

Dye & Durham Limited

Condensed consolidated interim financial statements
[Expressed in thousands of Canadian dollars]

Unaudited

For the three months ended September 30, 2023 and 2022

Dye & Durham Limited

**Condensed consolidated interim statements of
financial position [unaudited]**

[Expressed in thousands of Canadian dollars]

As at

		September 30, 2023	June 30, 2023
	Note	\$	\$
Assets			
Current			
Cash and cash equivalents		20,455	36,265
Trade and other receivables		94,637	77,738
Prepaid expenses and other assets		11,982	10,560
		<u>127,074</u>	<u>124,563</u>
Assets held for sale	5	—	114,758
		<u>127,074</u>	<u>239,321</u>
Non-current			
Other assets	5	15,169	2,292
Property and equipment, net		5,355	5,050
Right-of-use assets, net		12,363	11,522
Intangible assets, net	7	862,061	860,739
Goodwill	8	1,042,792	998,140
Total assets		<u>2,064,814</u>	<u>2,117,064</u>
Liabilities and shareholders' equity			
Current			
Accounts payable and accrued liabilities		112,502	102,056
Customer advances		10,273	10,536
Holdbacks and contingent consideration on acquisitions, current	6	21,052	16,574
Lease liabilities, current		4,281	4,671
Loans and borrowings, current	9	2,629	4,448
		<u>150,737</u>	<u>138,285</u>
Liabilities directly associated with assets held for sale	5	—	30,092
		<u>150,737</u>	<u>168,377</u>
Non-current			
Holdbacks and contingent consideration on acquisitions	6	49,629	35,977
Lease liabilities		11,907	9,103
Loans and borrowings	9	1,025,718	1,063,914
Other liabilities		4,124	3,212
Deferred tax liabilities		150,582	147,520
Convertible debentures	10	259,181	266,081
Total liabilities		<u>1,651,878</u>	<u>1,694,184</u>
Contingencies and commitments	17		
Equity			
Capital stock	11	681,222	681,206
Contributed surplus		76,440	72,288
Accumulated other comprehensive income		9	2,657
Reserves of a disposal group held for sale	5	—	(3,078)
Deficit		(344,648)	(329,992)
Non-controlling interests		(87)	(201)
		<u>412,936</u>	<u>422,880</u>
Total liabilities and equity		<u>2,064,814</u>	<u>2,117,064</u>

¹
Refer to note 6

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

On behalf of the Board :

"Signed"
Director - Ronnie Wahi

"Signed"
Director - Mario Di Pietro

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,

	Note	2023 \$	2022 \$
Revenue	19	120,084	120,167
Expenses			
Direct costs		(9,339)	(14,023)
Technology and operations		(27,621)	(24,831)
General and administrative		(10,638)	(11,769)
Sales and marketing		(3,786)	(5,097)
Stock-based compensation		(3,491)	(5,318)
Finance costs	13	(35,139)	(16,188)
Amortization, depreciation and impairment	7	(39,608)	(38,348)
Loss on disposal of assets held for sale	5	(190)	—
Acquisition, restructuring and other costs	15	(6,430)	(18,483)
Loss before taxes		(16,158)	(13,890)
Income tax recovery		2,646	2,391
Net loss for the period		(13,512)	(11,499)
Attributable to:			
Non-controlling interests		114	—
Shareholders		(13,626)	(11,499)
		(13,512)	(11,499)
Net loss per common share	12		
Basic		(0.25)	(0.17)
Diluted		(0.25)	(0.21)
Weighted average number of shares outstanding	12		
Basic		54,954	69,150
Diluted		54,954	74,374

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

Dye & Durham Limited

**Condensed consolidated interim statements of
comprehensive loss [unaudited]**

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

Three months ended September 30,

	Note	2023 \$	2022 \$
Net loss for the period		(13,512)	(11,499)
Other comprehensive loss			
Item that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		(5,539)	(16,438)
		(5,539)	(16,438)
Item 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 \$1,042 and \$1,262	10	2,891	3,499
		2,891	3,499
Other comprehensive loss		(2,648)	(12,939)
Comprehensive loss		(16,160)	(24,438)
Attributable to:			
Non-controlling interests		114	—
Shareholders		(16,274)	(24,438)
		(16,160)	(24,438)

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

Condensed consolidated interim statements of changes in equity [unaudited]

