

Interim Condensed Consolidated Financial Statements  
(In U.S. dollars)

# **VERTICALSCOPE HOLDINGS INC.**

Three and nine months ended September 30, 2021 and 2020  
(Unaudited)

# VERTICALSCOPE HOLDINGS INC.

Condensed Consolidated Interim Statement of Financial Position  
(In U.S. dollars)  
(Unaudited)

	September 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$69,874,661	\$4,603,609
Trade and other receivables (note 4)	7,914,000	14,664,272
Income taxes receivable	142,590	536,423
Prepaid expenses	1,233,956	270,763
Derivative instruments	1,935	80,506
	<u>79,167,142</u>	<u>20,155,573</u>
Property and equipment (note 6)	1,408,012	1,751,800
Right-of-use asset (note 7)	2,676,643	2,712,995
Intangible assets (note 8)	27,901,871	32,707,475
Investments (note 9)	2,199,999	2,449,999
Goodwill	11,840,039	11,840,039
Deferred tax asset	19,590,402	16,065,696
	<u>\$144,784,108</u>	<u>\$87,683,577</u>
<b>Liabilities and Shareholders' Equity (Deficiency)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$4,156,983	\$4,449,234
Income taxes payable	—	—
Deferred revenue	845,529	810,457
Current portion of long-term debt (note 10)	2,512,873	8,323,090
Lease liability (note 7)	608,255	708,248
	<u>8,123,640</u>	<u>14,291,029</u>
Deferred revenue	19,105	58,477
Long-term debt (note 10)	47,153,057	93,142,219
Lease liability (note 7)	2,621,388	2,525,799
Deferred tax liability	105,865	210,700
	<u>58,023,055</u>	<u>110,228,224</u>
Shareholders' equity (deficiency):		
Share capital (note 11)	146,970,996	34,183,524
Contributed surplus (note 12)	12,684,437	10,371,945
Deficit	(72,894,380)	(67,100,116)
	<u>86,761,053</u>	<u>(22,544,647)</u>
	<u>\$144,784,108</u>	<u>\$87,683,577</u>

See accompanying notes to interim condensed consolidated financial statements.

# VERTICALSCOPE HOLDINGS INC.

Condensed Consolidated Interim Statements of Comprehensive Loss and Other Comprehensive Loss  
(In U.S. dollars, except per share amounts)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue (note 5)	\$14,001,350	\$13,345,481	\$44,343,216	\$36,741,439
Operating expenses:				
Wages and consulting	5,515,705	4,539,356	17,228,248	14,620,558
Share-based compensation (note 12)	1,665,206	1,126,943	2,697,047	1,552,906
Platform and technology	1,680,405	1,541,368	5,052,043	4,480,817
General and administrative	1,545,209	676,114	6,404,544	2,723,400
Depreciation and amortization (notes 6, 7, and 8)	4,770,062	4,991,405	13,869,966	15,225,584
Impairment of investment (note 9)	250,000	—	250,000	—
	15,426,587	12,875,186	45,501,848	38,603,265
Operating income (loss)	(1,425,237)	470,295	(1,158,632)	(1,861,826)
Other expenses:				
Loss (gain) on sale of assets	11,944	361	13,800	(408,952)
Interest expense (note 14)	1,071,077	1,460,278	5,581,055	5,334,305
Loss (gain) on investments	402	(530,046)	402	(530,046)
Foreign exchange loss (gain)	190,231	39,225	299,709	48,047
	1,273,654	969,818	5,894,966	4,443,354
Loss before income taxes	(2,698,891)	(499,523)	(7,053,598)	(6,305,180)
Income taxes (recovery)				
Current	112,538	67,211	431,552	344,541
Deferred	(522,707)	396,105	(1,690,886)	(1,822,803)
	(410,169)	463,316	(1,259,334)	(1,478,262)
Net loss and comprehensive loss	(\$2,288,722)	(\$962,839)	(\$5,794,264)	(\$4,826,918)
Loss per share:				
Basic	(\$0.10)	(\$0.07)	(\$0.28)	(\$0.35)
Diluted	(0.10)	(0.07)	(0.28)	(0.35)

See accompanying notes to interim condensed consolidated financial statements.

