1,690)	(500)
Net cash (used in) provided by financing activities	<hr/> (13,823)	<hr/> 68,474
Cash flows from investing activities		
Acquisition consideration paid, net of cash acquired [note 5]	(298,231)	(52,234)
Holdbacks and contingent consideration paid [note 5]	(9,145)	(1,183)
Additions to intangible assets [note 6]	(5,217)	(531)
Purchases of property and equipment	(651)	(27)
Purchase of investment in financial asset	—	(1,475)
Lease payments received	88	60
Net cash used in investing activities	<hr/> (313,156)	<hr/> (55,390)
Change in cash and cash equivalents	(294,102)	13,858
Cash and cash equivalents, beginning of period	429,335	2,569
Effect of foreign exchange on cash and cash equivalents	(194)	90
Cash and cash equivalents, end of period	<hr/> 135,039	<hr/> 16,517

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Dye & Durham Limited

Notes to condensed consolidated interim financial statements

[Expressed in thousands of Canadian dollars and thousands of shares, except per share amounts]

September 30, 2021 and 2020

Unaudited

1. Description of the business

Dye & Durham Limited [the “Company”] is a provider of cloud-based software and technology solutions designed to boost efficiency and increase productivity for legal and business professionals in Canada, Australia, Ireland and the United Kingdom [“U.K.”]. The Company provides critical information services and workflow, which clients require to manage their process, information and regulatory requirements. The Company was incorporated by articles of incorporation under the *Ontario Business Corporation Act* on June 26, 2020. The Company’s registered and head office is located at 199 Bay Street, Suite 4610, Toronto, Ontario, Canada.

On July 17, 2020, the Company completed an initial public offering [the “IPO”] and its shares began trading on the Toronto Stock Exchange under the symbol “DND”.

Immediately prior to closing of the IPO, the Company entered into a share purchase agreement with the previous shareholders of Dye & Durham Corporation [“D&D Corp”] pursuant to which the Company acquired all of the issued and outstanding shares of D&D Corp in consideration for the issuance of 24,330 common shares of the Company. In addition, all existing stock options of D&D Corp were exchanged for stock options of the Company with the same terms and conditions. As the Company was a newly formed entity and the existing shareholders maintained common control over the Company and D&D Corp immediately prior to the closing of the IPO, this transaction was accounted for as a reorganization using the continuity of interest method.

2. Basis of preparation

These condensed consolidated interim financial statements [“financial statements”] were prepared in accordance with International Financial Reporting Standards [“IFRS”], as issued by the International Accounting Standards Board [“IASB”] applicable to the preparation of interim financial statements, including International Accounting Standard [“IAS”] 34 – *Interim Financial Reporting*. Accordingly, certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with IFRS, as issued by the IASB, have been omitted or condensed. Accordingly, these financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended June 30, 2021.

Certain comparative figures have been reclassified to conform to the financial presentation adopted for the current period.

These financial statements include the accounts of the Company and the following material subsidiaries as at September 30 and June 30, 2021:

Subsidiary	Country of incorporation	Ownership percentage September 30, 2021	Ownership percentage June 30, 2021
Dye & Durham Corporation	Canada	100%	100%
Dye & Durham (UK) Limited	United Kingdom	100%	100%
R-Squared Bidco Limited	United Kingdom	100%	100%
Do Process LP	Canada	100%	100%
Dye & Durham Australia Pty Limited	Australia	100%	100%
GlobalX Information Pty Ltd.	Australia	100%	—
TM Group (UK) Limited	United Kingdom	100%	—

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

[Expressed in thousands of Canadian dollars and thousands of shares, except per share amounts]

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Unaudited

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 8, 2021.

3. Significant accounting judgments and estimates

The preparation of these financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and reported amounts of revenue and expenses during the period. These estimates and assumptions are based on historical experience, expectations of the future, and other relevant factors and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected. Actual results may differ from these estimates. In preparing these financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of uncertainty are the same as those applied and described in the Company's audited annual consolidated financial statements for the fiscal year ended June 30, 2021.

