MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management's Discussion and Analysis ("MD&A") contains important information about the results of operations of Founders Advantage Capital Corp. ("FAC", "we", "our", or "the Corporation") for the three and six months ended June 30, 2020, as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of August 24, 2020, in conjunction with our interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2020 ("interim financial statements"), and our 2019 audited annual consolidated financial statements. Our interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), specifically International Accounting Standard 34 – Interim Financial Reporting. Unless otherwise indicated, all amounts are presented in Canadian dollars.

Our subsidiaries are referred to herein as Dominion Lending Centres Limited Partnership ("DLC"), Club16 Limited Partnership operating as Club16 Trevor Linden Fitness ("Club16"), and Cape Communications International Inc. operating as Impact Radio Accessories ("Impact"). DLC's subsidiary Newton Connectivity Systems Inc. is referred to herein as "NCS".

When preparing our MD&A, we consider the materiality of information. Information is considered material if (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. We evaluate materiality with reference to all relevant circumstances, including potential market sensitivity.

The Corporation's common shares are publicly traded on the TSX Venture Exchange ("Exchange") under the symbol "FCF". Continuous disclosure materials are available on our website at www.advantagecapital.ca, and on SEDAR at www.sedar.com.

CONTENTS

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate," "believe," "estimate," "will," "expect," "plan," "intend," or similar words suggesting future outcomes or an outlook. Forward-looking information in this document includes, but is not limited to:

- The 2020 outlook and strategic objectives;
- The Corporation's expectation that its collaborative approach with its investees will enhance and accelerate growth and performance;
- Our investee entities ability to distribute cash to the corporate head office;
- Revenue from investees in the future being greater than revenue from investees for the current period;
- Our business plan and investment strategy;
- General business strategies and objectives;
- Club16 growing membership numbers from new clubs opened in 2019, expanding personal training and the opening of its new fitness clubs in North Burnaby and Richmond in 2020 and Chilliwack in 2021;
- DLC adding additional franchises through targeted recruiting initiatives, and NCS growing its submission volumes submitted through Velocity and increasing its number of third-party users;
- Impact focusing on securing large orders;
- The impact of the ongoing COVID-19 pandemic and its effect on the operations of the Corporation and its subsidiaries; and
- Club16 obtaining rent abatements and deferrals during closure periods resulting from the COVID-19 crisis.

Such forward-looking information is based on many estimates and assumptions, including material estimates and assumptions, related to the factors identified below that, while considered reasonable by the Corporation as at the date of this MD&A considering management's experience and perception of current conditions and expected developments, are inherently subject to significant business, economic and competitive uncertainties and contingencies.

Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to:

- Changes in taxes;
- Changes in foreign currency rates;
- Changes in U.S. tariffs;
- Increased operating, general and administrative, and other costs;
- Changes in interest rates;
- General business, economic and market conditions;
- Changes in health outbreaks and impacts on market conditions;
- The extent and duration of COVID-19;
- Our ability to obtain services and personnel in a timely manner and at an acceptable cost to carry out our activities;
- DLC's ability to maintain its existing number of franchisees and add additional franchisees;
- NCS' ability to grow its submission volumes and number of third-party users is subject to broker and industry adoption of NCS as a connectivity platform;
- Changes in Canadian mortgage lending and mortgage brokerage laws;
- Material decreases in the aggregate Canadian mortgage lending business;
- Changes in the fees paid for mortgage brokerage services in Canada;
- Changes in the regulatory framework for the Canadian housing sector;
- Demand for DLC, Club16, and Impact's products remaining consistent with historical demand;
- Our ability to realize the expected benefits of our DLC, Club16 and Impact transactions;
- Our ability to generate sufficient cash flow from investees to meet current and future commitments and obligations; and
- The uncertainty of estimates and projections relating to future revenue, taxes, costs and expenses; changes in, or in the interpretation of, laws, regulations or policies;
- the outcome of existing and potential lawsuits, regulatory actions, audits and assessments;
- other risks and uncertainties described elsewhere in this document and in our other filings with Canadian securities authorities.

Many of these uncertainties and contingencies may affect our actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, us. Readers are cautioned that forward-looking statements are not guarantees of future performance. All forward-looking statements made in this MD&A are qualified by these cautionary statements. The foregoing list of risks is not exhaustive. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities laws, we undertake no obligation to update publicly or revise any forward-looking statements or information, whether because of new information, future events or otherwise.

Response to COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. As a result, all levels of government in Canada have implemented public health measures including social distancing. The Corporation expects that COVID-19 will have a material impact on our subsidiary partners. Club16 was required to temporarily close all clubs, from March 17, 2020 to May 31, 2020. In an effort to ensure the health and safety of staff and members, Club16 has adopted enhanced cleaning measures, implemented a reservation system to reduce club traffic and has reconfigured club equipment to ensure adequate social distancing.

Management has undertaken a wide range of initiatives to improve the financial flexibility of the Corporation and its subsidiaries. To improve overall liquidity at head office, the Corporation unwound its foreign currency exchange forward agreement in exchange for net proceeds of CAD $1.5 million. At the subsidiary level; principal payments on term debt have been postponed for six months for Club16 and DLC; non-essential expenditures have been deferred; staff was temporarily reduced at Club16 while the clubs were closed; Club16 increased its credit line by $1.5 million; Club16 entered into a $1.6 million demand non-revolving loan to provide additional liquidity; and Club16 received rent abatements on certain leases with negotiations ongoing. In addition, management is working closely with its subsidiaries to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19. See the 2020 Outlook and Strategic Objective section and the Liquidity section of this document.

The course of the COVID-19 pandemic is highly uncertain. COVID-19 is expected to negatively impact the earnings of some of the Corporation's subsidiaries into the foreseeable future and could impact cash flows of the Corporation. The ultimate impact of the pandemic on the Corporation's future operations and financial performance is currently unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of management, including: the duration and severity of the pandemic; the impact of the pandemic on economic growth and financial and capital markets; and governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the initial outbreak of the COVID-19 virus has subsided. The potential impact of the COVID-19 pandemic has been considered by management in making judgments, estimates and assumptions used in the preparation of the interim financial statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future financial periods as additional information becomes available.

USE OF NON-IFRS FINANCIAL PERFORMANCE MEASURES

This MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance. These non-IFRS measures do not have any standardized meaning, and therefore are unlikely to be comparable to the calculation of similar measures used by other companies and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Non-IFRS measures are defined and reconciled to the most directly comparable IFRS measure. Please see the Non-IFRS Financial Performance Measures section. Non-IFRS financial performance measures used in our MD&A include adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted EBITDA margin, adjusted EBITDA attributed to shareholders and non-controlling interest ("NCI"), proportionate share of investee adjusted EBITDA, adjusted net (loss) income, adjusted (loss) earnings per share, and free cash flow.

DISCONTINUED OPERATIONS

On September 30, 2019, we sold our 50% interest in Astley Gilbert Limited ("AG") for proceeds of $17.0 million (the "AG Transaction"). As a result of the AG Transaction, our results for the comparative three and six month periods have been adjusted to present the financial results of AG segregated in the statements of loss as discontinued operations. AG was previously included in the "Impact" operating segment.

OVERVIEW

OUR BUSINESS

FAC is an investment corporation that holds controlling interests in three premium owner-operated companies. Our capital is permanent in nature and has no mandated liquidity time frame. Through our investment approach, our model enables owner-operators to remain actively involved in the business operations. We use a collaborative approach with our investees to help enhance and accelerate free cash flow growth and operational performance.

We currently operate a corporate head office and three business segments, being DLC (DLC and its subsidiaries); Club16; and Impact. We currently own a 60% interest in DLC, a 58% interest in Club16 and a 52% interest in Impact.

On June 29, 2020, Club16 completed a private placement of 273 Class A LP units to its founder/operating partner for proceeds of $1.0 million. As a result, the Corporation's ownership interest in Club16 has decreased from 60% to 58%. The non-controlling interest on the balance sheet includes the increase in non-controlling interest. As the private placement was not effective until June 29, 2020, the allocation of net loss and loss per share between shareholders of the Corporation and non-controlling interest for the three months and six months ended June 30, 2020, are allocated based on the Corporation's 60% ownership interest in Club16. The proceeds from the Club16 offering will be used to fund the opening of two new clubs. See the 2020 Outlook and Strategic Objective section of this document for further details.

For financial reporting purposes, FAC controls these portfolio companies, and as a result, this MD&A and the interim financial statements for the three and six months ended June 30, 2020, include 100% of the accounts of our subsidiaries. Corporate and Consolidated segment contains corporate costs and consolidating accounting entries.

SECOND QUARTER 2020 FINANCIAL HIGHLIGHTS

Below are the financial highlights of our results for the three and six months ended June 30, 2020. The results for the three and six months ended June 30, 2019, reflect the segregation of AG as discontinued operations. See the Discontinued Operations section of this document. The discontinued operations are only included in net loss and net loss per common share.

	Three months ended		Six months ended	
(in thousands except per share amounts)	**Jun 30, 2020**	**Jun 30, 2019**	**Jun 30, 2020**	**Jun 30, 2019**
Revenues	**$ 15,014**	$ 23,579	**$ 33,087**	$ 44,179
Income from operations	**667**	5,206	**3,091**	7,093
Adjusted EBITDA (1)	**5,308**	9,182	**11,071**	15,555
Adjusted EBITDA attributable to: (1)				
Shareholders	**2,833**	5,162	**6,058**	8,597
Non-controlling interests	**2,475**	4,020	**5,013**	6,958
Adjusted EBITDA margin (1)	**35%**	39%	**33%**	35%
Proportionate share of investee adjusted EBITDA (1)	**3,414**	5,619	**7,132**	9,707
Free cash flow (1)	**335**	1,390	**278**	1,068
Net loss	**(413)**	(3,499)	**(2,129)**	(4,394)
Net (loss) income from continuing operations	**(413)**	2,788	**(2,129)**	2,402
Net loss from discontinued operations	**-**	(6,287)	**-**	(6,796)
Net (loss) income attributable to:				
Shareholders	**(697)**	(2,288)	**(2,896)**	(3,760)
Non-controlling interests	**284**	(1,211)	**767**	(634)
Adjusted net (loss) income (1)	**(1,547)**	2,100	**(1,866)**	1,420
Adjusted net (loss) income attributable to: (1)				
Shareholders	**(1,836)**	104	**(2,628)**	(1,464)
Non-controlling interests	**289**	1,996	**762**	2,884
Diluted loss per share	**(0.02)**	(0.06)	**(0.08)**	(0.10)
Adjusted loss per share (1)	**(0.05)**	-	**(0.07)**	(0.04)

(1) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

(in thousands)	Three months ended Jun 30, 2020	 Jun 30, 2019	Six months ended Jun 30, 2020	 Jun 30, 2019
Adjusted EBITDA (1)				
DLC	**$ 5,725**	$ 3,896	**$ 10,265**	$ 6,462
Club16	**(309)**	4,502	**1,084**	6,574
Impact	**473**	1,241	**796**	3,629
Corporate and consolidated	**(581)**	(457)	**(1,074)**	(1,110)
Total adjusted EBITDA (1)	**5,308**	9,182	**11,071**	15,555
Proportionate share of investee adjusted EBITDA (1)				
DLC	**3,353**	2,273	**6,067**	3,876
Club16	**(185)**	2,701	**651**	3,944
Impact	**246**	645	**414**	1,887
Total Proportionate share of investee adjusted EBITDA (1)	**3,414**	5,619	**7,132**	9,707

(1) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

Three-month highlights

Income from operations for the three months ended June 30, 2020, decreased $4.5 million when compared to the corresponding period in 2019. Higher income from operations from DLC was offset by lower income from Club16 and Impact. Additional income of $1.9 million was generated from DLC through higher revenues from a 12% increase in funded mortgage volumes compared to the three months ended June 30, 2019. Club16 and Impact decreased $5.5 million and $1.1 million, respectively, compared to prior year due to lower revenues. Corporate's general and administrative expenses decrease of $0.2 million arising from our initiative to reduce corporate general and administrative expenses was partly offset by an increase of $0.1 million in share-based payment expense due to the grant of additional restricted share units ("RSUs").