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

Note	Number of common shares #	Capital stock \$	Contributed surplus \$	Accumulated	Reserves of a disposal group held for sale \$	Deficit \$	Non-controlling interests \$	Total \$	
				other comprehensive income (loss) \$					
Balance, June 30, 2022		69,149	866,296	46,684	(32,683)	—	(116,873)	5	763,429
Dividends declared	11	—	—	—	—	—	(1,298)	—	(1,298)
Stock options exercised	11	1	5	—	—	—	—	—	5
Stock-based compensation		—	—	5,821	—	—	—	—	5,821
Transaction with non-controlling interests		—	—	—	—	—	289	(5)	284
Comprehensive loss for the period		—	—	—	(12,939)	—	(11,499)	—	(24,438)
Balance, September 30, 2022		69,150	866,301	52,505	(45,622)	—	(129,381)	—	743,803
Balance, June 30, 2023		54,951	681,206	72,288	2,657	(3,078)	(329,992)	(201)	422,880
Dividends paid	11	—	—	—	—	—	(1,030)	—	(1,030)
Stock options exercised	11	5	16	(6)	—	—	—	—	10
Stock-based compensation		—	—	4,158	—	—	—	—	4,158
Assets and liabilities held for sale	5	—	—	—	—	3,078	—	—	3,078
Comprehensive loss for the period		—	—	—	(2,648)	—	(13,626)	114	(16,160)
Balance, September 30, 2023		54,956	681,222	76,440	9	—	(344,648)	(87)	412,936

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

**Condensed consolidated interim statements
of cash flows [unaudited]**
[Expressed in thousands of Canadian dollars] [unaudited]

Three months ended September 30,

	Note	2023 \$	2022 \$
Cash flows from operating activities			
Net loss for the period		(13,512)	(11,499)
Items not affecting cash			
Amortization, depreciation and impairment	7	39,608	38,348
Loss on disposal of assets held for sale	5	190	—
Stock-based compensation expense		3,491	5,318
Income tax recovery		(2,646)	(2,391)
Finance costs, net	13	35,139	16,047
Taxes paid		(1,256)	(2,281)
Changes in non-cash working capital balances			
Trade and other receivables		(13,089)	550
Prepaid expenses and other assets		(2,064)	(1,592)
Accounts payable and accrued liabilities		(3,062)	(369)
Customer advances		(202)	(1,101)
Net cash provided by operating activities		42,597	41,030
Cash flows from financing activities			
Net proceeds from loans and borrowings	9	34,165	—
Proceeds from exercise of stock options		22	5
Payments for loans and borrowings	9	(74,769)	—
Interest paid		(36,135)	(25,732)
Dividend paid	11	(1,030)	—
Payments for lease obligations		(1,187)	(1,021)
Net cash used in financing activities		(78,934)	(26,748)
Cash flows from investing activities			
Cash proceeds from investment divestiture		75,333	—
Acquisition consideration paid, net of cash acquired	6	(47,125)	—
Holdbacks and contingent consideration paid	6	(616)	(1,599)
Additions to intangible assets	7	(11,086)	(5,557)
Purchases of property and equipment		(496)	(601)
Net cash provided by (used in) investing activities		16,010	(7,757)
Change in cash and cash equivalents		(20,327)	6,525
Cash and cash equivalents, beginning of period		36,265	223,619
Effect of foreign exchange on cash and cash equivalents		4,517	(648)
Cash and cash equivalents, end of period		20,455	229,496

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

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

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, South Africa, Ireland and the United Kingdom [“UK”]. 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 *Business Corporations Act* (Ontario) on June 26, 2020. The Company is registered, and its head office is located at 25 York Street, Suite 1100, Toronto, Ontario, Canada.

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

2. Basis of preparation

These condensed consolidated interim 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 condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended June 30, 2023.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on October 30, 2023.

Basis of measurement

The condensed consolidated interim financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial assets and liabilities, which are presented at fair value in Canadian dollars, the Company’s reporting currency. All financial information is presented in Canadian dollars rounded to the nearest thousands, except as otherwise indicated.

Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries, which are the entities over which the Company has control. Control exists when the entity is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the Company’s subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-company balances, transactions, unrealized gains and losses resulting from intra-company transactions, and dividends are eliminated in full.

