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 months ended March 31, 2018, as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of May 22, 2018, in conjunction with the interim condensed consolidated financial statements and related notes for the three months ended March 31, 2018 ("interim financial statements"), and our 2017 Annual Report. The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements. 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"), Cape Communications International Inc. operating as Impact Radio Accessories ("Impact"), and Astley Gilbert Limited ("AG").

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.

We are publicly traded on the TSX Venture Exchange ("Exchange") under the symbol FCF. Continuous disclosure materials are available on our website at www.advantagecapital.com, and on SEDAR at www.sedar.com.

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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 2018 outlook and strategic objectives; Club16's investments positioning it for growth; the Corporation's expectation that its collaborative approach will enhance and accelerate growth and performance; completing additional acquisitions; our investee entities being able 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; the new mortgage rules passed by the Canadian federal government not having a significant long-term effect on DLC's revenues; Club16 successfully opening additional clubs and continuing to offer personal training; and Impact and AG growing organically.

Such forward-looking information is necessarily 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 and capital; increased operating, general and administrative, and other costs; changes in interest rates; general business, economic and market conditions; our ability to obtain the required capital to finance our investment strategy and meet our commitments and financial obligations; our ability to source additional investee entities and to negotiate acceptable acquisition terms; 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; changes in Canadian mortgage lending and mortgage brokerage laws; material decreases in the aggregate Canadian mortgage lending business; the timely receipt of required regulatory approvals; 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, Impact and AG's products remaining consistent with historical demand; our ability to realize the expected benefits of the DLC, Club16, Impact and AG transactions; our ability to generate sufficient cash flow from investees and obtain financing to fund planned investment activities and meet current and future commitments and obligations; 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; and other risks and uncertainties described elsewhere in this document and in our other filings with Canadian securities authorities.

Many of these uncertainties and contingencies can 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. For more information relating to risks, see the Business Risks and Uncertainties section herein and the risk factors identified in our 2017 Annual Information Form and our 2017 Annual Report. 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.

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 of this document for more information. Non-IFRS financial performance measures used in our MD&A include EBITDA and adjusted EBITDA, adjusted EBITDA margin, adjusted EBITDA attributed to shareholders and NCI, proportionate share of investee EBITDA, adjusted net income, adjusted earnings per share, and free cash flow.

OVERVIEW

OUR BUSINESS

Through our innovative investment approach, we have a unique value proposition that grants us access to well established owner-operated businesses in the middle-market in North America. While our model enables owner-operators to remain actively involved in the business operations, we use a collaborate approach to help enhance and accelerate growth and performance. We currently operate a corporate head office and three business segments, being Franchise (DLC and its subsidiaries), Consumer Products and Services (Club16), and Business Products and Services (Impact and AG and its subsidiaries). We currently own a 60% interest in DLC, a 60% interest in Club16, a 52% interest in Impact and a 50% interest in AG.

For financial reporting purposes, FAC controls these portfolio companies, and as a result this MD&A and the consolidated financial statements for the three months ended March 31, 2018, include 100% of the accounts of the subsidiaries. Also included in the consolidated results is a Corporate and Consolidated segment which contains corporate costs and consolidating accounting entries.

2018 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 2017 Annual Report for a detailed description of the key initiatives supporting this outlook.

As previously announced, for fiscal 2018, we expect our proportionate share of annual adjusted EBITDA from our four investees to be between $21.5 million and $22.5 million. The fiscal 2018 guidance is prior to corporate head office expenses (including general and administrative expenses) and does not reflect any additional acquisitions that may be complete in 2018. Overall, the first three months of 2018 are in-line with managements' expectations given the seasonality of some of our investees. The Franchise segment has shown resilience in growing volumes notwithstanding the changes in the mortgage regulations. The Consumer Products and Services segments is achieving its reinvestment plan which is expected to set up the segment for the next level of strategic growth. The new Business Products and Services segment continues to work towards integration of the portfolio companies.

Our 2018 key priorities will continue to be attention to free cash flow, growth through disciplined investment, portfolio diversification, and inside portfolio growth. These priorities will be accomplished through (i) continuing to target potential investees with consistent historical EBITDA, significant free cash flow generation and expected annual organic growth; (ii) maximizing shareholder value and investee performance through on-going collaboration with and monitoring of our operating subsidiaries; (iii) continually assessing our expenditures and reducing costs where possible; (iv) and seeking cost-effective sources of capital to finance future acquisition opportunities.

FIRST QUARTER 2018 FINANCIAL HIGHLIGHTS

Below are the financial highlights of our results for the three months ended March 31, 2018. Due to the growth from acquisitions in 2017, our results may not be directly comparable to prior period balances.

(in thousands except per share amounts)	Three months ended March 31, 2018	March 31, 2017
Revenues	**$ 30,141**	$ 13,694
Income (loss) from operations	**1,442**	(1,790)
Adjusted EBITDA [(1)]	**6,244**	1,957
Adjusted EBITDA attributable to: [(1)]		
Shareholders	**3,085**	705
Non-controlling interests	**3,159**	1,252
Adjusted EBITDA margin [(1)]	**21%**	14%
Proportionate share of adjusted EBITDA [(1)]	**3,933**	2,171
Free cash flow [(1)]	**(271)**	180
Net loss for the period	**(2,039)**	(1,660)
Net income (loss) attributable to:		
Shareholders	**(2,291)**	(1,630)
Non-controlling interests	**252**	(30)
Adjusted net income (loss) [(1)]	**71**	(1,247)
Adjusted net income (loss) attributable to: [(1)]		
Shareholders	**(779)**	(1,249)
Non-controlling interests	**850**	2
Diluted loss per share	**$ (0.06)**	$ (0.04)
Adjusted loss per share [(1)]	**(0.02)**	(0.03)
Dividend declared per share	**0.0125**	0.0125