# VERTICALSCOPE HOLDINGS INC.

Condensed Consolidated Interim Statements of Changes in Equity  
(In U.S. dollars)  
(Unaudited)

Nine months ended September 30, 2020	Multiple Voting Shares ("MVS") *		Subordinate Voting Shares ("SVS") **		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount	Number of shares	Amount			
Balance as at December 31, 2019	13,929,327	\$33,874,149	28,125	\$309,375	\$8,410,416	(\$65,594,133)	(\$23,000,193)
Net loss	—	—	—	—	—	(4,826,918)	(4,826,918)
Share-based compensation	—	—	—	—	1,552,906	—	1,552,906
Balance as at September 30, 2020	13,929,327	\$33,874,149	28,125	\$309,375	\$9,963,322	(\$70,421,051)	(\$26,274,205)

Nine months ended September 30, 2021	Multiple Voting Shares ("MVS") *		Subordinate Voting Shares ("SVS") **		Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount	Number of shares	Amount			
Balance as at December 31, 2020	13,929,327	\$33,874,149	28,125	\$309,375	\$10,371,945	(\$67,100,116)	(\$22,544,647)
Net loss	—	—	—	—	—	(5,794,264)	(5,794,264)
Conversion of Class A to SVS (note 11)	(10,972,062)	(26,682,442)	10,972,062	26,682,442	—	—	—
Share-based compensation	—	—	—	—	2,697,047	—	2,697,047
Shares issued for IPO	—	—	6,612,750	112,246,667	—	—	112,246,667
Share options exercised	—	—	62,500	540,805	(384,555)	—	156,250
Balance as at September 30, 2021	2,957,265	\$7,191,707	17,675,437	\$139,779,289	\$12,684,437	(\$72,894,380)	\$86,761,053

\*Prior to IPO share restructuring - Class A shares

\*\*Prior to IPO share restructuring - Class B shares

See accompanying notes to interim condensed consolidated financial statements.

# VERTICALSCOPE HOLDINGS INC.

## Condensed Consolidated Interim Statement of Cash Flows

(In U.S. dollars)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cash provided by (used in):				
Operating activities:				
Loss for the year	(\$2,288,722)	(\$962,839)	(\$5,794,264)	(\$4,826,918)
Items not involving cash:				
Depreciation and amortization (notes 6, 7, and 8)	4,770,061	4,991,405	13,869,965	15,225,584
Interest expense (note 14)	1,071,077	1,460,278	5,581,055	5,334,305
Loss (gain) on sale of assets	11,944	361	13,800	(408,952)
Gain on sale of investments	—	(530,046)	—	(530,046)
Unrealized loss (gain) in derivative instruments	7,895	(60,938)	78,571	(29,009)
Loan forgiveness	(899,289)	—	(899,289)	—
Impairment of Investment (note 9)	250,000	—	250,000	—
Income tax expense and deferred tax	(410,169)	463,316	(1,259,334)	(1,478,262)
Share-based compensation (note 12)	1,665,206	1,126,943	2,697,047	1,552,906
	4,178,003	6,488,480	14,537,551	14,839,608
Change in non-cash operating assets and liabilities (note 13)	(1,141,950)	(1,397,636)	5,358,486	1,113,874
Interest paid	(23,835)	(2,366,924)	(1,703,462)	(5,539,831)
Income taxes received (paid)	(22,484)	(300,364)	829	(488,301)
	2,989,734	2,423,556	18,193,404	9,925,350
Financing activities:				
Repayment of initial term loan (note 10)	(625,000)	(2,062,500)	(45,500,000)	(4,125,000)
Repayment of delayed draw term loan (note 10)	—	(1,870,678)	(7,714,977)	(2,769,934)
Proceeds from issuance of share capital	14,282,656	—	110,308,011	—
Proceeds from exercise of share options	—	—	156,250	—
Credit facility financing fees (note 10)	—	—	(1,274,597)	—
Lease payments (note 7)	(225,694)	(209,232)	(679,400)	(616,372)
Proceeds from paycheck protection loan (note 10)	—	—	—	899,289
	13,431,962	(4,142,410)	55,295,287	(6,612,017)
Investing activities:				
Additions to property and equipment, right-of-use and intangible assets (notes 6, 7, and 8)	(2,286,916)	(1,200,814)	(8,229,084)	(3,605,649)
Proceeds from sale of assets	8,680	6,914	16,876	433,031
Proceeds from sale of investments	—	819,250	—	819,250
	(2,278,236)	(374,650)	(8,212,208)	(2,353,368)
Increase (decrease) in cash	14,143,460	(2,093,504)	65,276,483	959,965
Cash, beginning of the period	55,516,675	8,153,554	4,603,609	5,112,990
Effect of movement of exchange rates on cash held	214,526	8,712	(5,431)	(4,193)
Cash, end of period	\$69,874,661	\$6,068,762	\$69,874,661	\$6,068,762

See accompanying notes to interim condensed consolidated financial statements.