Adjusted EBITDA decreased $3.9 million compared to the three months ended June 30, 2019. The decrease is primarily due to decreases in Club16, Impact and Corporate partly offset by an increase in DLC's adjusted EBITDA. Club16's adjusted EBITDA decreased $4.8 million from decreases in membership and personal training revenues from the temporary closure of clubs from March 17, 2020 to May 31, 2020 in response to the COVID-19 pandemic. Adjusted EBITDA from Impact decreased $0.8 million compared to the three months ended June 30, 2019, primarily due to lower revenues related to the suspension of concerts and professional sporting events due to COVID-19. Corporate adjusted EBITDA decreased $0.1 million due to higher other expenses of $0.2 million from transaction costs associated with the Corporation's new foreign exchange forward contracts, partly offset by lower general and administrative costs net of restructuring expenses of $0.1 million. DLC's adjusted EBITDA increased $1.8 million from higher revenue attributable to increased funded mortgage volumes and decreased advertising expenses.

Free cash flow decreased $1.1 million compared to the three months ended June 30, 2019, primarily from the decrease in adjusted EBITDA attributable to shareholders of $2.3 million and increased maintenance capital expenditures of $0.5 million, partly offset by a decrease in taxes paid of $1.0 million, $0.5 million decrease in lease payments from rent abatements and ongoing lease negotiations, and $0.3 million decrease in interest paid. Increase in capital expenditures is primarily related to franchise renewal costs for DLC. The decrease in cash taxes paid is due to deferral of tax payments to manage liquidity in response to COVID-19, in accordance with the deferral permitted as per the Government of Canada. Finance expense decreased from the comparative period in the prior year, primarily related to reduced Corporate borrowings due to principal repayments from the sale of AG and free cash flow repayments combined with a decrease in USD LIBOR rate during the three months ended June 30, 2020, when compared to the three months ended June 30, 2019. The corporate head office's USD $32.0 million loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum (subject to a minimum LIBOR rate of 1%) with interest payable quarterly. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

Net loss for the three months ended June 30, 2020 decreased $3.1 million compared to the corresponding period in 2019. The decrease in net loss was primarily due to a net loss of $6.3 million from discontinued operations for the three months ended June 30, 2019, partly offset by an increase in net loss from continuing operations of $3.2 million. The increase in net loss from continuing operations is due to a decrease in earnings in operations of $4.5 million and higher taxes of $0.3 million, partly offset by a decrease in other expenses of $1.7 million. Taxes increased for the three months ended June 30, 2020 due to higher taxes from DLC associated with higher earnings, partly offset by decreases in taxes in Impact and Corporate. Other expenses decreased for the three months ended June 30, 2020, compared to the three months ended June 30, 2019, primarily due to a $0.6 million positive movement in foreign exchange related to our USD debt and cash balances, $0.9 million increase in other income, $0.4 million decrease in finance expense and a $0.2 million increase in income from equity accounted investments, partly offset by a $0.4 million negative movement related to our foreign exchange forward contracts. The increase in other income is due to the recognition of $0.7 million of government wage subsidies and $0.2 million of lease abatements.

The Corporation's discontinued operations were sold on September 30, 2019, and therefore had no operating activities during the three months ended June 30, 2020 compared to a net loss of $6.3 million in the three months ended June 30, 2019.

Adjusted net loss for the three months ended June 30, 2020 decreased $3.6 million compared to the same period in the previous year due to decreased income from operations partly offset by $0.7 million of government wage subsidies included within other income.

Six-month highlights

Income from operations for the six months ended June 30, 2020 decreased $4.0 million when compared to the six months ended June 30, 2019. Lower income from operations at Club16 and Impact was partly offset by higher income from operations from DLC. Club16 and Impact decreased $6.3 million and $3.1 million, respectively, compared to prior year due to lower revenues. Additional income of $4.1 million was generated from DLC through higher revenues of $2.3 million and lower operating expenses of $1.7 million, compared to the six months ended June 30, 2019. Corporate general and administrative expenses decreased $1.3 million arising from our initiative to reduce corporate general and administrative expenses and recognition of $0.9 million of restructuring costs (management severance and staff retention payments) recognized in 2019 versus minimal restructuring costs recognized in 2020.

Adjusted EBITDA decreased $4.5 million compared to the six months ended June 30, 2019. Club16's adjusted EBITDA decreased $5.5 million from decreases in membership and personal training revenues from the temporary closure of clubs from March 17, 2020 to May 31, 2020, in response to the COVID-19 pandemic. Adjusted EBITDA for Impact decreased $2.8 million compared to the six months ended June 30, 2019, primarily due to lower revenues. DLC's adjusted EBITDA increased $3.8 million due to higher revenue from increased funded mortgage volumes and decreased operating expenses. Corporate adjusted EBITDA remained relatively consistent.

Free cash flow decreased $0.8 million compared to the six months ended June 30, 2019 from decreased adjusted EBITDA attributable to shareholders of $2.5 million, and $0.4 million higher maintenance capital expenditures, partly offset by $0.9 million decrease in taxes paid, $0.8 million decrease in interest paid, and $0.4 million decrease in lease payments from rent abatements and ongoing lease negotiations. Increase in capital expenditures is primarily related to franchise renewal costs for DLC. The decrease in cash taxes paid is due to deferral of tax payments to manage liquidity in response to COVID-19, in accordance with the deferral permitted as per the Government of Canada. Finance expense decreased from the comparative prior year, primarily related to reduced Corporate borrowings due to principal repayments from the sale of AG and free cash flow repayments combined with a decrease in USD LIBOR rate during the six months ended June 30, 2020, when compared to the six months ended June 30, 2019. The corporate head office's $32.0 million USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum (subject to a minimum LIBOR rate of 1%) with interest payable quarterly. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

Net loss for the six months ended June 30, 2020 decreased $2.3 million compared to the corresponding period in 2019. The decrease in net loss was primarily due to a net loss of $6.8 million from discontinued operations for the six months ended June 30, 2019, partly offset by an increase in net loss from continuing operations of $4.5 million. The increase in net loss from continuing operations is due to a decrease in earnings from operations of $4.0 million and an increase in other expenses of $0.7 million, partly offset by lower taxes of $0.2 million. Other expenses increased for the six months ended June 30, 2020, compared to the six months ended June 30, 2019, primarily due to a $4.3 million negative movement in foreign exchange related to our USD debt and cash balances, partly offset by a $1.7 million positive movement related to our foreign exchange forward contract, $0.9 million increase in other income, $0.7 million decrease in finance expense, and higher income on equity accounted investment of $0.3 million. The increase in other income is due to recognition of $0.7 million of government wage subsidies and $0.2 million of lease abatements.

The Corporation's discontinued operations were sold on September 30, 2019, and therefore had no operating activities during the six months ended June 30, 2020, compared to a net loss of $6.8 million in the six months ended June 30, 2019.

Adjusted net loss for the six months ended June 30, 2020 decreased $3.3 million compared to the same period in the previous year due to decreased income from operations partly offset by $0.7 million of government wage subsidies included within other income.

See the Liquidity section of this MD&A for information on the changes in cash and cash equivalents and working capital deficiency.

		As at		
(in thousands, except shares outstanding)		**June 30, 2020**		December 31, 2019
Cash and cash equivalents	**$**	**8,409**	$	5,458
Working capital deficiency	**$**	**(12,724)**	$	(14,637)
Total loans and borrowings (1)	**$**	**58,685**	$	61,173
Shareholders' equity	**$**	**71,157**	$	73,711
Common shares outstanding		**38,082,513**		38,182,513

(1) Net of debt issuance costs.

REVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS FROM CONTINUING OPERATIONS

Below is selected financial information from the three and six months ending June 30, 2020 consolidated financial results. See the Significant Accounting Policies section of this MD&A and notes to our June 30, 2020 interim financial statements for accounting policies and estimates as they relate to the following discussion. A reconciliation of our reportable segments to our consolidated results presented in this table can be found in the Segmented Results from Continuing Operations section.

	Three months ended				Six months ended			
(in thousands)		**Jun 30, 2020**		Jun 30, 2019		**Jun 30, 2020**		Jun 30, 2019
Continuing Operations								
Revenues	**$**	**15,014**	$	23,579	**$**	**33,087**	$	44,179
Operating expenses (1)		**14,347**		18,373		**29,996**		37,086
Income from operations		**667**		5,206		**3,091**		7,093
Other income (expense), net		**139**		(1,546)		**(3,648)**		(2,954)
Income (loss) before tax		**806**		3,660		**(557)**		4,139
Add back:								
Depreciation and amortization		**3,436**		3,438		**6,872**		6,941
Finance expense		**2,204**		2,633		**4,414**		5,131
Other adjusting items (2)		**(1,138)**		(549)		**342**		(656)
Adjusted EBITDA (2)	**$**	**5,308**	$	9,182	**$**	**11,071**	$	15,555

(1) Operating expenses comprise of direct costs, general and administrative expenses, share-based payments, and depreciation and amortization expense.

(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

Revenues

Three-month highlights

Consolidated revenues for the three months ended June 30, 2020, decreased $8.6 million over the three-month period ended June 30, 2019, from $23.6 million to $15.0 million. Club16 revenues decreased by $7.5 million when compared to the three months ended June 30, 2019, as a result of temporary club closures effective March 17, 2020 to May 31, 2020, in response to the COVID-19 pandemic. In addition, Impact's revenues decreased $2.0 million when compared to the corresponding period in 2019, primarily from a decrease in sales due to COVID-19. Partially offsetting these decreases was an increase of $0.9 million in DLC revenues from a 12% increase in funded mortgage volumes.

Six-month highlights

Consolidated revenues for the six months ended June 30, 2020, decreased $11.1 million over the six-month period ended June 30, 2019, from $44.2 million to $33.1 million. Club16 revenues decreased by $7.7 million when compared to the three months ended June 30, 2019, as a result of temporary club closures effective March 17, 2020 to May 31, 2020, in response to the COVID-19 pandemic. In addition, Impact's revenues decreased $5.7 million when compared to the corresponding period in 2019, primarily from timing of several large orders fulfilled in 2019 and a decrease in sales due to COVID-19. Partially offsetting these decreases was an increase of $2.3 million in DLC revenues from a 19% increase in funded mortgage volumes.

Operating expenses

	Three months ended			Six months ended		
(in thousands)		**Jun 30, 2020**	Jun 30, 2019		**Jun 30, 2020**	Jun 30, 2019
Direct costs	**$**	**2,364**	$ 4,642	**$**	**5,477**	$ 9,248
General and administrative		**8,149**	10,105		**17,374**	20,619
Share-based payments		**398**	188		**273**	278
Depreciation and amortization		**3,436**	3,438		**6,872**	6,941
	$	**14,347**	$ 18,373	**$**	**29,996**	$ 37,086

Direct costs

Consolidated direct costs relate to the operations of each of the three business segments for the quarter. DLC's direct costs comprise of franchise recruiting and support costs, and advertising fund expenditures. Club16's direct costs primarily relate to costs of personal training, and Impact's direct costs relate to the cost of product sales.

Three-month highlights

Consolidated direct costs decreased by $2.3 million over the three months ended June 30, 2019, to $2.4 million from $4.6 million. The decrease is primarily from lower direct costs associated with lower revenues within Impact and Club16, and lower direct costs within DLC from timing of advertising fund expenditures.