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

(in thousands of dollars)	Three months ended March 31, 2018	March 31, 2017
Adjusted EBITDA [(1)]		
Franchise	**$ 3,534**	$ 2,089
Consumer Products and Services	**760**	1,116
Business Products and Services	**2,798**	218
Corporate and consolidated	**(848)**	(1,466)
Total adjusted EBITDA [(1)]	**$ 6,244**	$ 1,957
Proportionate share of adjusted EBITDA [(1)]		
Franchise	**$ 2,115**	$ 1,388
Consumer Products and Services	**456**	670
Business Products and Services	**1,362**	113
Total Proportionate share of adjusted EBITDA [(1)]	**$ 3,933**	$ 2,171

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

Income from operations for the three months ended March 31, 2018, increased $3.2 million when compared to the three months ended March 31, 2017. This increase is driven by a $1.5 million increase in income from the Franchise segment operations combined with additional income from acquisitions of $0.6 million, partially offset by a $0.5 million decrease in operating income from the Consumer Products and Services segment.

Adjusted EBITDA increased $4.3 million compared to the three months ended March 31, 2017. This variance is due partially to a $1.4 million increase in Franchise segment adjusted EBITDA compared to the three months ended March 31, 2017. The increase in Franchise segment EBITDA was achieved on higher revenues and lower expenses within Newton Connectivity Systems Inc. ("NCS") operations, combined with an increase in franchise revenue because of higher funded mortgage volumes, and lower advertising and promotion expenses compared to the prior period. The Business Products and Services segment's adjusted EBITDA increased $2.6 million primarily due to the timing of the acquisitions in this segment. The adjusted EBITDA of the Consumer Products and Services segment decreased $0.4 million compared to the three months ended March 31, 2017 due to higher operating expenses associated with recent and future club openings and expansions. In addition, corporate costs declined $0.6 million due to a reduction of acquisition related and general and administrative costs.

Free cash flow decreased $0.5 million compared to the three months ended March 31, 2017. The increase in adjusted EBITDA attributable to shareholders was offset by higher corporate interest from an increase in the Corporate head office's total loans and borrowings and higher maintenance capital expenditures compared to prior year. The high level of maintenance capital investment is primarily related to broker renewal costs in DLC and reinvestment in equipment in AG.

Net loss for the period increased $0.4 million compared to the three months ended March 31, 2017. The above- mentioned increase in income from operations was offset by $1.4 million additional finance costs and a $1.5 million foreign exchange loss related to our USD debt and cash balances.

Adjusted net income for the three months ended March 31, 2018, increased $1.3 million from the same period in the previous year. The increase in adjusted net income was a result of the above-mentioned increase in income from operations. This increase was partially offset by an increase in financing costs related to an increase in the corporate head office's total loans and borrowings from $26.6 million to $42.0 million USD (CAD—$54.2 million). See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities. The additional loans and borrowings were used to fund the acquisition of the 50% interest in AG.

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)	**March 31, 2018**	**December 31, 2017**
Cash and cash equivalents	**$ 6,026**	$ 10,316
Working capital deficiency	**$ (6,100)**	$ (2,402)
Total assets	**$ 350,771**	$ 354,365
Total loans and borrowings	**$ 81,728**	$ 77,700
Shareholders' equity	**$ 99,077**	$ 101,386
Common shares outstanding	**38,128,606**	38,128,606

REVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS

Below is selected financial information from our three months ending March 31, 2018 consolidated financial results.

See the Accounting Policies section below and details in our 2017 Annual Report for the accounting policies and estimates as they relate to the following discussion.

We currently have a Corporate and Consolidated segment and three reportable business segments, being Franchise, Consumer Products and Services, and Business Products and Services. A reconciliation of our reportable segments to our consolidated results presented in this table can be found in the Segmented Results section below.

	Three months ended	
(in thousands)	**March 31, 2018**	**March 31, 2017**
Revenues	**$ 30,141**	$ 13,694
Operating expenses	**28,699**	15,484
Income (loss) from operations	**1,442**	(1,790)
Other expense, net	**(3,822)**	(653)
Loss before tax	**(2,380)**	(2,443)
Add back:		
Depreciation and amortization	**4,126**	2,113
Finance expense	**1,943**	528
Other adjusting items (1)	**2,555**	1,759
Adjusted EBITDA (1)	**$ 6,244**	$ 1,957

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

Revenues

Consolidated revenues for the three months ended March 31, 2018, increased $16.4 million over the three-month period ended March 31, 2017, from $13.7 million to $30.1 million. This variance is reflective of the timing of the acquisitions, as the results from the three months ended March 31, 2017, included only DLC, Club16 and one month for Impact. Impact was acquired on March 1, 2017 and AG was acquired on October 31, 2017. Franchise segment revenues increased by $0.8 million over the comparative period, which can be largely attributed to NCS, which increased revenue compared to 2017, and an increase in funded mortgage volumes. The revenue increase was achieved despite recent changes to mortgage regulations. Consumer Products and Services increased member numbers which drove an increase in the segment revenue of $0.4 million. Business Products and Services revenue increased $15.2 million due to the timing of acquisitions.