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

These consolidated financial statements include the accounts of the Company and the following material subsidiaries as at September 30, 2023 and June 30, 2023:

Subsidiary	Country of incorporation	Ownership percentage September 30, 2023	Ownership percentage June 30, 2023
Dye & Durham Corporation	Canada	100%	100%
Dye & Durham (UK) Limited	United Kingdom	100%	100%
Dye & Durham Australia Pty Limited	Australia	100%	100%
GlobalX Information Pty Ltd.	Australia	100%	100%
TM Group (UK) Limited	United Kingdom	—	100%
Dye & Durham Mercury Ltd.	Canada	100%	100%

3. Significant accounting judgments and estimates

The preparation of the Company's condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time. Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control. Revisions to the accounting estimates are recognized in the period in which the estimates are revised and will be recorded with a corresponding impact on net income.

Significant accounting judgments and estimates are consistent with those disclosed in note 4 of the annual consolidated financial statements except for the following:

Fair value of financial instruments

Pursuant to the sale of TMG on August 3, 2023, the Company recorded a contingent consideration receivable under other assets in the condensed consolidated interim statements of financial position. The contingent consideration receivable was assessed based on its fair value using a Monte Carlo simulation and taking the weighted average of the possible outcomes within the parameters of the model. The contingent consideration receivable are measured at fair value through profit or loss ["FVTPL"].

Please refer to note 5 for additional information and details.

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

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, 2023. These changes did not have a material impact on the Company's condensed consolidated interim financial statements for three months ended September 30, 2023:

- *Definition of Accounting Estimates (Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors)*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 – Income Taxes)*
- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2*

The Company is in the process of assessing any potential impacts of the following, which will become effective in FY2025:

- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1 – Presentation of Financial Statements)*
- *Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7 – Financial instruments: Disclosure)*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

5. Assets and liabilities held for sale

On July 8, 2021, the Company acquired all issued and outstanding shares of TMG for total cash consideration of \$155,404 [£91,500]. On August 27, 2021, the Company received an initial enforcement order from the CMA in respect of the Company's acquisition of TMG. On August 3, 2022, the CMA released its final report and concluded that the Company's acquisition of TMG, which closed in July 2021, would lessen competition in the UK property search services market. The CMA concluded that the only effective way to address the issues it has identified would be for the Company to divest the entirety of TMG to a third party.

On July 10, 2023, the Company entered into an agreement to sell TMG to a global active alternative investment firm. As part of the transaction, the Company received \$75,619 [£43,914] in cash at closing, less certain closing costs, with up to \$70,865 [£41,153] in potential additional earn-out payments between 2023 and 2026, for total consideration of up to \$146,483 [£85,067], subject to certain adjustments. The closing occurred on August 3, 2023, and the transaction has received approval from the CMA.

Upon the completion of TMG's sale, the Company derecognized entirely the assets and liabilities held for sale from the condensed consolidated interim statements of financial position. The Company assessed the fair value of the contingent consideration receivable of \$12,344 [£7,450] using a Monte Carlo simulation and taking the weighted average of the possible outcomes within the parameters of the model, which is recorded under other assets in the condensed consolidated interim statements of financial position. The changes of the contingent consideration receivable are measured at FVTPL.

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

TMG was classified as a disposal group held for sale on December 1, 2022. The assets and liabilities of TMG that were classified as held for sale were derecognized in full as of August 3, 2023.

Loss on disposal of assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset [disposal group], excluding finance costs and income tax expense (recovery). The fair value of TMG was assessed as at June 30, 2023, as per the binding purchase and sale agreement finalized on August 3, 2023.

The fair value of the contingent consideration receivable was assessed using a Monte Carlo simulation and taking the weighted average of the possible outcomes within the parameters of the model. Each year, an earn-out is due to the Company based on certain annualized performance metrics of TMG, measured each calendar year from the date of sale until December 31, 2026.

The loss on disposal of assets held for sale was recognized as a separate line item in the condensed consolidated statements of operations. Following to the sale of TMG, a loss on disposal of assets held for sale of \$190 was recorded in the condensed consolidated interim statements of operations. The fair value of the contingent consideration receivable is classified as Level 3 under the fair value hierarchy and measured at FVTPL.

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

6. 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 condensed consolidated interim statements of comprehensive loss 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.

During the three months ended September 30, 2023, the Company acquired 100% of the shares of one business with an aggregated consideration of \$51,473 [£30,266] and acquired the net assets of eleven businesses for total consideration of \$13,589 [£8,201]. These acquisitions were all accounted for as business combinations.