Six-month highlights

Consolidated direct costs decreased by $3.8 million over the six months ended June 30, 2019, to $5.5 million from $9.2 million. The decrease is primarily from lower direct costs associated with lower revenues within Impact and Club16, and lower direct costs within DLC from timing of advertising fund expenditures.

General and administrative

Three-month highlights

Consolidated general and administrative expenses decreased by $2.0 million compared to the three months ended June 30, 2019, to $8.1 million from $10.1 million. This variance is primarily due to a decrease of $1.3 million at Club16 from decreased spending, primarily on salaries and wages due to the temporary lay-offs during the closure of clubs from March 17, 2020 to May 31, 2020, in response to the COVID-19 pandemic. In addition, DLC's general and administrative expenses decreased $0.3 million, primarily due to a decrease in advertising expenses from cancellation of events due to COVID-19. Further, Impact and Corporate general and administrative expenses decreased $0.2 million and $0.2 million, respectively. Impact expenses decreased due to decreased spending as a result of COVID-19 and Corporate expenses decreased as a result of continuing initiatives to reduce corporate general and administrative expenses.

Six-month highlights

Consolidated general and administrative expenses decreased by $3.2 million compared to the six months ended June 30, 2019, to $17.4 million from $20.6 million. This variance is primarily due to a decrease in Corporate general and administrative expenses of $1.3 million arising from our initiative to reduce corporate general and administrative expenses and recognition of $0.9 million of restructuring costs (management severance and staff retention payments) in 2019 versus minimal restructuring costs recognized in 2020. In addition, DLC general and administrative expenses decreased $0.8 million, as the six months ended June 30, 2019 included a $0.5 million loss on settlement of a contract dispute with a third party and from decreased advertising expenses due to cancellation of events as a result of COVID-19. Further, there was a decrease of $1.0 million and $0.2 million at Club16 and Impact, respectively. Club16 general and administrative expenses decreased primarily from lower salaries and wages from temporary layoffs of club and office staff and decreased spending during the club closures. Impact's general and administrative expenses decreased from reduced spending as a result of COVID-19.

Share-based payments

The amounts in share-based payments include vesting expense associated with the Corporation's RSUs and Impact's share appreciation rights. When compared to the three months ended June 30, 2019, share-based payments increased $0.2 million, from additional RSUs granted during the three months ended June 30, 2020. When compared to the six months ended June 30, 2019, share-based payments remained relatively consistent. There were no share options granted in 2019 or 2020.

Depreciation and amortization

Depreciation and amortization primarily relate to the acquisition of, and subsequent additions to, finite life intangible assets acquired as part of the Corporation's acquisition of our subsidiaries, capital asset amortization, and right-of-use asset amortization for assets held at the subsidiary level. The intangible assets acquired as part of our acquisitions are being amortized into consolidated income include DLC's and NCS's software; DLC's renewable franchise rights; the brand name license and customer relationships of Club16 and Impact; and Impact's supplier relationships.

Depreciation and amortization remained relatively consistent when compared to the three and six months ended June 30, 2019.

Other expenses

(in thousands)	Three months ended **Jun 30, 2020**	Three months ended Jun 30, 2019	Six months ended **Jun 30, 2020**	Six months ended Jun 30, 2019
Finance expense	**$ 2,204**	$ 2,633	**$ 4,414**	$ 5,131
Foreign exchange (gain) loss	**(1,690)**	(1,115)	**2,022**	(2,266)
Change in fair value of foreign exchange forward contract	**395**	-	**(1,666)**	-
Net loss on disposal of capital and intangible assets	**-**	10	**-**	10
Loss on settlement of contract	**89**	118	**203**	236
Income on equity accounted investment	**(199)**	(12)	**(267)**	(12)
Other income	**(938)**	(88)	**(1,058)**	(145)
	$ (139)	$ 1,546	**$ 3,648**	$ 2,954

Three-month highlights

Other expenses decreased $1.7 million for the three months ended June 30, 2020, compared to the three months ended June 30, 2019. The decrease in other expenses is primarily due to $0.9 million increase in other income, $0.6 million positive movement on foreign exchange related to our USD debt and cash balances, $0.4 million decrease in finance expense and $0.2 million increase in income on equity accounted investment, partly offset by $0.4 million negative change in the fair value of our foreign exchange forward contract.

Included within other income for the three months ended June 30, 2020 is income of $0.7 million and $0.2 million from government wage subsidies and rent abatements, respectively.

The foreign exchange movement is primarily related to the revaluation of our USD $32.0 million debt. The exchange rate at June 30, 2020, was $0.7338 CAD to USD (March 31, 2020 – $0.7049 CAD to USD). For information on foreign exchange risk refer to the Market Risk section of this MD&A. The decrease in financing costs over the prior year quarter primarily relates to lower Corporate borrowings and a decrease in USD LIBOR rate during the three months ended June 30, 2020, when compared to the three months ended June 30, 2019. The corporate head office's USD $32.0 million loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum (subject to a minimum LIBOR rate of 1%) with interest payable quarterly. The Corporation entered new foreign exchange forward contracts during the three months ended June 30, 2020, to partially mitigate foreign currency exchange risk in connection with its USD denominated debt. The change in fair value of our foreign exchange forward contract was unrealized for the three months ended June 30, 2020. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities, and the Market Risk section of this document for additional discussion of our foreign exchange forward contracts.

Six-month highlights

Other expenses increased $0.7 million for the six months ended June 30, 2020, compared to the six months ended June 30, 2019. The increase in other expenses is primarily due to $4.3 million negative movement on foreign exchange related to our USD debt and cash balances, partly offset by $1.7 million positive change in the fair value of our foreign exchange forward contract, increase of $0.9 million in other income, $0.7 million decrease in finance expense, and $0.3 million higher income on equity accounted investment.

Included within other income for the six months ended June 30, 2020 is income of $0.7 million and 0.2 million from government wage subsidies and rent abatements, respectively.

The foreign exchange movement is primarily related to the revaluation of our USD $32.0 million debt. The exchange rate at June 30, 2020, was $0.7338 CAD to USD (December 31, 2019 – $0.7699 CAD to USD). For information on foreign exchange risk refer to the Market Risk section of this MD&A. The decrease in financing costs over the prior year primarily relates to lower Corporate borrowings and a decrease in USD LIBOR rate during the six months ended June 30, 2020, when compared to the six months ended June 30, 2019. The corporate head office's $32.0 million USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum (subject to a minimum LIBOR rate of 1%) with interest payable quarterly. The Corporation entered a foreign exchange forward contract in December 2019, to partially mitigate foreign currency exchange risk in connection with its USD denominated debt which was unwound during the first quarter of 2020. During the second quarter of 2020, the Corporation entered new foreign exchange forward contracts. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities, and the Market Risk section of this document for additional discussion of our foreign exchange forward contracts.

SEGMENTED RESULTS FROM CONTINUING OPERATIONS

We discuss the results of the corporate head office and three reportable segments as presented in our June 30, 2020 interim financial statements: DLC, Club16, and Impact. The performance of our reportable segments is assessed based on revenues, income from operations, adjusted EBITDA, and free cash flow. Adjusted EBITDA is a supplemental measure of the segments' income (loss) before tax in which depreciation and amortization, finance expense, share-based payment expense and unusual or one-time items are added back to the segment's income from operations to arrive at each segment's adjusted EBITDA. Free cash flow represents how much cash a business generates after spending what is required to maintain or expand the current asset base. Please see the Non-IFRS Financial Performance Measures section of this document for additional information. We also report corporate head office results, which include expenses incurred by FAC corporate head office. Corporate head office does not qualify as a separate reportable segment, but is presented to reconcile to our consolidated operating results. Our reportable segment results reconciled to our consolidated results are presented in the table below. The segmented information for the comparative three and six months ended June 30, 2019 exclude discontinued operations results from AG. See the Discontinued Operations section of this document.

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2020**	Jun 30, 2019	**Jun 30, 2020**	Jun 30, 2019
Revenues				
DLC	**$ 11,369**	$ 10,440	**$ 20,867**	$ 18,519
Club16	**1,803**	9,270	**8,118**	15,827
Impact	**1,842**	3,869	**4,102**	9,833
Consolidated revenues	**15,014**	23,579	**33,087**	44,179
Operating expenses (1)				
DLC	**6,990**	8,005	**13,159**	14,889
Club16	**4,683**	6,645	**11,658**	13,023
Impact	**1,862**	2,813	**4,095**	6,703
Corporate	**812**	910	**1,084**	2,471
Consolidated operating expenses	**14,347**	18,373	**29,996**	37,086
Income (loss) from operations				
DLC	**4,379**	2,435	**7,708**	3,630
Club16	**(2,880)**	2,625	**(3,540)**	2,804
Impact	**(20)**	1,056	**7**	3,130
Corporate	**(812)**	(910)	**(1,084)**	(2,471)
Consolidated income from operations	**667**	5,206	**3,091**	7,093
Adjusted EBITDA (2)				
DLC	**5,725**	3,896	**10,265**	6,462
Club16	**(309)**	4,502	**1,084**	6,574
Impact	**473**	1,241	**796**	3,629
Corporate	**(581)**	(457)	**(1,074)**	(1,110)
Consolidated Adjusted EBITDA (2)	**5,308**	9,182	**11,071**	15,555
Free Cash Flow (2)				
DLC	**2,182**	1,075	**3,958**	1,944
Club16	**(397)**	2,048	**(555)**	2,064
Impact	**231**	372	**226**	1,366
Corporate	**(1,681)**	(2,105)	**(3,351)**	(4,306)
Consolidated Free Cash Flow (2)	**$ 335**	$ 1,390	**$ 278**	$ 1,068

(1) Operating expenses comprise of direct costs, general and administrative expenses, share-based payments, and depreciation and amortization expense.

(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

DLC segment

(in thousands, unless otherwise noted)	Three months ended				Six months ended			
		Jun 30, 2020		Jun 30, 2019		**Jun 30, 2020**		Jun 30, 2019
Revenues	**$**	**11,369**	$	10,440	**$**	**20,867**	$	18,519
Operating expenses (1)		**6,990**		8,005		**13,159**		14,889
Income from operations		**4,379**		2,435		**7,708**		3,630
Other income (expense), net		**143**		(228)		**161**		(480)
Income before tax		**4,522**		2,207		**7,869**		3,150
Add back:								
Depreciation and amortization		**1,076**		1,261		**2,162**		2,557
Finance expense		**108**		199		**256**		359
Other adjusting items		**19**		229		**(22)**		396
Adjusted EBITDA (2)	**$**	**5,725**	$	3,896	**$**	**10,265**	$	6,462
Adjusted EBITDA margin (2)		**50%**		37%		**49%**		35%
Adjusted EBITDA attributable to: (2)								
Shareholders	**$**	**3,353**	$	2,273	**$**	**6,067**	$	3,876
Non-controlling interests	**$**	**2,372**	$	1,623	**$**	**4,198**	$	2,586
Free Cash Flow (2)	**$**	**2,182**	$	1,075	**$**	**3,958**	$	1,944
Key performance indicators:								
Funded mortgage volumes (3)	**$**	**10,466,116**	$	9,385,307	**$**	**18,897,254**	$	15,866,218
Number of franchises (4)		**537**		527		**537**		527
Number of brokers (4)		**5,752**		5,549		**5,752**		5,549

(1) Operating expenses comprise of direct costs, general and administrative expenses, and depreciation and amortization expense.

(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

(3) Funded mortgage volumes are a key performance indicator for the segment that allows us to measure performance against our operating strategy.

(4) The number of franchises and brokers are as at the respective balance sheet date.

The DLC segment includes the operating results of the DLC consolidated group for all periods presented. The quarterly results may vary from quarter to quarter because of seasonal fluctuations. The DLC segment is subject to seasonal variances that fluctuate in accordance with the normal home buying season. This typically results in higher revenues in the months of June through September of each year, and results in lower revenues during the months of January through March.