COVID-19

During the three months ended September 30, 2021 and 2020, the outbreak of the novel coronavirus ["COVID-19"] resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused disruption to certain businesses globally; as a result, there could be a possibility of recession in the near future. While the impact of COVID-19 on the Company has been minimal to date, there is uncertainty around its duration and future business conditions. If the outbreak were to cause disruption to the Company's supply chain or its service capabilities in the future, it would have a negative impact on revenue, which could be material. In addition, any material negative impact on revenue would impact profitability, as well as liquidity and capital resources.

4. Changes in accounting policies

New accounting pronouncements or policies adopted

The Company adopted the following new standards and amendments to standards, effective July 1, 2021. These changes did not have a material impact on these financial statements for the three months ended September 30, 2021:

- *Interest Rate Benchmark Reform – Phase 2* [Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16]

Standards, amendments and interpretations issued as at September 30, 2021 but not yet effective

The following new and amended standards and interpretations will become effective in a future year. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective and are not expected to have a significant impact on these financial statements:

- *Onerous Contracts – Cost of Fulfilling a Contract* [Amendments to IAS 37].

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Notes to condensed consolidated interim financial statements

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5. Acquisitions

Acquisitions that are determined to be business combinations have been recorded under the purchase method of accounting and results have been included in the condensed consolidated interim statements of operations and comprehensive income from their respective acquisition dates.

Accordingly, the allocation of the purchase price to assets and liabilities is based on the fair value, with the excess of the purchase price over the fair value of the assets acquired being allocated to goodwill.

For certain acquisitions made, management assessed the information obtained, and assumptions to be used in estimating the fair value of the intangible assets and deferred taxes. For the acquisitions completed during the three months ended September 30, 2021 and during the year ended June 30, 2021, the allocation of the fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition were as follows:

	Three months ended September 30, 2021			2021
	GlobalX [a] \$	TM Group [b] \$	Total \$	Total [c] \$
Consideration paid	159,856	155,404	315,260	821,619
Holdbacks/contingent consideration	2,097	—	2,097	22,620
Total purchase price	161,953	155,404	317,357	844,239
Current assets	14,782	15,585	30,367	49,129
Equipment	353	595	948	1,156
Software technologies and licenses	19,048	28,026	47,074	72,568
Brands and trademarks	—	7,911	7,911	30,187
Customer lists	54,212	37,425	91,637	410,684
Right-of-use asset	2,919	1,143	4,062	4,996
Non-current assets	519	—	519	171
Non-controlling interests	—	(3,261)	(3,261)	—
Liabilities assumed	(11,706)	(19,451)	(31,157)	(47,859)
Deferred tax liability	(21,669)	(17,534)	(39,203)	(121,946)
	58,458	50,439	108,897	399,086
Goodwill	103,495	104,965	208,460	445,153

The goodwill recognized in connection with the above acquisitions is primarily attributable to the anticipated improvement in the operations of the companies acquired and synergies with existing operations as a result of implementing management's business strategies and methodologies. Goodwill also includes other intangibles such as assembled workforce that do not qualify for separate recognition under IFRS.

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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[a] Acquisition of GlobalX Information Pty Ltd.

On July 1, 2021, the Company acquired all issued and outstanding shares of GlobalX Information Pty Ltd. for total consideration of \$161,953 with an upfront cash payment of \$154,864, issuance of 106 common shares with total fair value of \$4,992 and fair value of deferred consideration of \$2,097. As at September 30, 2021, the deferred consideration is outstanding and is expected to be settled by December 2021.

The purchase price allocation is considered to be preliminary and subsequent adjustments during the measurement period will occur as the Company completes its estimation of the fair values of assets acquired and liabilities assumed, including the valuation of intangible assets.

[b] Acquisition of TM Group (UK) Ltd.

On July 8, 2021, the Company acquired all issued and outstanding shares of TM Group (UK) Ltd. for total cash consideration of \$155,404.

The purchase price allocation is considered to be preliminary and subsequent adjustments during the measurement period will occur as the Company completes its estimation of the fair values of assets acquired and liabilities assumed, including the valuation of intangible assets.