For 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, 2023 and Fiscal 2023, the allocation of the fair value to the identifiable assets acquired and liabilities assumed as at the date of acquisition was as follows:

	Three months ended September 30, 2023		
	Acquisition of shares	Acquisition of net assets	Total
	\$	\$	\$
Cash consideration	42,970	4,155	47,125
Holdbacks	8,503	6,020	14,523
Contingent consideration	—	3,414	3,414
Total purchase price	51,473	13,589	65,062
Cash and cash equivalents	701	—	701
Trade and other receivables	2,188	—	2,188
Prepaid expenses and other assets	144	—	144
Property and equipment	151	—	151
Software technologies and licenses	3,487	—	3,487
Brands and trademarks	374	191	565
Customer lists	19,049	5,302	24,351
Accounts payable and accrued liabilities	(8,332)	—	(8,332)
Deferred tax liability	(5,759)	(1,373)	(7,132)
Net assets identified	12,003	4,120	16,123
Goodwill	39,470	9,469	48,939

The purchase price allocations of the business combinations completed during the three months ended September 30, 2023 and during Fiscal 2023 are 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, holdbacks and contingent consideration.

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

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.

	Year ended June 30, 2023		
	Acquisition of	Acquisition of	Total
	shares	net assets	
	\$	\$	\$
Cash consideration	78,263	40,892	119,155
Holdbacks	14,898	2,849	17,747
Contingent consideration	—	29,031	29,031
Total purchase price	93,161	72,772	165,933
Cash and cash equivalents	3,630	—	3,630
Trade and other receivables	1,986	689	2,675
Prepaid expenses and other assets	229	—	229
Property and equipment	75	—	75
Software technologies and licenses	8,492	—	8,492
Brands and trademarks	2,024	1,124	3,148
Customer lists	33,253	31,012	64,265
Accounts payable and accrued liabilities	(4,327)	—	(4,327)
Loans and borrowings, current	(55)	—	(55)
Deferred tax liability	(11,157)	(8,034)	(19,191)
Non-controlling interests	197	—	197
Net assets identified	34,347	24,791	59,138
Goodwill	58,814	47,981	106,795

During the quarter, the Company adjusted the open purchase price allocations from the previous year and adjusted the acquisition date contingent consideration fair value down by \$7,216. The adjustment relates to a revaluation of the likelihood of payment at the time of acquisition. The 2023 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was also a corresponding decrease to goodwill for the same amount [note 8].

For the year ended June 30, 2023, the Company completed acquisitions for total consideration of \$165,933 with upfront payments of \$119,155 and fair value of deferred consideration of \$46,778. The purchase price allocations of acquisitions completed during the year ended June 30, 2023 are 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, holdbacks and contingent consideration.

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

Holdbacks and contingent consideration

Business combinations during the three months ended September 30, 2023, included the following additions to holdback and contingent consideration:

[i] Contingent consideration of \$8,011, with fair value of \$3,414, payable within 18 to 24 months, subject to the businesses acquired during the quarter meeting certain performance obligations. The payment is contingent on meeting certain sales and volume targets over a fixed measurement period. As at September 30, 2023, management estimates that approximately half of the contingent consideration will become payable.

[ii] holdbacks with total consideration of \$15,042 payable within 3 to 24 months, not subject to any earn-out conditions, with a fair value of \$14,523.

During the quarter, the Company adjusted the open purchase price allocations from the previous year and adjusted the acquisition date purchase consideration fair value down by \$7,216. The adjustment relates to a revaluation of the likelihood of payment at the time of acquisition.

Business combinations to date resulted in total holdbacks of \$70,681 as at September 30, 2023, summarized as follows:

	Holdbacks \$	Contingent consideration \$	Total \$
Balance, June 30, 2023	22,688	29,863	52,551
Acquisition of subsidiaries	14,523	3,414	17,937
Change in fair value	—	643	643
Other	313	—	313
Interest accretion	508	—	508
Payments during the period	(616)	—	(616)
Effects of foreign exchange	(223)	(432)	(655)
Balance, September 30, 2023	37,193	33,488	70,681
Current	21,052	-	21,052
Non-current	16,141	33,488	49,629