Operating expenses

(in thousands)	Three months ended March 31, 2018	March 31, 2017
Direct costs	**$ 9,662**	$ 2,232
General and administrative	**14,764**	9,924
Share-based payments	**147**	1,215
Depreciation and amortization	**4,126**	2,113
	$ 28,699	$ 15,484

Direct costs

Our consolidated direct costs relate to the operations of each of the three business segments for the quarter. The Franchise segment’s direct costs comprise franchise recruiting and support costs, and advertising fund expenditures. Consumer Products and Services’ direct costs relate primarily to costs of personal training, and Business Products and Services’ direct costs relate to the cost of product sales. Our consolidated direct costs have increased by $7.4 million over the three months ended March 31, 2017, to $9.7 million from $2.2 million. This variance is reflective of the timing of the acquisitions of each of our subsidiaries. An increase in the Business Products and Services segment of $7.6 million for the Impact and AG acquisitions, was partly offset by a decrease in the Franchise segment due to the timing of advertising and promotion events.

General and administrative

Consolidated general and administrative expenses increased by $4.8 million over the three months ended March 31, 2017, to $14.8 million. This variance is primarily due to a $5.3 million increase in the Business Products and Services segment because of the acquisitions of Impact and AG, which were acquired on March 1, 2017 and October 31, 2017 respectively. Further, Consumer Products and Services general and administrative expenses increased due to additional costs associated with club expansions and a new club opening, and additional corporate staff to prepare the segment for future growth. This segment is in a reinvestment cycle, incurring operating costs to support growth expected to generate higher revenues in later 2018 and 2019. The Franchise segment general and administrative expenses decreased primarily due to lower NCS salary related costs from 2017 restructuring of the NCS operations, and on the timing of advertising and promotion events.

Share-based payments

When compared to the three months ended March 31, 2017, share-based payments decreased to $0.1 million from $1.2 million. This was primarily due to higher costs in the three months ended March 31, 2017 because of the graded expense vesting of the 2016 and 2017 option issuances which have higher expense in the first year of vesting, and because of the vesting expense in the first quarter of 2017 for the 2016 shares held in escrow, which were fully vested in 2017. No options were issued in Q1 2018.

Depreciation and amortization

Depreciation and amortization primarily relates to the acquisition of, and subsequent additions to, finite life intangible assets acquired as part of the Corporation’s acquisition transactions and capital asset amortization for assets held at the subsidiary level. The intangible assets acquired as part of these transactions are being amortized into consolidated income include DLC’s and NCS’s software; DLC’s renewable franchise rights and intellectual property rights; the brand name license and customer relationships of Club16, Impact and AG; AG and Impact’s non-compete covenants, and Impact’s supplier relationships. Depreciation and amortization increased $2.0 million when compared to the three months ended March 31, 2017. This variance is reflective of the timing of the acquisitions of the new subsidiaries.

Other expenses

	Three months ended	
(in thousands)	March 31, 2018	March 31, 2017
Other expenses	**$ (3,822)**	$ (653)

Other expenses increased by $3.2 million for the three months ended March 31, 2018, compared to the three months ended March 31, 2017. The increase in other expenses is driven by several factors including $1.4 million increase in finance expense and a $1.5 million foreign exchange loss related to our USD debt and cash balances. The foreign exchange loss is primarily related to the revaluation of the $42.0 million USD debt. This debt was originated on June 14, 2017 at an exchange rate of 0.7556 CAD to USD. The exchange rate at March 31, 2018 was 0.7756 CAD to USD (December 31, 2017 – 0.7971 CAD to USD). For information on foreign exchange risk refer to the Market Risk section of this MD&A.

The increase in financing costs over the prior quarter primarily relates to an increase in the corporate head office's total loans and borrowings from $26.6 million to $42.0 million USD (CAD—$54.2 million). See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities. The additional loans and borrowings were used to fund the acquisition of the 50% interest in AG.

Adjusted EBITDA

	Three months ended	
(in thousands)	March 31, 2018	March 31, 2017
Adjusted EBITDA (1)	**$ 6,244**	$ 1,957

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

Adjusted EBITDA increased $4.3 million compared to the three months ended March 31, 2017. This variance is primarily due to a $1.4 million increase in Franchise segment adjusted EBITDA compared to the three months ended March 31, 2017. The increase in Franchise segment EBITDA was achieved on higher revenues and lower expenses within NCS operations, an increase in franchise revenue because of higher funded mortgage volumes, and lower advertising and promotion expenses compared to the prior period. The Business Products and Services segment's adjusted EBITDA increased $2.6 million due primarily to the timing of the acquisition in this segment. In addition, there was an increase in corporate EBITDA of $0.6 million due to lower general and administrative costs. The adjusted EBITDA of Consumer Products and Services segment decreased $0.4 million compared to the three months ended March 31, 2017 due to higher operating expenses associated with recent club openings and expansions.

SEGMENTED RESULTS

We discuss the results of the corporate head office and three reportable segments as presented in our March 31, 2018, interim financial statements: Franchise, Consumer Products and Services, and Business Products and Services. The performance of our reportable segments is assessed based on revenues, income from operations and adjusted EBITDA. Adjusted EBITDA is a supplemental measure of the segments' income from operations 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. 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 the 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.

	Three months ended	
(in thousands)	**March 31, 2018**	**March 31, 2017**
Revenues		
Franchise	$ **8,120**	$ 7,338
Consumer Products and Services	**5,897**	5,466
Business Products and Services	**16,124**	890
Consolidated revenues	**30,141**	13,694
Operating expenses [1]		
Franchise	**6,006**	6,729
Consumer Products and Services	**5,926**	5,022
Business Products and Services	**15,453**	799
Corporate	**1,314**	2,934
Consolidated operating expenses	**28,699**	15,484
Income (loss) from operations		
Franchise	**2,114**	609
Consumer Products and Services	**(29)**	444
Business Products and Services	**671**	91
Corporate	**(1,314)**	(2,934)
Consolidated income (loss) from operations	**1,442**	(1,790)
Adjusted EBITDA [2]		
Franchise	**3,534**	2,089
Consumer Products and Services	**760**	1,116
Business Products and Services	**2,798**	218
Corporate	**(848)**	(1,466)
Consolidated Adjusted EBITDA [2]	$ **6,244**	$ 1,957

(1) Operating expenses comprise 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.