Three-month highlights

Revenue increased $0.9 million when compared to the three months ended June 30, 2019 primarily from an increase in funded mortgage volumes. The segment's operating expenses for the three months ended June 30, 2020 decreased by $1.0 million over the same three months in the prior year. The decrease can be primarily attributed to $0.6 million of lower advertising expenses from event cancellations due to COVID-19 and decreased direct costs primarily from $0.6 million lower advertising fund expenditures; partly offset by an increase in personnel costs.

Income from operations and adjusted EBITDA increased by $1.9 million and $1.8 million, respectively, over the three months ended June 30, 2019. The increase in both income from operations and adjusted EBITDA can be attributed to an increase in revenues from higher funded mortgage volumes and lower advertising expenses and advertising fund expenditures.

Free cash flow increased $1.1 million during the three months ended June 30, 2020 when compared to the prior period directly related to an increase in adjusted EBITDA attributable to shareholders and deferral of taxes paid, partly offset by higher capital expenditures in the current period. The deferral of tax payments is to manage liquidity in response to COVID-19, in accordance with the deferral permitted as per the Government of Canada.

Six-month highlights

Revenue increased $2.3 million when compared to the six months ended June 30, 2019, primarily from an increase in funded mortgage volumes. The segment's operating expenses for the six months ended June 30, 2020 decreased by $1.7 million over the same six months in the prior year. The decrease can be primarily attributed to $0.8 million lower advertising expenses from event cancellations due to COVID-19, lower direct costs from $0.7 million of decreased advertising fund expenditures, and $0.5 million loss on settlement of a contract dispute with a third-party provider recognized in 2019 and none in 2020; partly offset by an increase in personnel costs.

Income from operations and adjusted EBITDA increased by $4.1 million and $3.8 million, respectively, over the six months ended June 30, 2019. The increase in both income from operations and adjusted EBITDA can be attributed to an increase in revenues from higher funded mortgage volumes, decreased advertising expenses and lower advertising fund expenditures.

Free cash flow increased $2.0 million during the six months ended June 30, 2020 when compared to the prior period directly related to an increase in adjusted EBITDA attributable to shareholders and deferral of taxes paid, partly offset by higher capital expenditures in the current period. The deferral of tax payments is to manage liquidity in response to COVID-19, in accordance with the deferral permitted as per the Government of Canada.

NCS

NCS is one of two approved connectivity platforms between Canadian lenders and mortgage brokers. NCS is a financial technology company which provides a secure all-in-one operating platform in Canada, known as "Velocity", which connects mortgage brokers to lenders. NCS provides end-to-end services to automate the entire mortgage application, approval, underwriting and funding process; and additional services to provide brokers with the management of daily operations and access to data resources.

The operating platform provides services through various lender and broker facing products. Lender facing products provide encrypted exchange networks to connect brokers with lenders and third parties. These include web-based services connecting brokers on Velocity to lenders and third-party suppliers, which allow for direct submission of mortgages to lenders and underwriting platforms to deliver digital credit applications from brokers to lenders. Broker facing products automatically manage all the revenue and distributions to brokers through Velocity; with additional services to match lender-verified products to a client's criteria and automation of the payroll process. Further, NCS provides services to third-party users through the Velocity platform, ranging from consumer credit reports to borrower banking information.

NCS earns revenues from three streams:

- fees paid by Canadian lenders based on funded volumes of mortgages;
- monthly subscription fees from non-DLC brokers; and
- third-party supplier fees on a transaction basis.

As DLC holds a controlling 70% ownership interest in NCS, its financial results are consolidated into DLC and included within DLC's operating results.

Club16 segment

(in thousands, unless otherwise noted)	Three months ended Jun 30, 2020	Jun 30, 2019	Six months ended Jun 30, 2020	Jun 30, 2019
Revenues	**$ 1,803**	$ 9,270	**$ 8,118**	$ 15,827
Operating expenses (1)	**4,683**	6,645	**11,658**	13,023
(Loss) income from operations	**(2,880)**	2,625	**(3,540)**	2,804
Other income (expense), net	**61**	(604)	**(644)**	(1,034)
(Loss) income before tax	**(2,819)**	2,021	**(4,184)**	1,770
Add back:				
Depreciation and amortization	**2,064**	1,877	**4,117**	3,770
Finance expense	**680**	594	**1,385**	1,024
Other adjusting items	**(234)**	10	**(234)**	10
Adjusted EBITDA (2)	**$ (309)**	$ 4,502	**$ 1,084**	$ 6,574
Adjusted EBITDA margin (2)	**(17%)**	49%	**13%**	42%
Adjusted EBITDA attributable to: (2)				
Shareholders	**$ (185)**	$ 2,701	**$ 651**	$ 3,944
Non-controlling interests	**$ (124)**	$ 1,801	**$ 433**	$ 2,630
Free Cash Flow (2)	**$ (397)**	$ 2,048	**$ (555)**	$ 2,064
Key performance indicators:				
Total fitness club members (3)	**101,739**	92,139	**101,739**	92,139
Total active fitness club members (3)	**94,172**	92,139	**94,172**	92,139

(1) Operating expenses comprise of direct costs, general and administrative expenses, and depreciation and amortization expense.

(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

(3) The number of fitness club members is as at the respective balance sheet date. Total active fitness club members exclude accounts that have been put on a temporary two-month hold due to COVID-19.

The Club16 segment is subject to seasonality associated with the annual club enhancement fee normally earned in the second quarter of each year. In response to COVID-19 pandemic, Club16 temporarily closed all clubs effective March 17, 2020 to May 31, 2020, and deferred collection of the 2020 club enhancement fee until early August 2020.

As a result of COVID-19, upon re-opening, Club16 has allowed members to freeze their memberships temporarily for two-months. Membership fees are not collected on frozen memberships. The total fitness members at June 30, 2020 are 101,739 (of which 7,567 are on hold). The total active fitness members at June 30, 2020 is 94,172.

Three-month highlights

Revenues decreased $7.5 million when compared to the three months ended June 30, 2019, due to suspension of membership dues collection and suspension of personal training associated with temporary closure of all Club16 clubs in response to COVID-19. However, subsequent to the club re-openings on June 1, 2020, Club16's Tsawwassen and Langley locations (which opened in January and November 2019, respectively), continued to attract new members. Active memberships grew by 2% from June 30, 2019 to June 30, 2020. Overall total memberships grew by 10% from June 30, 2019 to June 30, 2020.

Operating expenses decreased $2.0 million from the same period in the prior year primarily due to lower general and administrative expenses of $1.3 million and decreased direct costs of $0.9 million associated with suspended personal training during club closures. Decrease in general and administrative expenses is primarily from lower salaries due to the temporary layoff of club staff and several office staff during club closures.

Income from operations decreased $5.5 million for the three months ended June 30, 2020, when compared to the same three months in the prior year. The segment contributed negative $0.3 million in adjusted EBITDA compared to a positive $4.5 million in the three months ended June 30, 2019. The decrease in both income from operations and adjusted EBITDA was from a decrease in membership revenues due to the closure of all clubs for most of the period and suspension of personal training, partly offset by lower operating expenses. The decrease in income from operations is partly offset by decrease in other expenses. Included in other expenses for the three months ended June 30, 2020 is income of $0.5 million from the government wage subsidies and $0.2 million from rent abatements.

Free cash flow decreased $2.4 million for the three months ended June 30, 2020, when compared to the prior period directly related to a decrease in adjusted EBITDA attributable to shareholders, partly offset by lower lease payments from rent abatements and ongoing lease negotiations and lower capital expenditures in the period.

Six-month highlights

Revenues decreased $7.7 million when compared to the six months ended June 30, 2019, due to suspension of membership dues collection and suspension of personal training associated with temporary closure of all Club16 clubs in response to COVID-19. Prior to club closures and after re-opening, Club16's Tsawwassen and Langley (previously She's Fit! Langley) locations which opened in January and November 2019, respectively, continued to attract new members. Active memberships grew by 2% from June 30, 2019 to June 30, 2020. Overall total memberships grew by 10% from June 30, 2019 to June 30, 2020.

Operating expenses decreased $1.4 million from the same period in the prior year primarily due to lower general and administrative expenses and decreased direct costs associated with suspended personal training during club closures. Decrease in general and administrative expenses is primarily from lower salaries due to the temporary layoff of club staff and several office staff during club closures.

Income from operations decreased $6.3 million for the six months ended June 30, 2020, when compared to the same six months in the prior year. The segment contributed $1.1 million in adjusted EBITDA compared to $6.6 million in the six months ended June 30, 2019. The decrease in both income from operations and adjusted EBITDA was from a decrease in membership revenues due to the closure of all clubs for most of the period and suspension of personal training, partly offset by lower operating expenses. Decrease in income from operations is partly offset by decrease in other expenses. Included in other expenses for the three months ended June 30, 2020 is income of $0.5 million from the government wage subsidies and $0.2 million from rent abatements.

Free cash flow decreased $2.6 million for the six months ended June 30, 2020, when compared to the prior period directly related to a decrease in adjusted EBITDA attributable to shareholders, partly offset by decreased lease payments due to rent abatements and ongoing lease negotiations and lower capital expenditures in the period.

Impact segment

(in thousands, unless otherwise noted)	Three months ended Jun 30, 2020	Three months ended Jun 30, 2019	Six months ended Jun 30, 2020	Six months ended Jun 30, 2019
Revenues	**$ 1,842**	$ 3,869	**$ 4,102**	$ 9,833
Operating expenses (1)	**1,862**	2,813	**4,095**	6,703
(Loss) income from operations	**(20)**	1,056	**7**	3,130
Other income (expense), net	**190**	6	**184**	(14)
Income before tax	**170**	1,062	**191**	3,116
Add back:				
Depreciation and amortization	**292**	291	**584**	590
Finance expense	**4**	5	**9**	8
Other adjusting items	**7**	(117)	**12**	(85)
Adjusted EBITDA (2)	**$ 473**	$ 1,241	**$ 796**	$ 3,629
Adjusted EBITDA margin (2)	**26%**	32%	**19%**	37%
Adjusted EBITDA attributable to: (2)				
Shareholders	**$ 246**	$ 645	**$ 414**	$ 1,887
Non-controlling interests	**$ 227**	$ 596	**$ 382**	$ 1,742
Free Cash Flow (2)	**$ 231**	$ 372	**$ 226**	$ 1,366

(1) Operating expenses comprise of direct costs, general and administrative expenses, share-based payments, and depreciation and amortization expense.

(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

The prior year segment results exclude discontinued operations results from AG. See the Discontinued Operations section of this MD&A.

Impact's revenues can fluctuate due to large one-time orders that may occur at various times throughout the year, causing irregular increases in revenues in some quarters.

Three-month highlights

Impact revenue decreased by $2.0 million compared to the three months ended June 30, 2019. The decrease in segment revenues was attributable to a decrease in orders resulting from the COVID-19 pandemic, primarily from the suspension of concerts and professional sporting events.

Operating expenses for the three months ended June 30, 2020, decreased $1.0 million compared to the three months ended June 30, 2019. The decrease in operating expenses is largely due to a decrease in direct costs associated with Impact's revenue decrease.

The segment contributed a $20 thousand loss from operations and $0.5 million in adjusted EBITDA to our quarterly consolidated results. This is a decrease of $1.1 million and $0.8 million, respectively, over the same period in the prior year. The decrease in both income from operations and adjusted EBITDA was from a decrease in revenue partly offset by an increase in other income primarily due to income from government wage subsidies.

Included in other income for the three months ended June 30, 2020 is income of $0.2 million from government wage subsidies.