[c] 2021 total

For the year ended June 30, 2021, the Company completed acquisitions for total consideration of \$844,239 with upfront payments of \$821,619 and fair value of deferred consideration of \$22,620. The purchase price allocation of certain acquisitions completed during the year ended June 30, 2021 is considered to be preliminary and subsequent adjustments during the measurement period will occur as the Company completes its estimation of the fair values of assets acquired and liabilities assumed, including the valuation of intangible assets.

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Notes to condensed consolidated interim financial statements

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6. Intangible assets

	Software technologies	Brand and trademarks	Licenses	Customer lists	Total
	\$	\$	\$	\$	\$
Cost					
Balance, June 30, 2020	34,729	5,935	21,810	55,770	118,244
Accounting policy change	(180)	—	—	—	(180)
As adjusted	34,549	5,935	21,810	55,770	118,064
Additions	7,938	—	—	—	7,938
Acquired through acquisitions	74,081	30,344	262	410,616	515,303
Disposal	(224)	—	—	—	(224)
Effects of foreign exchange	(223)	136	—	(747)	(834)
Balance, June 30, 2021	116,121	36,415	22,072	465,639	640,247
Additions	5,658	—	—	—	5,658
Acquired through acquisitions	45,298	7,753	—	91,705	144,756
Disposals	(4,587)	(4)	(63)	—	(4,654)
Effects of foreign exchange	(664)	(46)	—	(1,644)	(2,354)
Balance, September 30, 2021	161,826	44,118	22,009	555,700	783,653
Accumulated amortization					
Balance, June 30, 2020	11,525	—	4,653	14,545	30,723
Amortization	12,617	2,932	2,226	27,867	45,642
Disposal	(224)	—	—	—	(224)
Effects of foreign exchange	(55)	(36)	—	(109)	(200)
Balance, June 30, 2021	23,863	2,896	6,879	42,303	75,941
Amortization	13,630	1,723	610	13,065	29,028
Disposal	(4,587)	(4)	(63)	—	(4,654)
Effects of foreign exchange	(20)	(4)	—	(56)	(80)
Balance, September 30, 2021	32,886	4,611	7,426	55,312	100,235
Carrying value					
Balance, June 30, 2021	92,258	33,519	15,193	423,336	564,306
Balance, September 30, 2021	128,940	39,507	14,583	500,388	683,418

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

[Expressed in thousands of Canadian dollars and thousands of shares, except per share amounts]

September 30, 2021 and 2020

Unaudited

7. Goodwill

	\$
Balance, June 30, 2020	52,502
Additions	442,594
Adjustments upon finalization of purchase price allocations related to prior year acquisitions	1,127
Effects of foreign exchange	(1,920)
Balance, June 30, 2021	494,303
Additions	208,460
Adjustments upon finalization of purchase price allocations related to prior year acquisitions	2,560
Effects of foreign exchange	(3,024)
Balance, September 30, 2021	702,299

8. Loans and borrowings

Loans and borrowings comprise the following:

	September 30, 2021 \$	June 30, 2021 \$
Current		
Term credit facility [a][b][c]	12,842	12,879
Convertible debentures accrued interest [note 10]	1,064	4,528
	13,906	17,407
Non-current		
Term credit facility [a][b][c]	219,678	222,140
Total	233,584	239,547

Credit facilities

[a] FY2020 credit facility

On July 11, 2019, the Company settled its then-existing credit facility and replaced it with a new credit facility [the "FY2020 Credit Facility"]. The aggregate amount committed under the FY2020 Credit Facility was \$200,000 comprising [i] a \$10,000 revolving loan facility; and [ii] a \$190,000 term loan facility [the "Term Loan Commitment"].

The Company received total gross cash proceeds of \$190,000 under the Term Loan Commitment and incurred financing fees of \$6,983. The Term Loan Commitment bore an interest rate of the lower of [i] Banker's Acceptance ["BA"] rate + 6.5%; and [ii] the prime rate of interest + 5.5% payable quarterly or monthly. Principal repayments of \$1,665 were due on a quarterly basis on the term loan. The FY2020 Credit Facility had a maturity date of July 11, 2024. The FY2020 Credit Facility was classified as a financial liability at amortized cost and accounted for using the effective interest rate method.