# VERTICALSCOPE HOLDINGS INC.

Notes to Condensed Interim Consolidated Financial Statements  
(In U.S. dollars, except per share amounts and as otherwise indicated)

Three and nine months ended September 30, 2021 and 2020  
(Unaudited)

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## 1. Organization and nature of operations:

VerticalScope Holdings Inc. (and its wholly owned subsidiaries (together the "Company" or "VSHI")) was incorporated on November 19, 2012 under the Ontario Business Corporation Act. The Company is a technology company that has built and operates a cloud-based digital community platform for online enthusiast communities. The Company's headquarters and registered office is located at 111 Peter Street, Suite 901, Toronto, Ontario M5V 2H1.

The Company is closely monitoring the impact of COVID-19 on all aspects of its business. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. The COVID-19 pandemic has had disruptive effects in countries in which the Company operates. The pandemic may have an adverse impact on many of the Company's customers, including their ability to satisfy ongoing payment obligations to the Company, which could increase the Company's bad debt exposure. The future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. It is possible that the COVID-19 pandemic, the measures taken by the governments of countries affected and the resulting economic impact may adversely affect the Company's results of operations, cash flows and financial position as well as its customers in future periods, and this impact could be material.

## 2. Basis of Presentation:

### (a) Statement of compliance:

The unaudited condensed interim consolidated financial statements ("Interim Financial Statements") have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2020. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2020.

The Interim Financial Statements were authorized for issuance by the Board of Directors on November 8, 2021.

# VERTICALSCOPE HOLDINGS INC.

Notes to Condensed Interim Consolidated Financial Statements  
(In U.S. dollars, except per share amounts and as otherwise indicated)

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(b) Basis of consolidation:

These Interim Financial Statements include the accounts of VerticalScope Holdings Inc., and its wholly owned subsidiaries:

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	Percentage of ownership interest	Nature of subsidiary
VerticalScope Inc.	100	Cdn. Operating Company
VerticalScope USA Inc.	100	U.S. Operating Company
VerticalScope U.S. LLC	100	U.S. Holding Company
RateMDs Inc.	100	U.S. Operating Company
Second Media Corp.	100	Cdn. Operating Company
Second Media Inc.	100	U.S. Operating Company
Versatile Solutions Holdings Inc.	100	Cayman Islands Holding Company
Versatile Solutions Inc.	100	Cayman Islands Operating Company
Web Site Acquisitions Inc.	100	Cayman Islands Operating Company
Outside Hub Holdings, Inc.	100	U.S. Holding Company
Outdoor Hub, LLC	100	U.S. Operating Company
VerticalScope Estonia OÜ	100	Estonia Operating Company

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Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation.

(c) Use of estimates and judgments:

The preparation of Interim Financial Statements often involves management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. The Company reviews estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the year in which the estimates are revised and may impact future years as well. Other results may be derived with different judgments or using different assumptions or estimates and events may occur that could require a material adjustment. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2020. Actual results could differ from these estimates.

# VERTICALSCOPE HOLDINGS INC.

Notes to Condensed Interim Consolidated Financial Statements  
(In U.S. dollars, except per share amounts and as otherwise indicated)

Three and nine months ended September 30, 2021 and 2020  
(Unaudited)

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### 3. Significant accounting policies:

The Interim Financial Statements have been prepared using the accounting policies outlined in note 3 of the audited consolidated financial statements as at and for the year ended December 31, 2020, except the following:

#### Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property and equipment in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted. The Company is currently evaluating the impact of these amendments and do not expect the amendments to have a material impact on the interim financial statements.

#### Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The IASB also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21, Levies, if 25 incurred separately. At the same time, the IASB decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

# VERTICALSCOPE HOLDINGS INC.

Notes to Condensed Interim Consolidated Financial Statements  
(In U.S. dollars, except per share amounts and as otherwise indicated)

Three and nine months ended September 30, 2021 and 2020  
(Unaudited)

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The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The Company is currently evaluating the impact of these amendments and do not expect the amendments to have a material impact on the interim financial statements.