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

7. Intangible assets

	Software technologies	Brand and trademarks	Licenses	Customer lists	Total
	\$	\$	\$	\$	\$
Cost					
Balance, June 30, 2022	268,008	48,992	22,009	806,082	1,145,091
Additions	28,620	—	—	—	28,620
Acquired through acquisitions	8,492	3,148	—	64,265	75,905
Assets held for sale	(22,792)	(6,821)	—	(58,307)	(87,920)
Effects of foreign exchange	2,890	1,194	—	7,072	11,156
Balance, June 30, 2023	285,218	46,513	22,009	819,112	1,172,852
Additions	11,086	—	—	—	11,086
Acquired through acquisitions	3,487	565	—	24,351	28,403
Effects of foreign exchange	(963)	(144)	—	(1,308)	(2,415)
Balance, September 30, 2023	298,828	46,934	22,009	842,155	1,209,926
Accumulated amortization					
Balance June 30, 2022	55,407	9,662	9,100	112,184	186,353
Amortization	56,128	7,286	2,232	78,206	143,852
Impairment loss	1,074	—	—	—	1,074
Assets held for sale	(6,079)	(1,933)	—	(13,767)	(21,779)
Effects of foreign exchange	1,016	241	—	1,356	2,613
Balance June 30, 2023	107,546	15,256	11,332	177,979	312,113
Amortization	13,912	1,989	558	20,131	36,590
Impairment loss	16	—	—	—	16
Effects of foreign exchange	(412)	(54)	—	(388)	(854)
Balance, September 30, 2023	121,062	17,191	11,890	197,722	347,865
Carrying value					
Balance, June 30, 2023	177,672	31,257	10,677	641,133	860,739
Balance, September 30, 2023	177,766	29,743	10,119	644,433	862,061

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

8. Goodwill

Goodwill as at September 30 comprises the following:

	\$
Balance, June 30, 2022	968,627
Additions due to new acquisitions	114,011
Adjustments to purchase price allocations related to prior year acquisitions	(7,216)
Assets held for sale	(87,318)
Effects of foreign exchange	10,036
Balance, June 30, 2023	998,140
Additions due to new acquisitions	48,939
Effects of foreign exchange	(4,287)
Balance, September 30, 2023	1,042,792

9. Loans and borrowings

Loans and borrowings as comprise the following:

	September 30, 2023 \$	June 30, 2023 \$
Current		
Term credit facility [a]	1,551	90
Convertible debentures accrued interest [note 10]	1,078	4,358
	2,629	4,448
Non-current		
Term credit facility [a]	837,553	884,914
Revolving Facility [a]	30,000	55,000
Delayed draw term loan facility [a]	158,165	124,000
	1,025,718	1,063,914
	1,028,347	1,068,362

Dye & Durham Limited

Notes to condensed consolidated interim financial statements

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

As at and for the three months ended September 30, 2023 and 2022

[a] Ares Credit Facility

On December 3, 2021, the Company settled the FY2021 credit facility and replaced it with a new credit facility ["Ares Credit Facility"]. The aggregate amount committed under the Ares Credit Facility is \$1,795,000, comprising [i] a \$1,520,000 initial term loan facility ["Initial Term Loan"], [ii] a \$200,000 delayed draw term loan facility ["DDTL Facility"] and [iii] a \$75,000 revolving credit facility ["Revolving Facility"].

On closing of the Ares Credit Facility in December 2021, the Company received total gross cash proceeds of \$1,520,000 from the Initial Term Loan and incurred financing fees of \$52,394. The Ares Credit Facility bears an interest rate based on a grid system [i] Canadian Dollar Offered Rate ["CDOR"] + 5.75%, [ii] Eurocurrency rate + 5.75%, [iii] Canadian prime rate + 4.75% and [iv] base rate + 4.75% of interest payable quarterly or monthly at the option of the Company. On February 16, 2022, the Company made a partial repayment of \$615,000 on the Initial Term Loan. As a result, the Company recorded a loss on the settlement of the loan from its proportionate unamortized portion of issuance costs of \$18,320.

The Initial Term Loan, DDTL Facility and the Revolving Facility have a maturity date of December 3, 2027, December 3, 2027 and December 3, 2026, respectively. To the extent the Convertible Debentures are outstanding as at September 30, 2025, the Initial Term Loan, DDTL Facility and the Revolving Facility will have an accelerated maturity date of September 30, 2025. Subject to certain conditions, the Company may, at its option, at any time, elect to satisfy its obligation to settle all or any portion of the Convertible Debentures by issuing common shares. The number of shares is calculated by dividing the redemption price by 95% of the market price of shares, which is determined using the weighted volume average price of the shares for the 20 consecutive trading days ending on the fifth trading day preceding the date of determination on the TSX. During the current period, the Company repaid \$49,769 and \$25,000 toward the Initial Term Loan and the Revolving Facility, respectively, and drew a net \$34,165 from the DDTL Facility. As at September 30, 2023, \$160,415 has been drawn under the DDTL Facility, incurring financing fees of \$2,250, and \$30,000 was drawn under the Revolving Facility. The Ares Credit Facility is classified as a financial liability at amortized cost and is accounted for using the effective interest rate method.