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The FY2020 Credit Facility was repaid in full on September 25, 2020. The unamortized portion of loan fees of \$5,407 was recognized as finance costs in the consolidated statements of operations and comprehensive income for the three-month period ended September 30, 2020.

[b] FY2021 credit facility

On September 25, 2020, the Company settled the FY2020 Credit Facility and replaced it with a new credit facility ["FY2021 Credit Facility"]. The aggregate amount committed under the FY2021 Credit Facility was \$140,000. The FY2021 Credit Facility also included an additional uncommitted accordion of up to \$25,000, for an aggregate total availability of up to \$165,000.

The Company received total gross cash proceeds of \$131,684 under the FY2021 Credit Facility and incurred financing fees of \$847. The FY2021 Credit Facility bore an interest rate based on a grid system at the lower of [i] BA rate; and [ii] the prime rate of interest payable quarterly or monthly at the option of the Company. Interest payments were due on a monthly or quarterly basis at the option of the Company. The FY2021 Credit Facility had a maturity date of September 25, 2022. The FY2021 Credit Facility was classified as a financial liability at amortized cost and is accounted for using the effective interest rate method. On September 30, 2020, the Company completed an equity financing and repaid \$45,000 of the FY2021 Credit Facility from the cash proceeds received.

On December 10, 2020, the balance outstanding under the FY2021 Credit facility of \$36,500 and unamortized financing fees of \$767 were rolled over to the FY2021 Amended Credit Facility.

[c] FY2021 amended credit facility

On December 10, 2020, the Company amended the FY2021 Credit Facility and replaced it with the current credit facility ["FY2021 Amended Credit Facility"]. The aggregate amount committed under the FY2021 Amended Credit Facility is \$570,000 comprising of [i] a \$140,000 revolving loan facility, [ii] a \$305,000 term loan facility ["Term A Credit Facility"] and [iii] a \$125,000 term loan facility ["Term B Credit Facility"].

The Company received total gross cash proceeds of \$375,694 under the FY2021 Amended Credit Facility and incurred financing fees of \$6,906. The FY2021 Amended Credit Facility bears an interest rate based on a grid system at the lower of [i] BA rate and [ii] the prime rate of interest payable monthly. The Term Credit A Facility matures on September 25, 2024, with fixed quarterly principal repayments of \$3,813 in the years 2021 and 2022 and \$5,719 thereafter until maturity. The Term Credit B Facility matures on July 31, 2022. The FY2021 Amended Credit Facility is classified as a financial liability at amortized cost and is accounted for using the effective interest rate method.

In March 2021, the Company increased the borrowing capacity under the FY2021 Amended Credit Facility to \$700,000 comprising of [i] a \$455,000 revolving loan facility and [ii] a \$245,000 ["Amended Term A Credit Facility"]. The Term B Credit Facility of \$125,000 was fully repaid in March 2021 and as at September 30, 2021, the Company has nil balance drawn under the revolving loan facility and \$238,875 under the Amended Term A Credit Facility.

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The FY2021 Amended Credit Facility is secured by a first ranking security over all present and after-acquired properties in the form of a general security agreement. The FY2021 Amended Credit Facility contains a financial covenant based on a Total Net Leverage Ratio, defined as the ratio of total net debt to Adjusted EBITDA. The FY2021 Amended Credit Facility also contains an interest coverage covenant defined as the ratio of Adjusted EBITDA to interest expense. As at September 30, 2021, the Company was in compliance with its covenants.

The balance outstanding under the FY2021 Amended Credit Facility as at September 30, 2021 is as follows:

	\$
Balance, June 30, 2021	235,019
Less	
Interest and accretion expense	1,626
Interest paid	(1,063)
Principal repayments	(3,062)
Balance, September 30, 2021	232,520
Current	12,842
Non-current	219,678

9. Derivative liability

On August 29, 2019, the Company entered into an interest rate swap with a lender, which exchanged its floating interest rate obligation on a notional \$150,000 of the Term Loan Commitment for a fixed interest rate payment of 1.88% per annum on the notional amount. The interest rate swap had a five-year term ending July 11, 2024. The Company designated the interest rate swap as a cash flow hedge and any subsequent changes in fair value were recorded in other comprehensive income until settlement. On September 25, 2020, hedge accounting was discontinued as a result of repayment of the Term Loan Commitment, and the fair value of the derivative liability of \$6,265 and the related income tax impact of \$1,658 was reclassified from accumulated other comprehensive income to profit or loss, resulting in realized loss on derivative of \$6,265 and income tax recovery of \$1,658 for the three months ended September 30, 2020.