## Annual Improvements to IFRS Standards 2018-2020 Cycle

In May 2020, the IASB issued minor amendments to certain standards including IFRS 1, IFRS 9, Financial Instruments and IFRS 16, Leases ("IFRS 16"). The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are effective for annual periods beginning on or after January 1, 2022. The Company is currently evaluating the impact of these amendments and do not expect the amendments to have a material impact on the interim financial statements.

## Interest Rate Benchmark Reform (Phase 1)

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9, Financial Instruments and IAS 39, Financial Instruments: Recognition and Measurement, as well as the related standard on disclosures, IFRS 7 Financial Instruments: Disclosures in relation to Phase 1 of IBOR Reform and its Effects on Financial Reporting project. The amendments modify specific hedge accounting requirements to allow entities to assume that the interest rate benchmark on which the hedged cash flows and the cash flows of which the hedging instrument are based on, are not altered as a result of LIBOR reform. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of the amendments did not have a material impact on the interim financial statements in the current or comparative periods.

## Interest Rate Benchmark Reform (Phase 2)

The Company has initially adopted Interest Rate Benchmark Reform Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the "phase 2 amendments") from January 1, 2021.

The Company applied the phase 2 amendments retrospectively. However, in accordance with the exceptions permitted in the phase 2 amendments, the Company has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on opening equity balances as a result of retrospective application.

The adoption did not have a material impact in Q3 2021.

# VERTICALSCOPE HOLDINGS INC.

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## Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure Initiative – Accounting Policies

The amendments are to help companies provide useful accounting policy disclosures. The key amendments include:

- requires companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifies that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifies that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Company is currently evaluating the impact of these amendments and do not expect the amendments to have a material impact on the interim financial statements.

## Amendments to IAS 8 - Definition of Accounting Estimates

The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The Company is currently evaluating the impact of these amendments and do not expect the amendments to have a material impact on the interim financial statements.

#### 4. Trade and other receivables:

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	September 30, 2021	December 31, 2020
Trade accounts receivable	\$7,878,166	\$14,295,973
Investment tax credits recoverable	—	131,261
Sundry receivables	35,834	237,038
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	\$7,914,000	\$14,664,272

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# VERTICALSCOPE HOLDINGS INC.

Notes to Condensed Interim Consolidated Financial Statements  
(In U.S. dollars, except per share amounts and as otherwise indicated)

Three and nine months ended September 30, 2021 and 2020  
(Unaudited)

## 5. Revenue from contracts with customers:

Disaggregation of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Digital advertising	\$10,074,791	\$7,956,167	\$28,913,625	\$20,916,234
E-commerce	3,926,559	5,389,314	15,429,591	15,825,205
Revenue	\$14,001,350	\$13,345,481	\$44,343,216	\$36,741,439

## 6. Property and equipment:

	Office furniture & equipment	Computer equipment	Leasehold improvements	Total
<b>Cost</b>				
Balance, December 31, 2020	\$1,189,253	\$1,341,898	\$2,243,323	\$4,774,474
Additions	14,485	156,494	106,387	277,366
Disposals	(700)	(46,357)	—	(47,057)
Balance, September 30, 2021	\$1,203,038	\$1,452,035	\$2,349,710	\$5,004,783
<b>Accumulated depreciation</b>				
Balance, December 31, 2020	\$858,866	\$801,033	\$1,362,775	\$3,022,674
Depreciation	75,296	202,212	312,970	590,478
Disposals	(631)	(15,750)	—	(16,381)
Balance, September 30, 2021	\$933,531	\$987,495	\$1,675,745	\$3,596,771
<b>Carrying amounts</b>				
December 31, 2020	\$330,387	\$540,865	\$880,548	\$1,751,800
September 30, 2021	269,507	464,540	673,965	1,408,012

# VERTICALSCOPE HOLDINGS INC.

Notes to Condensed Interim Consolidated Financial Statements  
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## 7. Right-of-use assets and lease liability:

	September 30, 2021
Right-of-use asset	
Balance, December 31, 2020	\$2,712,995
Additions	485,814
Depreciation	(522,166)
Balance, September 30, 2021	\$2,676,643
Lease liability	September 30, 2021
Carrying amount, December 31, 2020	\$3,234,047
Additions	485,814
Interest payments	173,120
Foreign exchange	16,062
Lease payments	(679,400)
Carrying amount, September 30, 2021	\$3,229,643
Current	\$608,255
Non-current	2,621,388
	\$3,229,643

# VERTICALSCOPE HOLDINGS INC.

Notes to Condensed Interim Consolidated Financial Statements  
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## 8. Acquired and other intangible assets:

	Websites	Acquired content	Customer relationships	Computer software	Total
<b>Cost</b>					
Balance, December 31, 2020	\$135,603,598	\$83,475,960	\$21,684,430	\$12,395,335	\$253,159,323
Additions acquired separately	3,786,757	649,416	—	64,016	4,500,189
Additions arising from internal development	—	—	—	3,451,529	3,451,529
<b>Balance, September 30, 2021</b>	<b>\$139,390,355</b>	<b>\$84,125,376</b>	<b>\$21,684,430</b>	<b>\$15,910,880</b>	<b>\$261,111,041</b>
<b>Accumulated depreciation</b>					
Balance, December 31, 2020	\$118,344,860	\$83,403,915	\$13,875,910	\$4,827,163	\$220,451,848
Depreciation	6,971,857	162,070	2,916,030	2,707,365	12,757,322
<b>Balance, September 30, 2021</b>	<b>\$125,316,717</b>	<b>\$83,565,985</b>	<b>\$16,791,940</b>	<b>\$7,534,528</b>	<b>\$233,209,170</b>
<b>Carrying amounts</b>					
December 31, 2020	\$17,258,738	\$72,045	\$7,808,520	\$7,568,172	\$32,707,475
September 30, 2021	14,073,638	559,391	4,892,490	8,376,352	27,901,871

The Company capitalized third party costs of \$178,381 and \$508,015 for the three and nine months ended September 30, 2021 (\$162,601 and \$904,549 for the three and nine months ended September 30, 2020 respectively) and internal costs of \$1,052,843 and \$2,928,059 for the three and nine months ended September 30, 2021 respectively (\$681,514 and \$1,643,974 for the three and nine months ended September 30, 2020 respectively) in relation to a next generation community platform for the Company's forum sites. These costs were capitalized to computer software.

The Company capitalized for significant enhancements to the Company's owned and on-premise licensed customer relationship management and finance computer software in the amount of \$258 and \$15,455 three and nine months ended September 30, 2021 (\$89,035 and \$639,000 for the three and nine months ended September 30, 2020). These costs were capitalized to computer software.

On June 15, 2021 the Company acquired the websites and content of Paddling.com, a leading paddlesports enthusiast community, with available cash-on-hand. The transaction was treated as an asset acquisition.

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Notes to Condensed Interim Consolidated Financial Statements  
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(Unaudited)

During the three months ended September 30, 2021, the Company acquired the assets of seven community sites for a total value of \$999,922.

## 9. Investments:

During the three months ended September 30th, 2021 a review of the investment in Cakes Inc. was performed and it was determined that the investment was impaired. Consequently, an impairment charge of \$250,000 was booked during the quarter, reducing the carrying value of the Cakes Inc. investment to nil at September 30, 2021.

## 10. Long-term debt:

	Forgivable Loan	Term loan	Delayed draw loan	Total
Balance, December 31, 2020	\$899,289	\$92,302,375	\$8,263,645	\$101,465,309
Payments		(47,066,035)	(7,852,404)	(54,918,439)
Interest and accretion		2,880,927	84,578	2,965,505
Loan forgiveness	(899,289)	—	—	(899,289)
Adjustments		1,548,663	(495,819)	1,052,844
Balance, September 30, 2021	—	49,665,930	—	49,665,930
Current portion of long-term debt		2,512,873		2,512,873
Long-term debt	\$—	\$47,153,057	\$—	\$47,153,057

On October 5, 2017, the Company entered into a new credit agreement (the "2017 Credit Facility") with Capital One, National Association, as successor from Antares Capital LP. The 2017 Credit Facility consists of a revolving credit facility in the amount of \$20,000,000, a term loan in the amount of \$110,000,000 and a delayed draw term loan in the amount of \$70,000,000, which all bear a floating interest of LIBOR plus a margin determined by the Company's net leverage ratio. The 2017 Credit Facility had an expiry date of October 4, 2022. The Company incurred transaction costs of \$3,068,004, directly attributable to the issuance of the 2017 Credit Facility, which were capitalized against the 2017 Credit Facility and were being amortized using the effective interest method.