The Ares Credit Facility is secured by a first-ranking security over all present and after-acquired properties in the form of a general security agreement. As at September 30, 2023, the Company is in compliance with its covenants.

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The balance outstanding under the Ares Credit Facility as at September 30, 2023 is as follows:

	<u>\$</u>
Principal balance	1,520,000
Add (less)	
Issuance costs	(52,394)
Principal repayment	(615,000)
Interest and accretion expense	39,010
Issuance costs written off	18,320
Interest paid	(33,452)
Balance, June 30, 2022	<u>876,484</u>
Add (less)	
Net funds drawn from revolving credit facilities	55,000
Net funds drawn from delayed draw term loan facilities	124,000
Interest and accretion expense	108,073
Interest paid	(99,553)
Balance, June 30, 2023	<u>1,064,004</u>
Add (less)	
Net funds repaid on term credit facility	(49,769)
Net funds repaid on revolving credit facilities	(25,000)
Net funds drawn from delayed draw term loan facilities	34,165
Interest and accretion expense	33,535
Interest paid	(29,666)
Balance, September 30, 2023	<u>1,027,269</u>
Current	1,551
Non-current	<u>1,025,718</u>

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; 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

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measure at FVTPL. The fair value of the Convertible Debentures is classified as Level 2 in the fair value hierarchy. The fair value has been determined with reference to recently completed over-the-counter trades of the debentures, with certain adjustments to calculate the fair value of the Convertible Debenture as at September 30, 2023, and was determined to be \$259,181 [June 30, 2023 – \$266,081], resulting in a gain on the change in fair value for the three months ended September 30, 2023 of \$6,900 [2022 – gain of \$4,312].

The change in the Company's own credit risk resulted in a gain on the change in fair value of Convertible Debentures of \$3,933 for the three months September 30, 2023 [2022 – loss of \$4,761], which was recognized in other comprehensive loss. 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 \$2,967 through finance costs for the three months ended September 30, 2023 [2022 – gain of \$9,073]. During the three months ended September 30, 2023, the Company paid semi-annual interest on Convertible Debentures of \$6,469 [2022 – \$6,469].

11. Capital stock

[a] Authorized

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

[b] Issued and outstanding

	Common shares	
	#	\$
Balance, June 30, 2022	69,149	866,296
Stock options exercised [i]	487	1,908
Common shares cancelled under NCIB [ii]	(3,458)	(49,654)
Common shares cancelled under SIB [iii]	(11,227)	(137,344)
Balance, June 30, 2023	54,951	681,206
Stock options exercised [iv]	5	16
Balance, September 30, 2023	54,956	681,222

[i] During the year ended June 30, 2023, 487 stock options were exercised for cash proceeds of \$1,498 and the related grant date fair value of the options of \$410 was reclassified from contributed surplus to capital stock.

[ii] During the year ended June 30, 2023, the Company purchased and cancelled 3,458 shares for a total consideration of \$58,630 as part of a Normal Course Issuer Bid ["NCIB"]. The Company recorded a revaluation gain of \$1,399 through finance costs by favourably settling its liability under the NCIB at a lower average share price. The surplus of \$10,375 paid over the carrying value of the share issuance was charged to deficit.

[iii] During the year ended June 30, 2023, the Company purchased and cancelled 11,227 shares for a total consideration of \$165,000 as part of a Substantial Issuer Bid ["SIB"]. The surplus of \$27,656 paid over the carrying value of the share issuance was charged to deficit.

[iv] During the three months ended September 30, 2023, 5 stock options were exercised for cash proceeds of \$22 and the related grant date fair value of the options of \$6 was reclassified from contributed surplus to capital stock.

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[c] Dividends

The Company paid \$1,030 of dividends to shareholders during the three months ended September 30, 2023 [2022 – \$1,298] based on a quarterly dividend of \$0.01875 per share.