On September 25, 2020, in connection with the FY2021 Credit Facility, the Company amended the interest rate swap and exchanged the existing \$150,000 fixed interest rate swap for a new \$70,000 interest rate swap for a fixed payment of 2.95% per annum. The amended interest rate swap has a five-year term ending on September 25, 2025. The Company has designated the amended interest rate swap as a cash flow hedge for future variable interest payments. Any subsequent changes in fair value will be recorded in other comprehensive income for the effective portion of the hedge, and the ineffective portion will be recognized directly through profit or loss as finance costs.

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Below is a reconciliation of the derivative liability is summarized below:

	\$
Derivative liability, June 30, 2020	5,466
Change in fair value of new swap	799
Change in fair value of amended swap	(2,085)
Derivative liability, June 30, 2021	4,180
Change in fair value of amended swap	(394)
Derivative liability, September 30, 2021	3,786

During the three months ended September 30, 2021 and 2020, the Company recognized a gain (loss) on the change in fair value of \$80 and (\$573) for the effective portion of the hedge, respectively. The ineffective portion was a gain on change in fair value of \$314 and nil, which was recognized through profit or loss in finance costs for the three months ended September 30, 2021 and 2020, respectively.

10. Convertible debentures

In February 2021, the Company issued 345,000 convertible senior unsecured debentures ["Convertible Debentures"] for total cash proceeds of \$345,000 with a maturity date of March 1, 2026. The Convertible Debentures bear an interest rate of 3.75% payable semi-annually and are convertible into common shares of the Company at an exercise price of \$73.23 per share.

The Company determined that the Convertible Debentures do not qualify as a compound instrument and therefore there is no equity component to the instrument. This is due to the fact that the Company has the right to settle the Convertible Debentures in cash if the holders elect to exercise their conversion option. Accordingly, the Convertible Debentures are classified and accounted for entirely as a financial liability, which the Company has elected to measure at fair value through profit and loss ["FVTPL"]. The fair value of the Convertible Debentures is classified as Level 2 in the fair value hierarchy. The fair value of the Convertible Debentures as at September 30, 2021 was \$348,402 using a market approach based on underlying share price of \$41.14 per share, resulting in a gain on change in fair value of \$1,611 for the three-month period ended September 30, 2021 [September 30, 2020 – nil].

The change in the Company's own credit risk resulted in a loss on the change in fair value of Convertible Debenture of \$13,672, which was recognized in other comprehensive income. The change in fair value of Convertible Debentures excluding the impact of change in the Company's own credit risk resulted in recognition of a gain on change in fair value of Convertible Debentures of \$15,284 through finance costs.

11. Capital stock

[a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares.

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[b] Issued and outstanding

	Dye & Durham Limited		Dye & Durham Corporation				Total
	Common shares		Common shares		Preferred shares		
	#	\$	#	\$	#	\$	
Balance, June 30, 2020	—	—	20,493	199	3,837	8,870	9,069
Pre-IPO reorganization [i]	24,330	9,069	(20,493)	(199)	(3,837)	(8,870)	—
Issuance of common shares net of issuance costs [ii], [iii]	43,684	830,650	—	—	—	—	830,650
Stock options exercised [iv]	497	6,023	—	—	—	—	6,023
Balance, June 30, 2021	68,511	845,742	—	—	—	—	845,742
Issuance of common shares net of issuance costs [v]	106	4,992	—	—	—	—	4,992
Stock options exercised [vi]	33	239	—	—	—	—	239
Balance, September 30, 2021	68,650	850,973	—	—	—	—	850,973

[i] As part of the reorganization in connection with the IPO, the Company issued 24,330 common shares to acquire all issued and outstanding common shares and preferred shares of D&D Corp. As the acquisition of D&D Corp by the Company is accounted for as a reorganization using the continuity of interest method, financial information for the preacquisition period, including the comparative period, is presented based on historical financial information of D&D Corp, resulting in presentation of net movement of preferred shares to common shares.