Free cash flow decreased $0.1 million compared to the three months ended June 30, 2019, due to the decrease in adjusted EBITDA attributable to shareholders partly offset by lower taxes paid.

Six-month highlights

Impact's revenue decreased by $5.7 million compared to the three months ended June 30, 2019. The decrease in segment revenues was attributable to the timing of several large orders received in 2018, a portion of which was fulfilled in 2018 and the first quarter of 2019 and a decrease in orders resulting from the COVID-19 pandemic, primarily from the suspension of concerts and professional sporting events.

Operating expenses for the six months ended June 30, 2020, decreased $2.6 million compared to the six months ended June 30, 2019. The decrease in operating expenses is largely due to a decrease in direct costs associated with Impact's revenue decrease.

The segment contributed $7 thousand of income from operations and $0.8 million in adjusted EBITDA to our consolidated results. This is a decrease of $3.1 million and $2.8 million, respectively, over the same period in the prior year. The decrease in both income from operations and adjusted EBITDA was from a decrease in revenue partly offset by a decrease in expenses.

Included in other expenses for the six months ended June 30, 2020 is income of $0.2 million from the government wage subsidies.

Free cash flow decreased $1.1 million compared to the six months ended June 30, 2019, due to the decrease in adjusted EBITDA attributable to shareholders partly offset by lower taxes paid.

Corporate and Consolidated Segment

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2020**	Jun 30, 2019	**Jun 30, 2020**	Jun 30, 2019
Revenues	**$ -**	$ -	**$ -**	$ -
Operating expenses (1)	**812**	910	**1,084**	2,471
Loss from operations	**(812)**	(910)	**(1,084)**	(2,471)
Other expense, net	**(255)**	(720)	**(3,349)**	(1,426)
Loss before tax	**(1,067)**	(1,630)	**(4,433)**	(3,897)
Add back:				
Depreciation and amortization	**4**	9	**9**	24
Finance expense	**1,412**	1,835	**2,764**	3,740
Share-based payments	**389**	289	**262**	364
Foreign exchange (gain) loss	**(1,694)**	(1,100)	**2,010**	(2,275)
Change in fair value of foreign exchange forward contract	**395**	-	**(1,666)**	-
Acquisition, integration and restructuring costs	**36**	140	**36**	934
Other adjusting items	**(56)**	-	**(56)**	-
Adjusted EBITDA (2)	**$ (581)**	$ (457)	**$ (1,074)**	$ (1,110)
Adjusted EBITDA attributable to: (2)				
Shareholders	**$ (581)**	$ (457)	**$ (1,074)**	$ (1,110)
Non-controlling interests	**$ -**	$ -	**$ -**	$ -
Free Cash Flow (2)	**$ (1,681)**	$ (2,105)	**$ (3,351)**	$ (4,306)

(1) Operating expenses comprise of general and administrative expenses, share-based payments, and depreciation and amortization expense.

(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

Included in operating expense are FAC corporate expenses, as follows:

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2020**	Jun 30, 2019	**Jun 30, 2020**	Jun 30, 2019
General and administrative	**$ 419**	$ 612	**$ 813**	$ 2,083
Share-based compensation	**389**	289	**262**	364
Depreciation and amortization	**4**	9	**9**	24
Corporate operating expenses	**$ 812**	$ 910	**$ 1,084**	$ 2,471

Other expense, net includes the following:

(in thousands)		Three months ended Jun 30, 2020		Jun 30, 2019		Six months ended Jun 30, 2020		Jun 30, 2019
Finance expense	**$**	**1,412**	$	1,835	**$**	**2,764**	$	3,740
Foreign exchange (gain) loss		**(1,694)**		(1,100)		**2,010**		(2,275)
Change in fair value of foreign exchange forward contract		**395**		-		**(1,666)**		-
Other		**142**		(15)		**241**		(39)
Other expense, net	**$**	**255**	$	720	**$**	**3,349**	$	1,426

Corporate head office uses the cash dividends and distributions received from our operating subsidiaries to fund its operating expenses and financing costs.

Three-month highlights

Operating expenses decreased by $0.1 million for the three months ended June 30, 2020, compared to the prior year quarter. The decrease in general and administrative expenses of $0.2 million is primarily from expense reductions achieved from our initiative to reduce corporate general and administrative expenses and was partly offset by an increase of $0.1 million in share-based compensation expense from additional RSUs granted during the three months ended June 30, 2020.

Other expense for the three months ended June 30, 2020 decreased by $0.5 million when compared to the three months ended June 30, 2019. The decrease in other expense is primarily due to an increase in foreign exchange gain related to the revaluation of our USD debt of $0.6 million and a decrease of $0.4 million in finance expense, partly offset by a $0.4 million decrease in fair value of our foreign exchange forward contract. The decrease in financing costs over the prior quarter primarily relates to reduced Corporate borrowings and a decrease in USD LIBOR rate, partly offset by the decrease in foreign exchange rate. The exchange rate at June 30, 2020, was $0.7338 CAD to USD (June 30, 2019—$0.7641 CAD to USD). The corporate head office's USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% (subject to a minimum LIBOR rate of 1%) per annum with interest payable quarterly. During the three months ended June 30, 2020, the Corporation entered into new foreign exchange forward contracts to partially mitigate foreign currency exchange risk in connection with its USD denominated debt. The change in the fair value of our foreign exchange forward contracts was unrealized for the three months ended June 30, 2020. Please refer to the Market Risk section of this document for further information.

Free cash flow increased $0.4 million for the three months ended June 30, 2020 when compared to the prior year quarter. The increase is primarily from decreased interest expense. The decrease in interest expense is from reduced Corporate borrowings from principal repayments from the AG Transaction and free cash flow repayments combined with a decrease in USD LIBOR rate, partly offset by the decrease in the foreign exchange rate during the three months ended June 30, 2020, when compared to the three months ended June 30, 2019.

Six-month highlights

Operating expenses decreased by $1.4 million for the six months ended June 30, 2020 compared to the prior year quarter, primarily from decreased general and administrative expenses of $1.3 million and share-based compensation of $0.1 million. The decrease in general and administrative expense is primarily from $0.9 million of restructuring costs recognized in 2019 for management severance and staff retention payments, versus minimal restructuring costs recognized in 2020; and from expense reductions achieved from our initiative to reduce corporate general and administrative expenses.

Other expense for the six months ended June 30, 2020 increased by $1.9 million primarily due to $2.0 million foreign exchange loss compared to a $2.3 million gain in 2019 related to the revaluation of our USD debt, partly offset by a $1.7 million increase in fair value of our foreign exchange forward contract and a decrease of $1.0 million in finance expense. The decrease in financing costs over the prior quarter primarily relates to reduced Corporate borrowings and a decrease in USD LIBOR rate, partly offset by the decrease in the foreign exchange rate. The exchange rate at June 30, 2020, was $0.7338 CAD to USD (June 30, 2019—$0.7641 CAD to USD). The corporate head office's USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% (subject to a minimum LIBOR rate of 1%) per annum with interest payable quarterly. In December 2019, the Corporation entered a foreign exchange forward contract to partially mitigate foreign currency exchange risk in connection with its USD denominated debt which was unwound during the first quarter of 2020. During the second quarter of 2020, the Corporation entered new foreign exchange forward contracts. The Corporation recognized a realized gain from the change in fair value of the unwound foreign exchange forward contract of $2.1 million during the six months ended June 30, 2020. The Corporation recognized unrealized loss from the outstanding change in fair value of the foreign exchange forward contracts of $0.4 million during the six months ended June 30, 2020. Please refer to the Market Risk section of this document for further information.

Free cash flow increased $1.0 million for the six months ended June 30, 2020 when compared to the prior year period. The increase is primarily from decreased interest expense. The decrease in interest expense is from reduced Corporate borrowings from principal repayments from the AG Transaction and free cash flow repayments combined with a decrease in USD LIBOR rate, partly offset by the decrease in the foreign exchange rate during the six months ended June 30, 2020, when compared to the six months ended June 30, 2019.

HISTORICAL QUARTERLY RESULTS

Selected unaudited financial data published for our operations during the last eight quarters are as follows. The continuing operations results for the comparatives exclude discontinued operations results from AG to conform with current period presentation. The discontinued operations are only included in net (loss) income and net (loss) income per common share.

(in thousands except per share amounts)	Jun. 30, 2020	Mar. 31, 2020	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018
Revenues	**15,014**	18,073	22,895	23,248	23,579	20,600	20,614	20,833
Income from operations	**667**	2,424	4,957	7,131	5,206	1,887	3,548	2,902
Adjusted EBITDA (1)	**5,308**	5,763	8,315	10,790	9,182	6,373	6,288	8,206
Net (loss) income	**(413)**	(1,716)	1,321	(1,338)	(3,499)	(895)	(8,792)	(10,209)
Adjusted net (loss) income (1)	**(1,547)**	(319)	1,193	2,192	2,100	(680)	(297)	2,306
Net (loss) income attributable to:								
Shareholders	**(697)**	(2,199)	170	(3,157)	(2,288)	(1,472)	(6,715)	(11,080)
Non-controlling interests	**284**	483	1,151	1,819	(1,211)	577	(2,077)	871
Adjusted net (loss) income attributable to: (1)								
Shareholders	**(1,836)**	(792)	(60)	54	104	(1,568)	(1,401)	578
Non-controlling interests	**289**	473	1,253	2,138	1,996	888	1,104	1,728
Net loss per common share:								
Basic	**(0.02)**	(0.06)	-	(0.08)	(0.06)	(0.04)	(0.18)	(0.29)
Diluted	**(0.02)**	(0.06)	-	(0.08)	(0.06)	(0.04)	(0.18)	(0.29)
Adjusted net (loss) income per common share: (1)								
Diluted	**(0.05)**	(0.02)	-	-	-	(0.04)	(0.04)	0.02

(1) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

Quarterly trends and seasonality

Our quarterly operating results generally vary from quarter to quarter because of seasonal fluctuations in our reporting segments. Further, in response to the COVID-19 pandemic, Club16 temporarily closed all clubs effective March 17, 2020 to May 31, 2020, and deferred its annual club enhancement fee to early August 2020.

Consolidated revenues for the current quarter decreased by $3.1 million over the three months ended March 31, 2020. Club16's revenues decreased $4.5 million due to temporary club closures effective March 17, 2020 to May 31, 2020, in response to the COVID-19 pandemic. Impact's revenues decreased $0.4 million from decreased sales as a result of COVID-

19. DLC segment revenue increased $1.9 million compared to the three months ended March 31, 2020. DLC's revenues are subject to seasonal variances that move in line with the normal home buying season.

Income from operations for the three months ended June 30, 2020 decreased to $0.7 million from $2.4 million during the three months ended March 31, 2020. The decrease is primarily due to the decrease in revenue partly offset by a decrease in operating expenses. The decrease in operating expenses is primarily a result of decrease in operating expenses at Club16 and Impact, driven primarily from a decrease in salaries and wages and direct costs at Club16 during club closures, and lower direct costs at Impact associated with lower revenues. This is partly offset by increases in operating expense at DLC and Corporate, from increased direct costs associated with higher revenues at DLC and higher share-based payments expense at Corporate primarily due to additional RSUs granted.

Adjusted net loss for the three months ended June 30, 2020 increased by $1.2 million compared to the preceding three months. The increase in adjusted net loss was primarily due to a decrease in income from operations and $0.5 million increase in share-based payments from a share-based recovery in Q1 2020 of $0.1 million to an expense of $0.4 million in Q2 2020, primarily due to additional RSUs granted in Q2 2020, offset by $0.7 million of wage subsidies recognized in other income.

2020 OUTLOOK AND STRATEGIC OBJECTIVE

The information in this section is forward-looking and should be read in conjunction with the Cautionary Note Regarding Forward-Looking Information section found at the beginning of this MD&A. See the 2019 Annual MD&A for a detailed description of the key initiatives supporting this outlook.