12. Earnings (loss) per share

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

	Three months ended September 30,	
	2023	2022
	\$	\$
Net loss attributable to the shareholders of the Company [basic]	(13,626)	(11,499)
Interest expense on convertible debentures, net of tax	—	2,356
Change in fair value of convertible debentures, net of tax	—	(6,670)
Net loss attributable to the shareholders of the Company [diluted]	(13,626)	(15,813)
Weighted average number of shares for basic EPS	54,954	69,150
Effects of dilution from:		
Stock options under share-based payment	—	513
Convertible debentures	—	4,711
Weighted average number of shares adjusted for the effect of dilution	54,954	74,374
Basic EPS	(0.25)	(0.17)
Diluted EPS	(0.25)	(0.21)

For the three months ended September 30, 2023, 14,464 options and 345 Convertible Debentures were excluded from the diluted weighted average number of shares as their effect would have been anti-dilutive. For the three months ended September 30, 2022, 13,701 options were excluded from the diluted weighted average number of shares calculation as their effect would have been anti-dilutive.

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As at and for the three months ended September 30, 2023 and 2022

13. Finance costs, net

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

	Three months ended September 30,	
	2023	2022
	\$	\$
Interest and accretion costs, net	37,463	25,261
Change in fair value of convertible debentures [note 10]	(2,967)	(9,073)
Change in fair value of contingent consideration	643	—
	35,139	16,188

14. Employee compensation

The Company's employee compensation for the three months ended September 30 is as follows:

	Three months ended September 30,	
	2023	2022
	\$	\$
Technology and operations	19,242	18,729
General and administrative	5,162	6,629
Sales and marketing	2,109	4,129
Other costs ¹	701	2,493
	27,214	31,980

¹ This includes restructuring costs. Refer to note 15 for additional details.

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As at and for the three months ended September 30, 2023 and 2022

15. Acquisition, restructuring and other costs

The Company's acquisition, restructuring and other costs for the three months ended September 30 are as follows:

	Three months ended September 30,	
	2023	2022
	\$	\$
Acquisition expenses	2,981	14,242
Listing and reorganization expenses	2,748	1,748
Restructuring	701	2,493
	6,430	18,483

Acquisition expenses, listing and 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 and are expected to be paid within the fiscal year. The restructuring liability as at September 30, 2023 is \$778 (June 30, 2023 – \$540). The decrease in provision vs at June 30th, 2023 mainly relates to salary continuance payments.

16. 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 period was as follows:

	Three months ended September 30,	
	2023	2022
	\$	\$
Salaries and benefits	1,974	3,660
Stock-based compensation	2,673	4,604
	4,647	8,264

17. Contingencies and commitments

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 condensed consolidated interim financial statements.

18. Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and customer advances approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair value of holdbacks approximates their carrying value as these are due within three to

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eighteen months. The fair value of loans and borrowings approximates their carrying value due to the variable interest rates on these instruments. The Company measures its Convertible Debentures, contingent consideration on acquisitions, and contingent consideration receivable at fair value.

All assets and liabilities for which fair value is measured or disclosed in these consolidated 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

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

Contingent consideration on acquisitions and contingent consideration receivable are classified as Level 3 financial instruments. Convertible Debentures are classified as Level 2 financial instruments. During the three months ended September 30, 2023 and 2022, there were no transfers of amounts between levels.

A change in interest or discount rate by 1%, with all other variables held constant, would impact the fair value of contingent consideration by approximately \$500. The fair value of contingent consideration also depends on the acquired businesses meeting certain performance obligations, such as the successful completion of integration activities as well as meeting certain sales targets over a fixed measurement period.

See note 5 for additional details on the contingent consideration receivable.

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 multiple geographic regions, being Canada, UK and Ireland, Australia and other. 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, 2023 and 2022:

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As at and for the three months ended September 30, 2023 and 2022

	Three months ended September 30,	
	2023	2022
	\$	\$
Canada	71,014	68,936
UK and Ireland	29,584	34,085
Australia	16,925	17,146
Other	2,561	—
	<u>120,084</u>	<u>120,167</u>

Property and equipment and intangible assets by geographic region as at September 30, 2023 and June 30, 2023:

	Canada \$	UK and Ireland \$	Australia \$	Other \$	Total \$
September 30, 2023					
Property and equipment	2,721	876	1,758	—	5,355
Intangible assets	634,499	162,729	64,710	123	862,061
June 30, 2023					
Property and equipment	2,447	1,665	1,904	—	6,016
Intangible assets	656,970	203,967	65,891	52	926,880

20. Subsequent events

Normal Course Issuer Bid

On September 28, 2023, the TSX approved the NCIB to acquire a portion of its outstanding shares, as appropriate opportunities arise from time to time, for cancellation over the next 12 months.