[ii] On July 17, 2020, the Company completed its IPO and issued 20,000 common shares for total gross consideration of \$150,000. In addition, during the year ended June 30, 2021, the Company issued 22,726 common shares for total gross consideration of \$676,275. Total share issuance costs for the year ended June 30, 2021 amounted to \$29,074 [net of income tax recovery of \$10,500], resulting in net cash proceeds of \$786,701.

[iii] On December 10, 2020, the Company issued 942 common shares with a total fair value of \$32,967 as consideration for the acquisition of DoProcess and issued 16 common shares in settlement of an acquired liability in the amount of \$482.

[iv] During the year ended June 30, 2021, 497 stock options were exercised for cash proceeds of \$4,918 and the related grant date fair value of the options of \$1,105 was reclassified from contributed surplus to share capital.

[v] On July 1, 2021, the Company issued 106 common shares with a total fair value of \$4,992 as consideration for the acquisition of GlobalX Information Pty Ltd.

[vi] During the three months ended September 30, 2021, 33 stock options were exercised for cash proceeds of \$191 and the related grant date fair value of the options of \$48 was reclassified from contributed surplus to share capital.

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[c] Dividends

On September 13, 2021, the Company declared a quarterly dividend of \$0.01875 per share, paid on October 14, 2021 to shareholders.

12. Finance costs

The Company's finance costs for the three-month period ended September 30 are as follows:

	2021	2020
	\$	\$
Interest and accretion costs [i]	7,003	10,992
Change in fair value of convertible debentures [note 10]	(15,284)	—
Change in fair value of contingent consideration	(4,004)	—
Change in fair value of derivatives [note 9]	(314)	—
Realized loss on derivatives [note 9]	—	6,265
Loss on settlement of loans and borrowings [note 8]	—	5,407
	<u>(12,599)</u>	<u>22,664</u>

[i] Interest and accretion costs for the three months ended September 30, 2020 include \$7,315 of additional interest paid on prepayment of loans and borrowings on refinancing in September 2020.

13. Employee compensation

Total employee compensation comprising salaries and benefits for the three months ended September 30, 2021 was \$26,766 [September 30, 2020 – \$5,652].

Employee compensation costs are included in the following expenses:

	Three months ended September 30,	
	2021	2020
	\$	\$
Technology and operations	15,111	3,674
General and administrative	5,935	803
Sales and marketing	4,270	375
Acquisition, restructuring and other costs	1,450	800
	<u>26,766</u>	<u>5,652</u>

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14. Acquisition, restructuring and other costs

	Three months ended September 30,	
	2021	2020
	\$	\$
Acquisition, listing and capital reorganization related expenses	9,967	3,909
Restructuring	676	911
	10,643	4,820

Acquisition, listing and capital reorganization related expenses consist mainly of professional fees and include integration costs. Restructuring expenses mainly represent employee exit costs as a result of synergies created due to business combinations and organizational changes.

15. Related party transactions

The Company defines key management personnel as being the Board of Directors, the Chief Executive Officer ["CEO"] and the executive leadership team. The remuneration of key management personnel during the three-month period ended September 30 was as follows:

	2021	2020
	\$	\$
Salaries and benefits	2,306	852
Stock options	2,003	199
	4,309	1,051

As at September 30, 2021, \$535 [June 30, 2021 – \$154] was included in accounts payable and accrued liabilities for consulting fees, bonus, directors fees and reimbursement of expenses. The amounts due are unsecured, bear no interest and are payable on demand.

16. Contingencies

In the ordinary course of business, from time to time, the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these financial statements.