On December 20, 2019, the Company entered into the first amendment to the credit facility (the "Amendment" or "Credit Facility"). The Amendment increased the amortization to 7.5% per

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annum (from 5.50%), Maximum Total Net Leverage to 4.50x (from 3.50x) and decreased the Minimum Fixed Charge Coverage Ratio to 1.05x (from 1.25x). The Company incurred transaction costs of \$476,349, directly attributable to the issuance of the Amendment, which were capitalized against the Credit Facility and were being amortized using the effective interest method.

On June 24, 2021, the Company entered into an amended and restated credit agreement (the "A&R Credit Agreement"), amending and restating the Amendment. As of the effective date of the A&R Credit Agreement, the term loan and the delayed draw term loan were restated to be a single term loan of \$50,000,000 (the "Restated Term Loan"), repayable in quarterly installments at an annual amortization rate of 5%, and the revolving facility was restated to \$75,000,000, with each maturing five years after the effective date. Under the A&R Credit Agreement, there would no longer be any delayed draw term loans. The maximum total net leverage ratio (as calculated in accordance with the Credit Agreement) is 4.00x (from 4.50x), with such ratio reducing by 0.25 percentage points each fiscal year beginning with fiscal year ended December 31, 2022, to 3.0x for the fiscal year ended December 31, 2025 and the minimum fixed charge coverage ratio (as calculated in accordance with the Credit Agreement) is 1.25x (from 1.05x) upon close and thereafter. All outstanding loans bear a floating interest of U.S. dollar LIBOR plus a margin, which is determined by the total net leverage ratio, with a maximum margin of 3.25% (from 3.50%) and a minimum margin of 2.25% (from 2.50%). The Company incurred transaction costs of \$1,274,501, directly attributable to this amendment, which were expensed during the period. Additionally, unamortized transaction costs of \$1,052,844 were expensed due to the extinguishment of the former Credit Facility.

The Company made repayments of \$648,835 during the three months ended September 30, 2021 (during the three months ended September 30, 2020 - \$6,300,102) against the long-term debt. The Company made repayments of \$54,918,439 during the nine months ended September 30, 2021 (during the nine months ended September 30, 2020 - \$12,434,765) against the long-term debt.

The Company is required to pay a quarterly commitment fee for the total undrawn amount of the revolving credit facility. As at September 30, 2021, the fee was 0.5% per annum. For future quarters, the fee is dependent on the Company's Total Net Leverage Ratio as set forth in the credit agreement. During the three and nine months ended September 30, 2021, the total interest and fees expense incurred on long-term debt was \$866,431 and \$2,965,505, respectively (three and nine months ended September 30, 2020 - \$1,438,137 and \$5,194,809, respectively).

As at September 30, 2021, the Company had borrowings of \$49,375,000 under its A&R Credit Agreement with \$75,000,000 available to borrow from its revolving credit facility. The Company also had accrued interest of \$398,021 at September 30, 2021 (September 30, 2020 - \$95,801).

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Principal repayments required on Credit Facility are due as follows:

	2021	2022
Term loan	\$625,000	\$2,500,000

Forgivable loan:

The Paycheck Protection Program, offered by the U.S. Small Business Administration ("SBA"), was a COVID-19 relief loan designed to provide a direct incentive for small businesses to keep their workers on payroll. The Company applied for the loan, through its U.S. subsidiaries, and was approved for the amount of \$899,289 in June 2020. The loan is eligible for forgiveness based on specified criteria from the SBA. The Company submitted an application for the loan forgiveness in early 2021 and received approval on August 20, 2021. The loan balance was reversed to wages and consulting expense during the three months ending September 30, 2021.