Franchise segment

(in thousands, unless otherwise noted)	Three months ended March 31, 2018	March 31, 2017
Revenues	**$ 8,120**	$ 7,338
Operating expenses [(1)]	**6,006**	6,729
Income from operations	**2,114**	609
Other expense, net	**(191)**	(275)
Income before tax	**1,923**	334
Add back:		
Depreciation and amortization	**1,472**	1,338
Finance expense	**139**	177
Other adjusting items	**-**	240
Adjusted EBITDA	**$ 3,534**	$ 2,089
Adjusted EBITDA margin	**44%**	28%
Adjusted EBITDA attributable to:		
Shareholders	**$ 2,115**	$ 1,388
Non-controlling interests	**$ 1,419**	$ 701
Key performance indicators:		
Funded mortgage volumes [(2)]	**$ 7,014,054**	$ 6,769,244
Number of franchises [(3)]	**487**	446
Number of brokers [(3)]	**5,368**	5,309

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

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

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

The Franchise 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 Franchise 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.

Revenues have increased by $0.8 million during the three months ended March 31, 2018, when compared to the same three months in the prior year. The increase in revenue can be largely attributed to an increase in NCS revenue, and an increase in funded mortgage volumes when compared to the three months ended March 31, 2017. Franchise recruiting efforts continue to expand our franchise presence and have contributed additional volumes.

The segment's operating expenses for the three months ended March 31, 2018, decreased by $0.7 million over the same three months in the prior year. The decrease can be primarily attributed to a $0.4 million decrease in wages and salaries as a result of the NCS restructuring which occurred in the prior year and $0.3 million due to the timing of advertising and promotion events in 2018 compared to 2017.

Income from operations increased $1.5 million, and adjusted EBITDA increased by $1.4 million over the three months ended March 31, 2017. The increase in both income from operations and adjusted EBITDA can be attributed to the above-mentioned increase in NCS revenues combined with the decrease in NCS general and administrative costs, an increase in revenue on higher funded mortgage volumes compared to the three months ended March 31, 2017 and lower operating expenses due to the timing of advertising and promotion events.

Consumer Products and Services segment

(in thousands unless otherwise noted)		Three months ended March 31, 2018		March 31, 2017
Revenues	**$**	**5,897**	$	5,466
Operating expenses [1]		**5,926**		5,022
(Loss) income from operations		**(29)**		444
Other expenses, net		**(70)**		(40)
(Loss) income before tax		**(99)**		404
Add back:				
Depreciation and amortization		**795**		672
Finance expense		**64**		40
Adjusted EBITDA	**$**	**760**	$	1,116
Adjusted EBITDA margin		**13%**		20%
Adjusted EBITDA attributable to:				
Shareholders	**$**	**456**	$	670
Non-controlling interests	**$**	**304**	$	446
Key performance indicators:				
Total fitness club members [2]		**82,811**		80,296

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

(2) The number of fitness club members is as at the respective balance sheet date.

The Consumer Products and Services segment includes the operating results of the Club16 entity for all periods presented. The segment is executing its reinvestment plan which added costs during the first quarter and is expected to set up the segment for the next level of strategic growth.

Revenues increased by $0.4 million when compared to the three months ended March 31, 2017. The new club openings and expansions drove an increase in number of members enrolled and was the primary source of the increase in revenue in the quarter. The Club16 South Surrey location (previously She'sFit! White Rock club) opened January 2018. This larger co-ed facility has allowed more members to join. The Club16 Coquitlam expansion and the purchase of a third-party members list in October 2017 also increased member numbers in the quarter. In addition, the Club16 Newton location entered its third year of operations and has achieved higher, more stable member numbers.

Operating expenses increased $0.9 million from the same period in the prior year due primarily to higher facility and salary costs. The facility costs are due to additional rent and maintenance costs for the expanded space of the Coquitlam location and the relocated and expanded South Surrey location. In addition, normal annual increases in facilities costs were incurred. Increases in salary costs was primarily due to increased staff levels at corporate office and the relocated South Surrey location which required more staff due to the increased members and larger facility. The increase in head office staff was required to support the growth of the business, prepare for future investment activities, and enhance club membership retention rates.

Income from operations decreased $0.5 million for the three months ended March 31, 2018 when compared to the same three months in the prior year. The segment contributed $0.8 million in adjusted EBITDA compared to $1.1 million. The variance for both income from operations and adjusted EBITDA was on an increase in operating expenses partly offset by an increase in revenues during the period. Additional expenses were incurred as the segment prepares for growth associated with the new club openings and additional staffing, however, the revenue potential was not fully realized in the first quarter, which is typical for new club openings as they build their momentum to reach anticipated member numbers.

Business Products and Services segment

(in thousands) [1]		Three months ended March 31, 2018		December 31, 2017		March 31, 2017
Revenues	$	**16,124**	$	12,957	$	890
Operating expenses [2]		**15,453**		12,919		799
Income from operations		**671**		38		91
Other income (expense), net		**(604)**		(138)		12
Income (loss) before tax		**67**		(100)		103
Add back:						
Depreciation and amortization		**1,851**		1,271		96
Finance expense		**97**		52		-
Other adjusting items [3]		**783**		106		19
Adjusted EBITDA	$	**2,798**	$	1,329	$	218
Adjusted EBITDA margin		**17%**		10%		24%
Adjusted EBITDA attributable to:						
Shareholders	$	**1,362**	$	611	$	113
Non-controlling interests	$	**1,436**	$	718	$	105

(1) The results presented in this table include Impact from March 1, 2017, and AG from October 31, 2017, the date of acquisition.