The Company is authorized to acquire up to a maximum of 2,919 of its shares, or approximately 10% of the public float of 29,192 shares as of September 18, 2023, for cancellation over the next 12 months.

The Company may begin to purchase shares on or about October 2, 2023, and the bid will terminate on October 1, 2024, or such earlier time as the Company completes its purchases pursuant to the bid or provides notice of termination. Any shares purchased under the NCIB will be cancelled upon their purchase. As of October 30, 2023, 63 shares have been purchased for the total consideration of \$871.

Convertible Debentures

On October 20, 2023, the Company's Board of Directors has approved the commencement of a substantial issuer bid (the "Offer") under which the Company will offer to repurchase for cancellation up to \$95,000 of its issued and outstanding 3.75% convertible senior unsecured debentures due March 1, 2026 ("Original Debentures") in exchange for cash, subject to a maximum aggregate payment of \$32,250 (\$750.00 cash for each \$1,000.00 principal amount of Original Debentures) or 6.50% unsecured convertible debentures due November 1, 2028 (the "New Debentures")

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(\$1,250.00 principal amount of New Debentures for each \$1,000.00 principal amount of Original Debentures) or a combination thereof, pursuant to the election of the holders of the Original Debentures.

In addition, the Company also announced that it has entered into an agreement with Canaccord Genuity Corp. ("Canaccord") to issue, on a bought deal private placement basis, \$20,400 aggregate principal amount of New Debentures (the "Bought Deal"). The Company intends to use the proceeds of the Bought Deal to fund a portion of the cash payable by the Company under the Offer. The Bought Deal is scheduled to close on or about November 1, 2023, and is subject to certain customary conditions including, but not limited to, the receipt of all necessary approvals, including the approval of the TSX for the listing of the common shares of the Company ("Common Shares") underlying the New Debentures. The Company has also granted Canaccord the right to purchase up to \$5,000 in aggregate principal amount of New Debentures to cover over-allotments, in whole or in part, up to 48 hours prior to closing. In the event the Offer does not close by December 22, 2023 or is otherwise terminated, the New Debentures issued pursuant to the Bought Deal will mature and the principal and accrued interest on the New Debentures will be repaid in full.

The New Debentures will bear interest at 6.50% per annum, payable in equal semi-annual payments, and will be convertible at any time at the option of the holder into Common Shares at a price of \$40.00 (subject to adjustment) per share (the "Conversion Price"). On or after November 1, 2026, the New Debentures will be redeemable by the Company in the event that the Common Shares are trading at 130% of the Conversion Price for cash or Common Shares.

In support of the Offer, holders of an aggregate principal amount of \$78,700 of Original Debentures have agreed to tender such Original Debentures to the Offer, with \$43,000 of such Original Debentures to be tendered in exchange for cash and the balance to be tendered in exchange for New Debentures. If Original Debentures are tendered to the Offer for cash such that the aggregate cash payment for such Original Debentures would be greater than \$32,2500, the Company will acquire such Original Debentures, as applicable, on a pro rata basis according to the amount of Original Debentures deposited for cash and, if Original Debentures are tendered to the Offer for New Debentures such that the aggregate consideration payable for such Original Debentures would be greater than \$65,000 of New Debentures, the Company will acquire such Original Debentures on a pro rata basis according to the amount of Original Debentures deposited for New Debentures.

The Offer and Bought Deal will reduce the Company's aggregate indebtedness by approximately \$10,000 consistent with our strategy to reduce total debt over time. The Offer will not be conditional upon any minimum number of Original Debentures being tendered. The Offer will, however, be subject to other conditions and the Company will reserve the right, subject to applicable laws, to withdraw or amend the Offer, if, at any time prior to the payment of deposited Original Debentures, certain events occur. The Company expects to commence the Offer by the week of October 30, 2023.

Dividend declaration

On October 30, 2023, the Company's Board of Directors approved a dividend for the three months ending September 30, 2023, in the amount of \$0.01875 per common share, to be paid on or about November 15, 2023, to holders of common shares of record as of the close of business on November 8, 2023.