Our focus for 2020 is to optimize operations and performance of our three portfolio companies, reducing our corporate debt through payments from free cash flow and continuing to manage expenses.

DLC's six months ended June 30, 2020 operating results demonstrate the success of its growth initiatives which are reflected in the material growth in adjusted EBITDA and funded mortgage volumes when compared to the six months ended June 30, 2019 of 59% and 19%, respectively. DLC continues to focus on market penetration and expanding the network of mortgage brokers and franchises; and NCS continues to focus on growing its submission volumes submitted through Velocity and increasing its number of third-party users. The Canadian real estate industry has seen headwinds from the COVID-19 pandemic during the three months ended June 30, 2020; however, the impacts on the mortgage brokerage industry have been less pronounced. DLC's funded mortgage volumes increased by 12% when compared to the three months ended June 30, 2019. DLC's funded mortgage volumes may be negatively affected in future quarters, depending on the duration and scale of the pandemic.

Club16 temporarily closed all its clubs effective March 17, 2020 to May 31, 2020 in response to COVID-19. All membership payments were frozen for the duration of this temporary closure. As a result of the temporary closure period, Club16 received rent abatements from its various landlords which reduced costs to increase liquidity; Club16 continues to negotiate with its landlords for locations which have not yet received rent abatements or deferrals. To ensure the health and safety of staff and members, Club16 has adopted enhanced cleaning measures, implemented a reservation system to reduce club traffic and has reconfigured club equipment to ensure adequate social distancing. Personal training at Club16 was suspended past the club re-opening dates and resumed in July 2020. The financial impact of COVID-19 may continue past the re-opening of the clubs, as Club16 faces new continued operational costs and procedures relating to COVID-19 and the uncertainty of potential membership cancellations.

On June 29, 2020, Club16 completed a private placement of 273 Class A LP units to its founder/operating partner for proceeds of $1.0 million. As a result, the Corporation's ownership interest in Club16 has decreased from 60% to 58%. The proceeds from the Club16 offering will be used to fund the opening of two new clubs. Club16 has entered into agreements to open new fitness clubs in North Burnaby and Richmond. The facilities were previously operated by a competitor and are expected to be operational by mid-September. Club16 is also proceeding with its previously planned club opening in Chilliwack in early 2021. Upon completion of the two clubs in September 2020, Club16 will have a total of sixteen facilities across the Greater Vancouver Area.

Impact continues to focus on strategic initiatives to secure large orders and grow revenues. Impact's manufacturing base has not been materially affected as Impact's factories in China have continued to operate; however, Impact's manufacturing may be negatively affected if a second wave of the COVID-19 pandemic occurs in China.

The Corporation has worked to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19, with Club16 and Impact being eligible during the second quarter of 2020. The subsidies are recognized in other income. During the three and six months ended June 30, 2020, the Corporation recognized income from the subsidies of $0.7 million. The subsidy has been extended by the government, to November 21, 2020. The Corporation will monitor the eligibility requirements for the subsidy extension and will apply for the extended period for its eligible subsidiaries.

The Corporation made a repayment on its Corporate borrowings of $0.8 million from free cash flow during the six months ended June 30, 2020. The Corporate and Consolidation segment's free cash flow and foreign exchange and USD LIBOR rates, may be significantly affected by COVID-19, depending on the scale and duration of the pandemic.

The course of the COVID-19 pandemic is highly uncertain. COVID-19 is expected to negatively impact the earnings of some of the Corporation's subsidiaries and could impact cash flows of the Corporation, as well as its ability to meet bank covenants. Management will work with its lenders to find satisfactory resolutions as necessary. The ultimate impact of the pandemic on the Corporation's future operations and financial performance is currently unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of management, including: the duration and severity of the pandemic; the impact of the pandemic on economic growth and financial and capital markets; and governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the initial outbreak of the COVID-19 virus has subsided. The potential impact of the COVID-19 pandemic has been considered by management in making judgments, estimates and assumptions used in the preparation of the interim financial statements, but the inherent risks and uncertainties resulting from the pandemic may result in material changes to such judgments, estimates and assumptions in future financial periods as additional information becomes available.

See the Liquidity subsection in the Consolidated Liquidity and Capital Resources section for discussion of management's assessment of its liquidity as a result of COVID-19.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

	As at			
(in thousands)		**June 30, 2020**		December 31, 2019
Cash and cash equivalents	**$**	**8,409**	$	5,458
Trade and other receivables		**12,803**		16,270
Prepaid expenses and deposits		**2,654**		2,087
Notes receivable		**599**		410
Inventories		**2,848**		3,563
Accounts payable and accrued liabilities		**(18,891)**		(16,775)
Current portion of loans and borrowing		**(16,699)**		(22,201)
Deferred contract liability		**(1,048)**		(674)
Other current liabilities		**(196)**		(326)
Current portion lease liability		**(3,203)**		(2,449)
Net working capital deficit	**$**	**(12,724)**	$	(14,637)

Our capital strategy is aligned with our business strategy and is focused on ensuring that we have sufficient liquidity to fund our operations, service our debt obligations, fund future follow-on acquisition opportunities and drive organic revenue growth in each of our subsidiaries to increase growth in free cash flows.

Our principal sources of liquidity are cash generated from the operations of our subsidiaries and borrowings under credit facilities. Our primary uses of cash are for operating expenses, debt repayment, and debt servicing costs.

As at June 30, 2020, we had a consolidated cash position of $8.4 million and a net working capital deficit of $12.7 million, compared to $5.5 million and $14.6 million, respectively, as at December 31, 2019. The decrease in working capital deficit from the comparative period is primarily due to cash from operating activities, largely from DLC due to higher net income. Our sources and uses of cash are described below. Our credit facilities are discussed in greater detail in the Capital Resources section.

At June 30, 2020, we have several financial commitments (see Commitments under the Commitments and Contingencies section of this MD&A for further information), which will require that we have various sources of capital to meet the obligations associated with these commitments.

Working capital within the investee operations may fluctuate from time to time based on seasonality or timing based on the use of cash and cash resources to fund operations. Our subsidiaries have credit facilities to support their operations and working capital needs and fluctuations. These credit facilities reside in the individual subsidiaries; see the Capital Resources section.

In response to the COVID-19 pandemic, the Corporation has assessed its liquidity position. As a result of government implemented public health and safety measures, including social distancing, Club16 had temporarily closed all clubs effective March 17, 2020 to May 31, 2020. Club16 did not collect membership fees during club closures and is not collecting membership fees from memberships that were frozen subsequent to re-opening. On March 26, 2020, to strengthen its liquidity position during club closures, Club16 amended its existing debt facilities to increase the revolving operating facility limit from $1.5 million to $3.0 million. Additionally, Club16's debt amendment included the suspension of principal payments for three months, from March to May 2020, and removed the covenant test for the quarter-ended June 30, 2020. Club16 further amended its facility on May 26, 2020, to extend its suspension of principal payments until August 2020. On June 29, 2020, Club16 entered into a new $1.6 million demand non-revolving loan to provide additional liquidity for general corporate purposes. As a result of the temporary closure of its clubs, Club16 received rent abatements from certain landlords to increase liquidity. During the three and six months ended June 30, 2020, Club16 recognized $0.2 million of rent abatements.

The Corporation has worked closely with its subsidiaries to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19. Club16 and Impact subsidiaries qualified for the wage subsidiary during the period. For the three and six months ended June 30, 2020, the Corporation recognized income from the subsidies of $0.7 million and $0.7 million, respectively.

On March 27, 2020, DLC amended its existing debt facilities to suspend principal payments effective April 2020 for six months in order to increase liquidity.

On March 24, 2020, the Corporation unwound its USD $15.0 million foreign exchange forward contract for net proceeds of CAD $1.5 million to further strengthen its liquidity position in response to uncertainties of the scale and duration of COVID-19. During the three months ended June 30, 2020, the Corporation entered into new foreign exchange forward contracts totalling USD $24.0 million with a blended forward rate of $1.383. See further details on these foreign exchange forward contracts in the Market Risk section.

At this time, management is not anticipating a material liquidity deficiency that would affect its short- and long-term objectives of meeting the Corporation's obligations as they come due. The effect of COVID-19 on the Corporation's subsidiaries will impact earnings and could impact cash flows of the Corporation; however, the course of the COVID-19 pandemic is highly uncertain. The ultimate impact of the pandemic on the Corporation's future operations and financial performance is currently unknown and will be dependent on a number of unpredictable factors outside of the knowledge and control of management, including: the duration and severity of the pandemic; the impact of the pandemic on economic growth and financial and capital markets; and governmental responses and restrictions. These uncertainties may continue to persist beyond the point where the initial outbreak of the COVID-19 virus has subsided.

The Corporation was in compliance with the financial covenants contained in its Corporate USD credit facility as at June 30, 2020. Club16's borrowing facilities financial covenants test was removed for the quarter-ended June 30, 2020. These covenants are described under the Capital Resources section of this document. The current adverse market conditions and disruption to consumer behavior that have arisen in connection with the COVID-19 pandemic have resulted in a risk of non-compliance by Club16 with its financial covenants on the Club16 facility in future periods. This risk of non-compliance by Club16 results in a risk of cross non-compliance on the Corporate USD credit facility. The Corporation continually monitors our forecasted compliance of these financial covenants and will negotiate for financial covenant relief as required. Although the Corporation expects that such negotiations will be successful, there is no assurance that an agreement will be reached on acceptable terms.

See the Capital Resources section for additional detail regarding the Corporation's loans and borrowings and bank covenant information.

SOURCES AND USES OF CASH

The following table is a summary of our consolidated statement of cash flow:

	Six months ended			
(in thousands)		**Jun. 30, 2020**		Jun. 30, 2019
Cash provided by operating activities	**$**	**12,467**	$	14,134
Cash used in investing activities		**(4,816)**		(10,031)
Cash used in financing activities		**(4,679)**		(4,185)
Increase (decrease) in net cash		**2,972**		(82)
Impact of foreign exchange on net cash and cash equivalents		**(21)**		(87)
Net cash and cash equivalents, beginning of period		**5,458**		5,095
Net cash and cash equivalents, end of period	**$**	**8,409**	$	4,926

Operating activities

The net cash provided by operating activities for the six months ended June 30, 2020, primarily related to cash flows generated by DLC operations of $13.9 million (compared to $5.9 million in the prior year), Club16 of $1.9 million (compared to $8.1 million in the prior year), and Impact of $0.8 million (compared to $3.5 million in the prior year). The cash provided was partially offset by corporate head office requirements of $4.1 million (compared to $6.5 million in prior year), which primarily related to finance expense and general and administration costs.

Cash provided by operating activities for the six months ended June 30, 2019 included cash flows from AG of $3.2 million.

Investing activities

The net cash used in investing activities for the six months ended June 30, 2020, consisted primarily of distributions paid to non-controlling interest unitholders of $3.0 million, DLC's investments in intangible assets of $2.3 million, and Club16's investment in capital assets of $0.5 million, partly offset by a capital contribution from a non-controlling interest shareholder into Club16 of $1.0 million.

The net cash used in investing activities for the six months ended June 30, 2019, consisted primarily of Club16 and AG's investment in capital assets of $3.2 million, distributions paid to non-controlling interest unitholders of $4.6 million, and DLC's investments in intangible assets and investments of $2.4 million.

Financing activities

Cash used in financing activities for the six months ended June 30, 2020, consisted primarily of repayments of $4.8 million on the DLC and Club16 facilities and repayments on Corporate debt from free cash flow of $0.8 million, and net payments for lease commitments of $1.3 million. Offsetting the cash used in financing activities were proceeds of $1.5 million received by Corporate for the settlement of the foreign exchange forward contract and $0.8 million of debt financing on Club16 facilities.