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

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

The prior year results of the Business Products and Services segment includes the operating results of Impact from March 1, 2017, and none from AG which was acquired on October 31, 2017. Due to the acquisition growth in the segment in 2017, the quarterly results may not be directly comparable to prior period results. For this reason, we have provided an analysis of results for the current quarter in relation to results from the immediately preceding quarter.

Business Products and Services revenue increased by $3.2 million compared to the three months ended December 31, 2017. An increase in revenue from AG of $3.3 million was partly offset by a slight decrease in Impact revenues for the period. AG was acquired on October 31, 2017, so this is the first full period of operations.

Operating expenses for the three months ended March 31, 2018, increased $2.5 million compared to the three months ended December 31, 2017. The increase in operating costs is related to additional costs incurred for the one additional month of operating activities of AG; Impact operating costs were consistent with the previous quarter.

The segment contributed $0.7 million of income from operations and $2.8 million in adjusted EBITDA to the quarterly consolidated results. This is an increase of $0.6 million and $1.5 million, respectively, over the previous quarter. This variance is due primarily to the first full period of operations for the AG acquisition.

Corporate and Consolidated Segment

(in thousands)	Three months ended March 31, 2018	March 31, 2017
Revenues	$ **-**	$ -
Operating expenses (1)	**1,314**	2,934
Income from operations	**(1,314)**	(2,934)
Other expense, net	**(2,957)**	(350)
Income before tax	**(4,271)**	(3,284)
Add back:		
Depreciation and amortization	**8**	7
Finance expense	**1,643**	311
Share-based payments	**128**	1,191
Foreign exchange loss (gain)	**1,446**	(12)
Other adjusting items (2)	**198**	321
Adjusted EBITDA	$ **(848)**	$ (1,466)
Adjusted EBITDA attributable to:		
Shareholders	$ **(848)**	$ (1,466)
Non-controlling interests	$ **-**	$ -

(1) Operating expenses comprise 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.

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

(in thousands)	Three months ended March 31, 2018	March 31, 2017
General and administrative	**1,178**	1,736
Share-based compensation	**128**	1,191
Depreciation and amortization	**8**	7
Corporate operating expenses	$ **1,314**	$ 2,934

Other expense, net includes the following:

(in thousands)	Three months ended March 31, 2018	March 31, 2017
Finance expense	$ **1,643**	$ 311
Fair value adjustment on NCI	**34**	44
Foreign exchange loss (gain)	**1,446**	(5)
Other income	**(166)**	-
Other expense, net	$ **2,957**	$ 350

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

Operating expenses decreased by $1.6 million for the three months ended March 31, 2018, compared to the prior year's quarter. The decrease in expenses is primarily due to a decrease in share-based payments expense of $1.1 million, a $0.6 million decrease in general and administrative expenses. A decrease in share-based compensation expense was due to higher costs in the three months ended March 31, 2017 due to graded expense vesting of the 2016 and 2017 option issuances which have higher expense in the first year of vesting, and because of the vesting expense for shares held in escrow in the first quarter of 2017, which were fully vested in 2017. There were not any options issued in Q1 2018. The decrease in general and administrative expenses was primarily due to lower professional fees and salary expenses.

Other expense for the three months ended March 31, 2018, compared to the same three months in the prior year, increased by $2.6 million primarily due to $1.3 million increase in finance expense and a $1.4 million foreign exchange loss related to our USD debt and cash balances. The increase in financing costs over the prior quarter relates to an increase in the corporate head office's total loans and borrowings from $26.6 million to $42.0 million USD (CAD—$54.2 million). See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities. The additional loans and borrowings were used to fund the acquisition of the 50% interest in AG.

HISTORICAL QUARTERLY RESULTS

Selected unaudited financial data published for our operations during the last eight quarters are as follows.

(in thousands except per share amounts)	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016
Revenues	**$30,141**	$ 27,952	21,759	19,500	13,694	9,277	10,643	3,018
Income (loss) from operations	**1,442**	51	4,537	2,640	(1,790)	(1,606)	699	(1,832)
Adjusted EBITDA	**6,244**	4,298	8,224	5,750	1,957	1,286	4,907	281
Net (loss) income	**(2,039)**	(5,699)	3,611	3,091	(1,660)	(1,916)	(1,171)	949
Adjusted net income (loss)	**71**	166	1,921	1,557	(1,247)	(2,043)	(1,289)	1,813
Net income (loss) attributable to:								
Shareholders	**(2,291)**	(6,697)	1,140	975	(1,630)	(2,410)	(2,842)	599
Non-controlling interests	**252**	998	2,471	2,116	(30)	494	1,671	350
Adjusted net income (loss) attributable to:								
Shareholders	**(779)**	(863)	23	(37)	(1,249)	(2,400)	(2,960)	1,463
Non-controlling interests	**850**	1,029	1,898	1,594	2	357	1,671	350
Net income (loss) per common share:								
Basic	**(0.06)**	(0.18)	0.03	0.03	(0.04)	(0.07)	(0.08)	0.03
Diluted	**(0.06)**	(0.18)	0.03	0.03	(0.04)	(0.07)	(0.08)	0.02
Adjusted net income (loss) per common share:								
Diluted	**(0.02)**	(0.02)	0.00	0.00	(0.03)	(0.07)	(0.08)	0.06

Quarterly trends and seasonality

Due to the timing of acquisitions, the prior periods shown in the above table are not necessarily comparable and should not be relied upon as an indication of future performance. Our quarterly operating results generally vary from quarter to quarter because of seasonal fluctuations in our reporting segments.