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17. Earnings per share

The following table reflects the income and share data used in the basic and diluted earnings per share ["EPS"] calculations:

	Three months ended September 30,	
	2021	2020
	\$	\$
Net income attributable to the shareholders of the Company [basic]	22,174	(14,992)
Interest expense on convertible debentures, net of tax	2,402	—
Change in fair value of convertible debentures, net of tax	(11,235)	—
Net income attributable to the shareholders of the Company [diluted]	13,341	(14,992)
Weighted average number of shares for basic EPS	68,637	39,730
Effects of dilution from:		
Stock options	2,623	—
Convertible debentures	4,711	—
Weighted average number of shares adjusted for the effect of dilution	75,971	39,730
Basic EPS	0.32	(0.38)
Diluted EPS	0.18	(0.38)

For the period ended September 30, 2021, 2,122 options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive. For the period ended September 30, 2020, all potentially dilutive securities have been excluded from the calculation of diluted earnings per share, given the Company was in a net loss position during that period and their effect would be anti-dilutive.

18. Fair value measurement

The fair values of cash and cash equivalents, receivables, accounts payable and accrued liabilities, customer advances and holdbacks approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair value of loans and borrowings approximates their carrying value due to the variable interest rates on these instruments. The Company measures its derivative liability, convertible debentures and contingent consideration on acquisitions at fair value.

All assets and liabilities for which fair value is measured or disclosed in these financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted [unadjusted] market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

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- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Contingent consideration on acquisitions is classified as Level 3 financial instruments. Convertible debentures and derivative liability are classified as Level 2 financial instruments. During the three-month period ended September 30, 2021 and 2020, there were no transfers of amounts between levels.

Change in interest or discount rate by 1% would have nominal impact on the fair value of contingent consideration.

19. Segment information

The Company's CEO has been identified as the chief operating decision maker ["CODM"]. The CODM reviews financial information, makes decisions and assesses the performance of the Company as a single operating segment.

The Company has three geographic segments, being Canada, U.K. and Ireland and Australia. The following tables present details on revenues derived and details on property and equipment and intangible assets domiciled in the following geographical locations.

Revenue for the three months ended September 30, 2021 and 2020:

	Three months ended September 30,	
	2021	2020
	\$	\$
Canada	56,300	15,428
U.K. and Ireland	36,718	6,473
Australia	19,604	—
	112,622	21,901

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Property and equipment and intangible assets as at September 30, 2021 and June 30, 2021:

	Canada \$	U.K. and Ireland \$	Australia \$	Total \$
September 30, 2021				
Property and equipment	1,753	1,164	997	3,914
Intangible assets	397,242	187,674	98,502	683,418
June 30, 2021				
Property and equipment	1,973	616	701	3,290
Intangible assets	407,175	122,094	35,037	564,306

20. Subsequent events

On October 8, 2021, the Company granted 4,796 market performance-based stock options and 2,055 non-market performance-based stock options to the CEO of the Company at an exercise price of \$39.38. Market performance-based stock options vest based on the Company achieving and maintaining certain share price targets and non-market performance-based stock options vest based on the Company achieving certain internal key performance indicators metrics. From the total 6,851 stock options granted, 5,823 of these stock options are subject to ratification in the next annual shareholder meeting. In case of non-ratification, these stock options will be converted into stock appreciation rights.

On October 8, 2021, the Company entered into a commitment letter for a new approximately \$1.8 billion committed senior secured credit facility [the "New Facility"]. The New Facility is comprised of a (i) \$1,520 million initial term loan ["Initial Term Loan"], (ii) \$200 million delayed draw term loan ["DDTL"], and (iii) \$75 million revolving credit facility ["Revolver"]. The Initial Term Loan and DDTL have a maturity date of six years from closing and the Revolver has a maturity date of five years from closing. The DDTL can be drawn in portions to fund permitted acquisitions and is available for two years from closing. Borrowings under the New Facility will be secured by a first charge over substantially all of the Company's assets. The New Facility will contain customary representations and warranties, positive and negative covenants and events of default. The Initial Term Loan and DDTL will not have any financial covenants. This New Facility is expected to close in November 2021. On closing of the New Facility, the Company will repay all balances outstanding under the FY2021 Amended Credit Facility [note 8c] and the FY2021 Amended Credit Facility will be terminated.