Cash used in financing activities for the six months ended June 30, 2019, consisted primarily of the $5.0 million repayment on DLC, Club16 and AG's term loan facilities, $0.5 million dividends paid to common shareholders, costs for debt amendments, and $2.6 million of net payments for lease commitments. Offsetting the cash used from financing activities were proceeds from debt financing of $1.3 million on Club16 facilities for additional draws related to financing capital expenditures for the recent club expansions, and additional proceeds from DLC and AG facilities of $3.0 million.

Distribution from investees

Corporate head office uses the cash received from the operating subsidiaries to fund its operating expenses and financing costs. During the six months ended June 30, 2020, corporate head office received dividends and distributions from its subsidiaries of $3.9 million (June 30, 2019—$5.5 million). During the six months ended June 30, 2020, total distributions paid to NCI holders were $3.0 million (June 30, 2019—$4.6 million).

CAPITAL RESOURCES

Our capital structure is composed of total shareholders' equity, and loans and borrowings, less net cash and cash equivalents. The following table summarizes our capital structure at June 30, 2020 and December 31, 2019.

		As at		
(in thousands)		**June 30, 2020**		December 31, 2019
Loans and borrowings	**$**	**58,685**	$	61,173
Less: net cash and cash equivalents		**(8,409)**		(5,458)
Net loans and borrowings	**$**	**50,276**	$	55,715
Shareholders' equity	**$**	**71,157**	$	73,711

Loans and borrowings

Our available credit facilities consist of a term facility at the corporate head office level, as well as acquisition and operating credit facilities within DLC, Club16, and Impact. Impact had no amounts drawn as at June 30, 2020, and has not historically drawn on the facility.

Corporate USD facility

At June 30, 2020, the Corporation had $1.7 million classified as current debt (December 31, 2019—$3.8 million). The Corporate Credit Facility matures on June 14, 2022. Financial covenants include the requirement to maintain a fixed charge coverage ratio of not less than 1.00:1.00 and a total leverage ratio of:

- 4.00:1.00 for the fiscal quarters ending June 30, 2020; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

As at June 30, 2020, the Corporation was in compliance with all such covenants.

On June 29, 2020, the Corporation amended its corporate credit facility to permit Club16 to issue 273 Class A LP units for $1.0 million and use these proceeds to open two new fitness clubs in British Columbia.

On March 25, 2020, the Corporation amended its corporate credit facility to permit the Corporation to unwind its USD $15.0 million foreign currency forward contract and retain the proceeds to enhance liquidity (refer to the Market Risk section of this MD&A).

DLC

On March 27, 2020, DLC amended its existing term loans to suspend principal payments effective April 2020 for six months, in order to increase liquidity.

DLC's $10.3 million non-revolving term loan facility matures on December 30, 2021. This facility is held at the DLC subsidiary level and has $2.9 million outstanding as of June 30, 2020 (December 31, 2019—$3.4 million).

DLC's $1.1 million non-revolving term loan facility is held at the DLC subsidiary level and has $1.0 million outstanding as of June 30, 2020 (December 31, 2019—$1.0 million).

DLC's $9.5 million revolving credit facility is held as an operating demand loan to finance working capital requirements and fund acquisitions. This facility is held at the DLC subsidiary level and has $3.1 million drawn as of June 30, 2020 (December 31, 2019—$7.0 million).

Borrowings under the term loan facilities and operating facility bear interest at prime rate plus 1.0% per annum. The loan facility is secured by a general security agreement with first charge over the assets of DLC. Annual financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00.

Club16

On June 29, 2020, Club16 entered into a $1.6 million demand non-revolving loan to provide Club16 with additional liquidity for general corporate purposes. The loan bears interest at prime rate plus 1.50% per annum. The loan matures on the earlier of: (i) demand by the lender, or (ii) 60 months from the date of drawdown. At June 30, 2020, $1.6 million was outstanding on the loan (December 31, 2019—$nil).

Club16's $9.0 million demand credit facility had $8.3 million outstanding at June 30, 2020 (December 31, 2019—$8.7 million). The facility matures on the earlier of (i) demand by the lender, or (ii) 60 months from the date of each drawdown. On March 26, 2020, Club16 amended its demand credit facility to waive principal payments for three months from March to May 2020. On May 26, 2020, Club16 further amended its demand credit facility to extend the waiver of principal payments to August 2020.

On March 26, 2020, Club16 amended its revolving operating facility to increase the limit from $1.5 million to $3.0 million. Club16's revolving operating facility is held to finance its working capital requirements. The facility is held at the Club16 level and has $0.1 million drawn as at June 30, 2020 (December 31, 2019—$0.9 million).

Borrowings under the term loans and operating facility bear interest at prime rate plus 0.5% to 2.0% per annum as at June 30, 2020 and are secured by a general security agreement with first charge over the assets of Club16. At June 30, 2020, the facilities bore interest at prime plus 0.75% per annum. Annual financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00, and a debt service charge ratio greater than or equal to 1.50:1:00 excluding distributions. Quarterly financial covenants include the requirement to maintain a maximum debt-to-EBITDA ratio of less than or equal to 2.25:1.00. On March 26, 2020, Club16 amended its facilities to remove the quarterly covenant test for the quarter-ended June 30, 2020.

Dividends to FAC shareholders

On March 12, 2019, the Board of Directors resolved to suspend the dividend policy. As such, we do not anticipate declaring any dividends in 2020. No dividends have been paid during the six months ended June 30, 2020. Total dividends paid during the six months ended June 30, 2019 were $0.5 million, relating to dividends declared in December 2018.

SHARE CAPITAL

As of August 24, 2020, and June 30, 2020, the Corporation had 38,082,513 common shares outstanding (December 31, 2019—38,182,513).

As at August 24, 2020, there were outstanding stock options to purchase 323,893 common shares with exercise prices ranging from $3.00 to $4.40, and 2,078,568 lender warrants with an exercise price of $1.4375. There were no options issued in the six months ended June 30, 2020, or in the year ended December 31, 2019.

COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The following table summarizes the payments due in the next five years and thereafter in respect to our contractual obligations. See note 17 of the consolidated interim financial statements for more information.

(in thousands)	Less than 1 year	1–3 years	4–5 years	After 5 years	Total
Accounts payable and accrued liabilities	$ 18,891	$ -	$ -	$ -	**$ 18,891**
Loans and borrowings	16,699	43,314	559	-	**60,572**
Foreign exchange forward contract liability	-	395	-	-	**395**
Long-term accrued liabilities	-	1,297	-	-	**1,297**
Leases	6,951	13,353	12,032	22,177	**54,513**
	$ 42,541	$ 58,359	$ 12,591	$ 22,177	**$ 135,668**

Consulting agreement

In February 2020, DLC renewed a consulting agreement whereby DLC has agreed to incur an annual amount of $0.2 million, paid quarterly, for consulting services related to promotional support. The consulting agreement expires in January 2022.

Service agreement

In March 2017, Impact entered into an inventory management service agreement with a third party to provide for the administration and maintenance of inventory held in its warehouse for an annual amount of $0.5 million USD. The service agreement expires in August 2021.

In March 2019, DLC entered into an agreement with a software development company to develop and support a customized mortgage application ("app") for an annual amount of $0.9 million. The agreement is a related party transaction due to common management between DLC and the service provider. The service agreement expires in March 2023.

DLC has contracts with external dealers to recruit franchises. DLC has a commitment to pay these dealers a commission for the franchise royalties earned by such franchises. Commissions are earned based on a percentage of franchise revenue earned and are accrued at the date it is earned. During 2018, a contract with a dealer was terminated, resulting in a loss on contract settlement of $0.1 million and $0.2 million for the three and six months ended June 30, 2020 (June 30, 2019—$0.1 million and $0.2 million).

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at June 30, 2020, or August 24, 2020, not disclosed or discussed previously.

CONTINGENCIES

The Corporation's subsidiaries have outstanding legal claims, against some of which the Corporation has been indemnified. The outcome of the outstanding claims are not determinable, no provision for settlement has been made in the financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FINANCIAL INSTRUMENTS

Our financial risk management policies have been established to identify and analyze risks that we face, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. We employ risk management strategies to ensure our risks and related exposures are consistent with our business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for our risk management framework, our management has the responsibility to administer and monitor these risks.

We are exposed in varying degrees to a variety of risks from the use of financial instruments, which mainly include cash and cash equivalents, trade and other receivables, loans and borrowings, investments, and trade payables and accrued liabilities. Because of the use of these financial instruments, we are exposed to risks that arise from their use, including market risk, credit risk and liquidity risk. This section describes our objectives, policies and processes for managing these risks and the methods used to measure them.

Our financial instrument classifications as at June 30, 2020, is as follows.

(in thousands)	Carrying value	Fair value	Classification
Financial assets			
Investments	$ **613**	$ **613**	Fair value through profit or loss
Financial liabilities			
Foreign exchange forward contract liability	**(395)**	**(395)**	Fair value through profit or loss
Loans and borrowings	**(58,685)**	**(58,685)**	Amortized cost

MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign exchange risk and interest rate risk.

Foreign exchange risk

The Corporation's exposure to foreign exchange fluctuations is limited to the balances in its USD bank accounts; USD loans and borrowings; foreign exchange forward contracts; and Impact's operations, as a significant portion of its business is conducted in USD. At June 30, 2020, the USD cash balance is USD $1.0 million (CAD $1.4 million), compared to USD $0.2 million (CAD $0.2 million) at December 31, 2019. The USD loans and borrowings balance is USD $32.0 million (CAD $43.6 million); at December 31, 2019 it was USD $32.6 million (CAD $42.4 million). A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a $1.1 million increase in net loss before tax for the six months ended June 30, 2020 (June 30, 2019—$5.4 million increase).

To manage the Corporation's foreign exchange exposure on its USD loan, the Corporation entered into an intercreditor agreement with our lender and a third-party counterparty, which collectively allow the Corporation to enter into foreign exchange forward contracts up to USD $25.0 million. The forward contracts are secured through the intercreditor agreement, which allows the Corporation to offer the counterparty security up to $7.0 million.

During the three months ended June 30, 2020, to mitigate exposure to foreign exchange risk, the Corporation entered into new foreign exchange forward contracts with a settlement period of six months from December 14, 2021 to June 14, 2022, as follows:

Date entered	Forward contract value (in USD)	Forward rate
April 27, 2020	$ 2,500	$ 1.406
April 29, 2020	2,500	1.390
April 30, 2020	4,000	1.393
May 7, 2020	6,000	1.400
June 1, 2020	3,000	1.367
June 2, 2020	3,000	1.354
June 4, 2020	3,000	1.353
Total value and blended forward rate	$ 24,000	$ 1.383

During the six months ended June 30, 2020, the Corporation unwound its USD $15.0 million foreign exchange forward contract entered into in December 2019, at a forward rate of $1.442 for net proceeds of $1.5 million to further strengthen its liquidity position in response to the uncertain scale and duration of the COVID-19 pandemic. The Corporation recognized a net realized gain on the change in fair value of the foreign exchange forward contract from inception to unwind of $1.7 million, and a $2.1 million realized gain during the six months ended June 30, 2020 (June 30, 2019—$nil).

The Corporation's change in fair value of the foreign exchange contracts consists of unrealized losses and realized gains as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	**2020**	2019
Unrealized (loss)	**$ (395)**	$ -	**$ (395)**	$ -
Realized gain	**-**	-	**2,061**	-
Change in fair value of foreign exchange contracts	**$ (395)**	$ -	**$ 1,666**	$ -

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk on our variable rate loans and borrowings. A 1% increase in the interest rates on the loans and borrowings would have resulted in a $0.3 million increase in net loss for the six months ended June 30, 2020 (June 30, 2019—$0.4 million).