## 11. Share capital:

	Common Shares			
	Class A	Amount	Class B	Amount
Balance as at December 31, 2020	13,929,327	\$33,874,149	28,125	\$309,375

	Common Shares			
	MVS	Amount	SVS	\$ Amount
Balance as at June 21, 2021	13,929,327	\$33,874,149	28,125	\$309,375
Conversion of Class A to SVS	(10,972,062)	(26,682,442)	10,972,062	26,682,442
Shares issued for IPO	—	—	6,612,750	112,246,667
Share options exercised	—	—	62,500	540,805
Balance as at September 30, 2021	<b>2,957,265</b>	<b>7,191,707</b>	<b>17,675,437</b>	<b>139,779,289</b>

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2020:

The authorized share capital of VSHI consisted of an unlimited number of Class A common shares, an unlimited number of Class B common shares and an unlimited number of Class A preferred shares.

The Class A common shares were voting shares that were eligible to receive non-cumulative dividends as and when declared by VSHI's Board of Directors. The Class B common shares were non-voting shares that were eligible to receive non-cumulative dividends as and when declared by VSHI's Board of Directors in the same amount per share to be paid to holders of Class A common shares.

2021:

Prior to the initial public offering the existing share capital was modified as follows:

- 2,957,265 Class A shares at a value of \$7,191,707 were exchanged for 2,957,265 MVS shares at a value of \$7,191,707.
- 10,972,062 Class A shares at a value of \$26,682,442 were exchanged for 10,972,062 SVS shares at a value of \$26,682,442.
- 28,125 Class B shares at a value of \$309,375 were exchanged for 28,125 SVS shares at a value of \$309,375.

The SVS will have one vote per share and the MVS will have 10 votes per share.

The authorized share capital of VSHI consists of an unlimited number of Multiple Voting Shares ("MVS"), an unlimited number of Subordinate Voting Shares ("SVS") and an unlimited number of preferred shares.

An additional 852,750 Subordinate Voting Shares were issued on July 6, 2021 as a result of the full exercise of the underwriters' over-allotment option for an additional \$14,282,656 in net proceeds.

During the nine-months ended September 30, 2021 the company expensed \$3,261,272 of fees associated with the initial public offering. In addition, \$7,233,935 of fees were netted against gross proceeds from the initial public offering in share capital.

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## 12. Share-based compensation:

Omnibus incentive plan:

On June 14, 2021, the Company established an Omnibus Incentive Plan (the "Plan") for certain qualified directors, executive officers, employees, and consultants of the Company or any of its subsidiaries. The maximum number of SVS available for issuance, in the aggregate, under this Plan and the Legacy Option Plan (the executive stock option plan that was in place prior to the Initial Public Offering) shall not exceed twelve percent (12%) of the aggregate number of SVS and MVS issued and outstanding from time to time (calculated on a non-diluted basis); of which not more than 2,160,669 shares may be issued pursuant to the exercise of stock options granted under the Plan. Any shares subject to an award which has been exercised or settled in shares will again be available for issuance under the Plan. The number of shares available for issuance under the Plan will increase as the number of issued and outstanding SVS shares increases from time to time. Under the Plan the SVS may be issued as share options, Performance Share Units, Restricted Share Units or Deferred Share Units.

On June 21, 2021, 26,300 restricted share units were granted at a value of \$466,999. The shares will vest on December 31, 2021 and \$244,388 of the grant value was recorded as share-based compensation expense for the nine months ended September 30, 2021. The RSU's were valued at the market price on the grant date of June 21, 2021.

During the three months ending June 30, 2021 40,000 share options were granted at a value of \$441,985. The shares will vest over a period of 6 months and \$278,627 of the grant value was recorded as share-based compensation expense for the nine months ended September 30, 2021. The share options were valued at the date of grant using the Black-Scholes option pricing model with the assumptions of a risk free interest rate of .75% ; expected volatility of 77.61% and an expected time until exercise of 5 years.

During the three months ending June 30, 2021 25,000 share options were granted at a value of \$274,435. The shares will vest over a period of 4 years and \$83,836 of the grant value was recorded as share-based compensation expense for the nine months ended September 30, 2021. The share options were valued at the date of grant using the Black-Scholes option pricing model with the assumptions of a risk free interest rate of .75% ; expected volatility of 77.98% and an expected time until exercise of 5 years.

On June 21, 2021, market performance based restricted share units were granted at a value of \$6,495,702. The shares will vest on December 20, 2023 and \$714,527 of the grant value was recorded as share-based compensation expense for the nine months ended September 30, 2021.

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The market performance based restricted share units were valued using a monte carlo simulation with the assumptions of a risk free rate of 0.5%, expected volatility of 90.0%, a random variable of 0.1240 and a term of 2.5 years.