Consolidated revenues for the current quarter increased by $2.2 million over the three months ended December 31, 2017 mainly attributed to the Corporation's most recent investment, AG. AG's results are included from the date of acquisition (October 31, 2017) and increased $3.3 million compared to the quarter ended December 31, 2017. In addition, Consumer Products and Services revenue increased $0.6 million due to a growth in Club16's members. These increases in revenues were partly offset by a decrease from seasonal revenue movement within the Franchise segment. The Franchise segment revenue decreased $1.6 million over the comparative period due to a seasonal decrease in funded mortgage volumes. DLC's operations are subject to seasonal variances that move in line with the normal home buying season, with funded mortgage volumes peaking in the months of June through September.

Income from operations for the three months ended March 31, 2018 increased to $1.4 million from $51 thousand during the three months ended December 31, 2017. The increase is primarily due to the above-mentioned increase in revenue partly offset by higher operating expenses. The increase in operating expenses is primarily due to an additional month of AG's operating activities included in the three months ended March 31, 2018 over the three months ended December 31, 2017, and an increase in Consumer Products and Services' direct costs related to the initiative to invest in the future growth opportunities of the segment. The increases were offset by a decrease in operating expenses within the Franchise segment primarily due to seasonal timing of adverting and promotion events.

Adjusted net income for the three months ended March 31, 2018 decreased by $0.1 million compared to the previous three months. The decrease in adjusted net income was a result of an increase in income from operations discussed above partly offset by a $0.9 million decrease in deferred income tax recovery compared to the previous three months.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

	As at			
(in thousands)		**March 31, 2018**		**December 31, 2017**
Cash and cash equivalents	**$**	**6,026**	$	10,316
Trade and other receivables		**22,535**		22,442
Prepaid expenses and deposits		**2,125**		2,410
Notes receivable		**338**		342
Inventories		**5,051**		4,834
Bank indebtedness		**(116)**		(766)
Accounts payable and accrued liabilities		**(16,920)**		(21,032)
Current portion of loans and borrowing		**(19,378)**		(16,370)
Deferred revenue		**(2,586)**		(1,838)
Other current liabilities		**(706)**		(413)
Current portion capital lease obligation		**(469)**		(327)
Current portion non-controlling interest liability		**(2,000)**		(2,000)
Net working capital deficit	**$**	**(6,100)**	$	(2,402)

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 acquisition opportunities and drive organic revenue growth in each of our subsidiaries to increase growth in free cash flows to return cash to our shareholders.

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

As at March 31, 2018, we had a consolidated cash position of $6.0 million and a net working capital deficit of $6.1 million, compared to $10.3 million and $2.4 million, respectively, as at December 31, 2017. The increase in working capital deficit from the comparative period is primarily the result of the decrease in our consolidated cash balance due primarily to the cash used in investing activities for capital expenditures and purchase of intangible assets. Our sources and uses of cash are described below. Our credit facilities are discussed in greater detail in the Capital Resources section below.

At March 31, 2018, 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 below. The Corporation's ability to maintain sufficient liquidity is driven by the operations of our subsidiaries and allocation of resources. Management continually evaluates potential acquisitions, and such acquisitions will be completed utilizing undrawn balances on existing capital resources, debt, or equity financing as it is available. At this time, management is unaware of any factors that would affect its short- and long-term objectives of meeting the Corporation's obligations as they come due.

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

SOURCES AND USES OF CASH

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

	Three months ended	
(in thousands)	**March 31, 2018**	**March 31, 2017**
Cash provided by operating activities	**$ 612**	$ 3,334
Cash used in investing activities	**(6,670)**	(14,912)
Cash provided by financing activities	**2,414**	12,878
(Decrease) increase in net cash	**(3,644)**	1,300
Impact of foreign exchange on net cash and cash equivalents	**4**	17
Net cash and cash equivalents, beginning of period	**9,550**	7,824
Net cash and cash equivalents, end of period	**$ 5,910**	$ 9,141

Operating activities

The net cash provided by operating activities for the three months ended March 31, 2018, was primarily related to cash flows generated by cash flows from the Franchise segment operations of $0.9 million, and the Business Products and Services segment of $2.7 million. The cash provided was partially offset by corporate head office requirements of $1.7 million, which are primarily related to general and administration costs, finance expense, acquisition and due diligence costs, and cash used in the Consumer Products and Services segment of $1.3 million primarily related to working capital changes.

Cash provided by operating activities for the three months ended March 31, 2017, was primarily due to cash flows generated by DLC's operations of $3.1 million, cash flows from Club16's operations of $1.2 million, and cash flows from Impact's operations of $0.5 million. The cash provided by operations is partially offset by cash used by corporate head office of $1.6 million, which is primarily related to acquisition and due diligence costs, finance expense, and general and administrative costs.

Investing activities

The net cash used in investing activities for the three months ended March 31, 2018, consisted primarily of DLC's investments in intangible assets of $2.3 million, Club16 and AG's investment in capital assets of $2.3 million and $2.0 million in distributions paid to non-controlling interest unitholders.

Cash used by investing activities for the three months ended March 31, 2017 was significantly impacted by the corporate head office acquisition of Impact for $11.3 million (net of cash received), $1.5 million paid to the vendors of Club16, DLC's investments in intangible assets of $0.7 million, and $1.1 million in distributions paid to DLC's non-controlling interest unitholders.