CREDIT RISK

As at June 30, 2020, $0.4 million (December 31, 2019—$0.5 million) of our trade receivables are greater than 90 days outstanding and total expected credit losses as at June 30, 2020 is $0.1 million (December 31, 2019—$0.1 million). A decline in economic conditions, or other adverse conditions, could lead to reduced revenue and gross margin, and could impact the collectability of accounts receivable. The Corporation mitigates this risk by monitoring economic conditions and managing its customer credit risk.

The Corporation's maximum exposure to credit risk, as related to certain financial instruments identified in the table below, approximates the carrying value of the assets of the Corporation's consolidated statement of financial position.

	As at	
(in thousands)	**June 30, 2020**	December 31, 2019
Cash and cash equivalents	**$ 8,409**	$ 5,458
Trade and other receivables	**13,339**	16,826
Notes receivable	**599**	410
	$ 22,347	$ 22,694

LIQUIDITY RISK

Liquidity risk is the risk that we will not meet our financial obligations as they fall due. We manage this risk by continually monitoring our actual and projected cash flows to ensure there is sufficient liquidity to meet our financial liabilities when they become due. See the Consolidated Liquidity and Capital Resources section of this MD&A for further discussion on our liquidity risk.

The Corporation's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it generates returns for Shareholders, expands business relationships with stakeholders, and identifies risk and allocates its capital accordingly. There can be no guarantee that the Corporation will continue to generate sufficient cash flow from operations to meet required interest and principal payments. Further, the Corporation is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such financing may not be as favourable as the terms of its existing indebtedness.

The credit facilities contain a number of financial covenants that require the Corporation to meet certain financial ratios and condition tests. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived may permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities were to be accelerated, there can be no assurance that the assets of the Corporation would be sufficient to repay in full that indebtedness.

BUSINESS RISKS AND UNCERTAINTIES

The corporate head office and our subsidiaries are subject to a number of business risks. These risks relate to the structure of the corporate head office and the operations at the subsidiary entity. There were no changes to our principal risks and uncertainties from those reported in our 2019 Annual MD&A.

RELATED PARTY TRANSACTIONS

Unless otherwise noted, related party transactions were incurred in the normal course of operations and are measured at the amount established and agreed upon by the related parties.

Property leases

DLC and Impact lease and rent office space from companies that are controlled by minority partners within the subsidiaries. During the three and six months ended June 30, 2020, the total costs incurred under these leases was $0.1 million and $0.2 million, respectively (June 30, 2019—$0.1 million and $0.2 million). The lease term maturities range from 2020–2022.

Club16 leases office space and a facility for one of its fitness clubs from companies that are controlled by key management personnel. The total costs incurred under these leases for the three and six months ended June 30, 2020, was $0.1 million and $0.2 million, respectively (June 30, 2019—$0.1 million and $0.2 million). The lease term maturities range from 2020-2021. The fitness club space lease matured on March 31, 2020.

The expenses related to these related party leases are recorded in interest and depreciation and amortization expenses and are paid monthly; as such, no amount remains payable within the Corporation's financial statements.

Sales tax receivable

On acquisition of DLC, the Corporation was indemnified against any sales tax amounts assessed based on DLC's past results. As at June 30, 2020, the Corporation has recorded a receivable due from the DLC founders in an amount of $0.3 million for the sales tax amounts payable recorded by DLC (December 31, 2019—$0.3 million). This receivable has been recorded in trade and other receivables in the Corporation's consolidated statement of financial position.

Loans and advances

Club16 has loans and advances due from companies that are controlled by key management personnel of Club16 in the amount of $2.0 million as at June 30, 2020 (December 31, 2019—$2.4 million). The balance is included in accounts receivable in the Corporation's consolidated financial statements. The advancement is unsecured, due on demand and non-interest bearing.

Administrative services

DLC has entered into an agreement with a software development company to develop and support a customized mortgage app controlled by key management. Total fees charged for services under this agreement for the three and six months ended June 30, 2020, was $0.2 million and $0.4 million, respectively (June 30, 2019—$0.2 million and $0.4 million).

Private Placement

On June 29, 2020, Club16 completed a private placement of 273 Class A LP units to its founder/operating partner for proceeds of $1.0 million. As a result, the Corporation's ownership interest in Club16 has decreased from 60% to 58%.

Other

The Corporation has entered into an agreement with the non-controlling shareholders of Impact. The agreement is related to liquidation rights, and if a liquidation event occurs, the Corporation has a possible commitment to pay $1.0 million to these shareholders. As at June 30, 2020, a liability has been recognized for the current fair value of the liability of $1.0 million (December 31, 2019—$0.9 million).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these interim financial statements requires management to make certain estimates, judgments and assumptions that affect the amounts reported and disclosed in the interim financial statements and related notes. These include estimates that, by their nature, are uncertain, and actual results could differ materially from these estimates. The impacts of such estimates may require accounting adjustments based on future results. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

Further information on our critical accounting estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2019, as filed on SEDAR at www.sedar.com. In preparing these unaudited interim financial statements, the significant judgements made by management in applying the Corporation'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, 2019, except for those changes described within the Accounting Policy section.

ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements prepared for the year ended December 31, 2019, except for those disclosed in Note 3 of the interim financial statements.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

ADJUSTED EBITDA AND FREE CASH FLOW

Adjusted EBITDA for both our corporate head office and investees is defined as earnings before finance expense, taxes, depreciation, amortization, and any unusual, non-core, or one-time items. The Corporation considers its core operating activities to be the management of its operating subsidiaries, and related services. Costs related to strategic initiatives such as business acquisitions, integration of newly acquire businesses and restructuring are considered non-core.

While adjusted EBITDA is not a recognized measure under IFRS, management believes that it is a useful supplemental measure as it provides management and investors with an insightful indication of the performance of the corporate office and our investees. Adjusted EBITDA also provides an assessment of the adjusted performance of the corporation by eliminating certain non-recurring items.

Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative to a statement of cash flows as a measure of liquidity and cash flows. The methodologies we use to determine adjusted EBITDA may differ from those utilized by other issuers or companies and, accordingly, adjusted EBITDA as used in this MD&A may not be comparable to similar measures used by other issuers or companies. Readers are cautioned that adjusted EBITDA should not be construed as an alternative to net loss or income determined in accordance with IFRS as indicators of an issuer's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Free cash flow represents how much cash a business generates after spending what is required to maintain or expand the current asset base. Free cash flow is an important measure to FAC because a strong level of free cash flow allows us to pursue new opportunities that enhance shareholder value. Maintaining appropriate free cash flow levels allows us to pursue new investment opportunities, and reinvest in the existing portfolio.

The following table reconciles adjusted EBITDA, and free cash flow to loss before income tax, for continuing operations which is the most directly comparable measure calculated in accordance with IFRS.

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2020**	Jun 30, 2019	**Jun 30, 2020**	Jun 30, 2019
INCOME (LOSS) BEFORE INCOME TAX	**$ 806**	$ 3,660	**$ (557)**	$ 4,139
Add back:				
Depreciation and amortization	**3,436**	3,438	**6,872**	6,941
Finance expense	**2,204**	2,633	**4,414**	5,131
	6,446	9,731	**10,729**	16,211
Adjustments to remove:				
Share-based payments expense	**398**	188	**273**	278
Net loss on sale of capital and intangible assets	**-**	10	**-**	10
Foreign exchange (gain) loss	**(1,690)**	(1,115)	**2,022**	(2,266)
Change in fair value of foreign exchange forward contract	**395**	-	**(1,666)**	-
Loss on contract settlement	**89**	118	**203**	236
Rent abatement	**(241)**	-	**(241)**	-
Other (income) expense	**(125)**	110	**(285)**	110
Acquisition, integration and restructuring costs	**36**	140	**36**	976
Adjusted EBITDA	**$ 5,308**	$ 9,182	**$ 11,071**	$ 15,555
Adjustments:				
NCI portion of adjusted EBITDA	**(2,475)**	(4,020)	**(5,013)**	(6,958)
Cash interest expense [(1)]	**(1,159)**	(1,413)	**(2,434)**	(3,272)
Cash income tax expense [(1)]	**-**	(1,026)	**(919)**	(1,827)
Maintenance capex [(1)]	**(1,115)**	(629)	**(1,392)**	(1,010)
Lease payments [(1)]	**(224)**	(704)	**(1,035)**	(1,420)
Free Cash Flow attributable to FAC shareholders	**$ 335**	$ 1,390	**$ 278**	$ 1,068

(1) Amounts presented reflect FAC shareholder proportion and have excluded amounts attributed to NCI holders.

ADJUSTED EBITDA MARGIN

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by gross revenue.

ADJUSTED EBITDA ATTRIBUTED TO SHAREHOLDERS AND NCI

Adjusted EBITDA attributed to shareholders and adjusted EBITDA attributed to NCI is allocated based on share ownership interests. Management believes that it is a useful supplemental measure as it provides management and investors with an insightful indication of the performance of the corporate office and our investees, and the proportion attributable to shareholders of FAC and non-controlling interest.

PROPORTIONATE SHARE OF INVESTEE ADJUSTED EBITDA

FAC proportionate share of investee adjusted EBITDA comprise the adjusted EBITDA attributable to shareholders without considering FAC corporate costs. Management believes that it is a useful supplemental measure and an indication of performance of our investee companies.

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2020**	Jun 30, 2019	**Jun 30, 2020**	Jun 30, 2019
Adjusted EBITDA	**$ 5,308**	$ 9,182	**$ 11,071**	$ 15,555
Add back:				
Corporate and consolidated	**581**	457	**1,074**	1,110
NCI portion of adjusted EBITDA	**(2,475)**	(4,020)	**(5,013)**	(6,958)
Total Proportionate share of investee adjusted EBITDA	**$ 3,414**	$ 5,619	**$ 7,132**	$ 9,707

ADJUSTED NET (LOSS) INCOME AND ADJUSTED EPS

Adjusted net (loss) income and Adjusted EPS are defined as net (loss) income before any unusual non-operating items such as foreign exchange, fair value adjustments, and other one-time non-recurring items.

While adjusted net (loss) income is not a recognized measure under IFRS, management believes that it is a useful supplemental measure as it provides management and investors with an insightful indication of the performance of the corporate office and our investees. Adjusted net (loss) income also provides an assessment of the adjusted performance of the corporation by eliminating certain non-recurring items. The methodologies we use to determine adjusted net (loss) income may differ from those utilized by other issuers or companies and, accordingly, adjusted net (loss) income as used in this MD&A may not be comparable to similar measures used by other issuers or companies.

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2020**	Jun 30, 2019	**Jun 30, 2020**	Jun 30, 2019
Net loss	**$ (413)**	$ (3,499)	**$ (2,129)**	$ (4,394)
Add back:				
Discontinued operations	**-**	6,287	**-**	6,796
Foreign exchange (gain) loss	**(1,690)**	(1,115)	**2,022**	(2,266)
Change in fair value of foreign exchange forward contract	**395**	-	**(1,666)**	-
Net loss on sale of capital and intangible assets	**-**	10	**-**	10
Loss on contract settlement	**89**	118	**203**	236
Rent abatement	**(241)**	-	**(241)**	-
Other (income) expense	**(125)**	110	**(285)**	110
Acquisition, integration and restructuring costs	**36**	140	**36**	976
Income tax effects of adjusting items	**402**	49	**194**	(48)
Adjusted net (loss) income	**$ (1,547)**	$ 2,100	**$ (1,866)**	$ 1,420
Adjusted net (loss) income attributable to shareholders	**(1,836)**	104	**(2,628)**	(1,464)
Adjusted net income attributable to non-controlling interest	**289**	1,996	**762**	2,884
Diluted adjusted loss per share	**(0.05)**	-	**(0.07)**	(0.04)