On June 21, 2021, market performance based restricted share units were granted at a value of \$485,886. The shares will vest on December 20, 2025 and \$29,963 of the grant value was recorded as share-based compensation expense for the nine months ended September 30, 2021. The market performance based restricted share units were valued using a monte carlo simulation with the assumptions of a risk free rate of 0.9%, expected volatility of 80.0%, a random variable of 0.9749 and a term of 4.5 years.

## 13. Change in non-cash operating assets and liabilities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Trade and other receivables	\$350,565	\$(711,944)	\$6,750,272	\$3,852,237
Prepaid expenses	472,924	80,233	(963,193)	117,621
Accounts payable and other liabilities	(1,866,078)	(369,105)	(424,293)	(2,952,854)
Deferred revenue	(99,361)	(396,820)	(4,300)	96,870
	<u>\$(1,141,950)</u>	<u>\$(1,397,636)</u>	<u>\$5,358,486</u>	<u>\$1,113,874</u>

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## 14. Interest expense:

Interest expense	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest income	(\$68)	(\$25,799)	(\$34,656)	(\$35,294)
Interest accretion expense - leases	55,232	56,891	173,120	174,594
Interest on long term debt	917,626	1,429,137	2,965,505	5,194,809
Credit facility financing fees	—	—	1,274,501	—
Adjustment for extinguishment of long term debt	—	—	1,052,844	—
Interest expense - other	98,287	49	149,741	196
Interest expense	1,071,145	1,486,077	5,615,711	5,369,599
Net interest expense	\$1,071,077	\$1,460,278	\$5,581,055	\$5,334,305

## 15. Government grants:

The Company also received a low interest forgivable loan under the US Paycheck Protection Program. The benefit of low interest was \$36,223 which was calculated using the term loan interest rates in effect at the time. The loan was reversed during the three months ended September 30, 2021 (note 10).

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## 16. Loss per share:

The following table summarizes the calculation of the weighted average number of basic and diluted common shares for the three and six months ended September 30, 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Issued common shares	20,632,702	13,957,452	20,632,702	13,957,452
Weighted average shares outstanding basic	20,577,088	13,957,452	20,577,088	13,957,452
Weighted average shares outstanding diluted	20,577,088	13,957,452	20,577,088	13,957,452
Income (loss per share) basic	(\$0.10)	(\$0.07)	(\$0.28)	(\$0.35)
Income (loss per share) diluted	(0.10)	(0.07)	(0.28)	(0.35)

During nine months ended September 30, 2021, there were 790,000 (2020 - 112,500) weighted average outstanding share options excluded from the computation of diluted loss per share as they were anti-dilutive.

## 17. Financial instruments:

The fair values of cash, trade and other receivables, and accounts payable and other liabilities are assumed to approximate their carrying amounts because of their short term to maturity. The carrying value of the Company's term loan and delayed draw loan approximate fair value due to the variable interest rate in the Credit Facility.

In addition, for financial reporting purposes, fair value measurement is categorized into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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- Level 1 - this level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.
- Level 2 - this level includes valuations determined using directly (i.e., as prices) or indirectly (i.e., derived from prices) observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.
- Level 3 - this level includes valuations based on inputs, which are less observable, unavailable or when the observable data does not support a significant portion of the instruments fair value.

Investments are measured at fair value and categorized as Level 3 in the hierarchy. Estimates of the fair value of investments are assessed on a quarterly basis. There were no transfers of fair value measurement between Levels 1, 2, and 3 of the fair value hierarchy during the nine months ended September 30, 2021.

## **18. Related party transactions:**

In the three and nine months ended September 30, 2021, Star Media Group, a wholly owned subsidiary of Nordstar Capital, purchased automobile content from a website owned by the Company in the amounts of \$14,120 and \$41,637, respectively (\$12,903 and \$38,656 in the three and nine months ended September 30, 2020, respectively). Metroland, a division of Torstar, purchased nil in both the three and nine months ended September 30, 2021 (nil and \$4,786 in the three and nine months ended September 30, 2020).

## **19. Subsequent events:**

The Company entered into an agreement on July 29, 2021 to sublease the remaining occupied space at the Toronto headquarters commencing on November 1, 2021 and ending on July 30, 2025.

The company acquired four community websites for a total value of \$5,588,386 in October 2021.