Financing activities

Cash provided by financing activities for the three months ended March 31, 2018, consisted primarily of proceeds from debt financing of $2.7 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 $0.7 million. Offsetting the increase in cash from financing activities was the $1.1 repayment on DLC, Club16 and AG's term loan facilities, $0.5 million dividends paid to common shareholders, costs for debt amendments, and payments for capital lease commitments.

Cash provided by financing activities for the three months March 31, 2017, was resulted to the increase in the corporate senior credit facilities from $17.0 million to $28.0 million, of which $26.6 million were drawn at March 31, 2017, and the increase in the amount drawn on DLC's operating facility of $0.4 million. Offsetting this increase in cash from financing activities was the repayment of $0.8 million in principal repayments of DLC's term loan facilities and $0.1 million of Club16's term loan facilities.

Distribution from investees

Corporate head office uses the cash received from the operating subsidiaries to fund its operating expenses, financing costs and dividends paid to shareholders. During the three months ended March 31, 2018, corporate head office received dividends and distributions from its subsidiaries of $3.2 million (March 31, 2017—$1.9 million). During the three months ended March 31, 2018, total distributions paid to NCI holders were $2.5 million (March 31, 2017—$1.3 million).

CAPITAL RESOURCES

Our capital structure is composed of total shareholders' equity, and loans and borrowings, less cash and cash equivalents. The following table summarizes our capital structure at March 31, 2018, and December 31, 2017.

	As at	
(in thousands)	**March 31, 2018**	**December 31, 2017**
Loans and borrowings	**$ 81,728**	$ 77,700
Less: net cash and cash equivalents	**(5,910)**	(9,550)
Net loans and borrowings	**$ 75,818**	$ 68,150
Shareholders' equity	**$ 99,077**	$ 101,386

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 AG.

Corporate USD Sagard facility

On May 31, 2017, the Corporation entered into a $42.0 million USD term credit facility ("Corporate Credit Facility" or "Sagard Facility") with Sagard Credit Partners LP (formerly Sagard Holdings ULC) to refinance our prior credit facility, finance future acquisitions and fund general corporate purposes. The Sagard Facility has a five-year term and bears interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. The term facility is secured by a general security agreement with first charge over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions. 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

- 4.75:1.00 for the fiscal quarters ending September 30, 2017; December 31, 2017; and March 31, 2018;
- 4.50:1.00 for the fiscal quarter ending June 30, 2018;
- 4.00:1.00 for the fiscal quarters ending September 30, 2018, and December 31, 2018; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

As at March 31, 2018, the Corporation was in compliance with all such covenants.

The following credit facilities are held at the subsidiary level.

Corporate—Promissory note

On October 31, 2017, the Corporation issued a promissory note payable totalling $2.5 million to the founder of AG, which bears interest at a rate of 6% per annum. Interest and principal are payable at maturity on October 31, 2019. The promissory note was issued by the Corporation as partial consideration for the AG acquisition.

DLC term loan facility

DLC has term loans under which it has borrowed an aggregate of $6.5 million at March 31, 2018 (December 31, 2017—$7.0 million). The facility is held at the DLC subsidiary level. Borrowings under the facility bear interest at a rate equal to the prime rate plus 1.5% per annum. The loan facility is secured by a general security agreement with first charge over the assets of DLC, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.20:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at March 31, 2018, DLC was in compliance with all covenants.

On April 12, 2018, DLC amended its existing term loan facility. The amendment decreased the financial covenant for the debt service charge ratio to 1.05:1.00 (lowered from 1.20:1.00) and decreased the interest to Prime + 1.00% per annum (previously prime plus 1.50% per annum).

DLC operating facility

DLC has a $6.5 million operating facility, under which it has borrowed an aggregate of $5.5 million at March 31, 2018 (December 31, 2017—$5.1 million). Borrowings under the DLC Operating Facility are due with a first charge over the assets of DLC, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.20:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at March 31, 2018, DLC was in compliance with all such covenants. This facility is held at the DLC subsidiary level.

On April 30, 2018, DLC amended its term loan and operating facilities. The amendments included a decrease in the debt service coverage ratio covenant; to maintain a debt service coverage ratio of not less than 1.05:1.00 (previously 1.20:1.00). In addition, the interest rate for the operating facility was reduced to prime plus 1.00% per annum (previously prime plus 1.50% per annum).

Club16 demand credit facility

On March 16, 2018, the Club16 amended its existing credit facilities. The amendment increased the credit available on term loans from $7.0 million facility to $9.0 million facility, of which $6.0 million was drawn at March 31, 2018 (December 31, 2017—$4.2 million). The available credit remaining will be used to finance equipment purchases and leasehold improvements at future locations. The facility matures on the earlier of (i) demand by the lender, or (ii) 60 months from the date of each drawdown, and is secured by a general security agreement with first charge over the assets of Club16. Included in the amendment was a modification in the financial covenant which established a lower requirement for debt service coverage ratio to be greater than 1.05:1:00 (compared to 1.25:1:00 previously) and greater than or equal to 1.50:1:00 excluding distributions. Financial covenants also include the requirement to maintain a maximum debt-to-EBITDA ratio of less than 2.25:1.00. Borrowings under the facility bear interest at the prime rate plus 1.25%. This facility is held at the Club16 subsidiary level. As at March 31, 2018, Club16 was notified by its lender that the lender believed it had breached the debt service coverage ratio due to an interpretation of the partnership distributions. A breach constitutes an event of default under the agreement. The lender has taken no action to date and has notified that no further action is required. The event did not trigger a cross default for the Corporation's indebtedness.

Club16 revolving facility

On March 21, 2017, Club16 entered a $1.5 million revolving operating facility to finance its working capital requirements. Borrowings under the revolving facility are due on demand and bear interest at the bank’s prime rate plus 1.25% per annum, and are secured by a general security agreement with first charge over the assets of Club16. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00 (compared to 1.25:1:00 previously), a debt service charge ratio greater than or equal to 1.50:1:00 excluding distributions, and a maximum debt-to-EBITDA ratio of less than 2.25:1.00. The facility is held at the Club16 level and has $0.9 million drawn as at March 31, 2018 (December 31,2017—$0.3 million). As at March 31, 2018, Club16 was notified by its lender that the lender believed it had breached the debt service coverage ratio due to an interpretation of the partnership distributions. A breach constitutes an event of default under the agreement. The lender has taken no action to date and has notified that no further action is required. The event did not trigger a cross default for the Corporation’s indebtedness.

AG operating facility

AG has an operating facility available for the lesser of $6.0 million or 75% of accounts receivable, net of over 90 days and related party accounts. The loan bears interest at the bank’s prime rate plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The AG Operating Facility is secured by a general security agreement with first charge over the assets of AG, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a maximum debt-to-adjusted-EBITDA ratio of less than 2.25:1.00, and maintain a fixed charge coverage ratio of not less than 1.20:1.00. As at March 31, 2018, AG was in compliance with all such covenants. The facility is held at the AG level and has $3.8 million drawn as at March 31, 2018 (December 31,2017—$3.5 million).

AG term loan facilities

AG has two term loan facilities (“AG Term Loan 1” and “AG Term Loan 2”). AG Term Loan 1 matures in July 2020, is repayable in monthly installments of $82 thousand a month and incurs interest at a fixed rate of 3.48% per annum. AG Term Loan 2 matures in October 2022, is repayable in monthly installments of $30 thousand a month and incurs interest based on a floating rate of prime plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The committed term debts are secured by a general security agreement with first charge over the assets of AG, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a maximum debt-to-adjusted-EBITDA ratio of less than 2.25:1.00, and maintain a fixed charge coverage ratio of not less than 1.20:1.00. As at March 31, 2018, AG was in compliance with all such covenants. The facilities are held at the AG level and have $4.7 million drawn as at March 31, 2018 (December 31, 2017—$5.0 million).

AG vehicle and equipment loans

AG has three equipment and automobile financing loans bearing interest between 3.5% and 5.99% per annum repayable in monthly installments and secured by the respective equipment and automobile.

Dividends to FAC shareholders

On November 4, 2016, our Board of Directors approved the implementation of a dividend policy for our common shares. The dividend policy provides that we will pay an annual dividend of $0.05 per common share (payable quarterly). During the three months ended March 31, 2018, the Corporation declared quarterly dividends of $0.0125 per share totalling $0.5 million. Total dividends paid during the three months ended March 31, 2018 was $0.5 million (March 31, 2017 - $0.5 million).

	Three months ending	
(in thousands)	**March 31, 2018**	**March 31, 2017**
$0.0125 per share	**$ 477**	$ 474

SHARE CAPITAL

On May 18, 2016, our common shares were consolidated on a 15:1 basis. All figures in this MD&A have been adjusted to reflect the 15:1 consolidation. The number of outstanding share options and other securities have also been adjusted proportionately.

As of May 22, 2018, March 31, 2018, and December 31, 2017, we had 38,128,606 common shares outstanding.

As at May 22, 2018, there were outstanding options to purchase 2,828,911 common shares with exercise prices ranging from $2.40 to $4.40, an aggregate of 487,989 broker warrants with an exercise price of $2.10 and 2,078,568 lender warrants with exercise prices ranging from $3.508 to $3.965. No options were issued during the 2018 first quarter.

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 13 of the interim consolidated 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	$ 16,920	$ -	$ -	$ -	$ **16,920**
Loans and borrowings	19,378	8,461	56,274	686	**84,799**
Long-term accrued liabilities	-	1,456	78	-	**1,534**
Capital leases	469	845	292	-	**1,606**
Operating leases	6,199	11,979	8,419	11,165	**37,762**
	$ 42,966	**$** 22,741	**$** 65,063	**$** 11,851	**$ 142,621**

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at March 31, 2018, or May 22, 2018, not disclosed or discussed previously.

CONTINGENCIES

The Corporation has outstanding legal claims, of which the Corporation has been indemnified from certain amounts. The outcome of the 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 March 31, 2018, is as follows.

(in thousands)		Carrying value		Fair value	Classification
Financial assets					
Cash and cash equivalents	$	**6,026**	$	**6,026**	Fair value through profit or loss
Trade and other receivables		**23,114**		**23,114**	Amortized cost
Notes receivable		**338**		**338**	Amortized cost
Investments		**557**		**557**	Fair value through profit or loss
Financial liabilities					
Bank indebtedness		**116**		**116**	Fair value through profit or loss
Accounts payable and accrued					Amortized cost
liabilities		**16,920**		**16,920**	
Loans and borrowings		**81,728**		**81,728**	Amortized cost
Other current liabilities		**706**		**706**	Amortized cost
Other long-term liabilities		**2,572**		**2,572**	Amortized cost
Capital lease obligation		**1,606**		**1,606**	Amortized cost
Non-controlling interest liability		**12,500**		**12,500**	Fair value through profit or loss

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

Foreign exchange risk is the risk that the fair value of financial instruments or future cash flows will fluctuate because of changes in foreign exchange rates. Our exposure to foreign exchange fluctuations relates to the balances in USD bank accounts, our USD loans and borrowings, and Impact operations, as a significant portion of its business is conducted in USD. Changes in the USD exchange rate can increase or decrease revenues, income from operations, net income and the carrying values of Impact's assets and liabilities. At March 31, 2018, the USD cash balance is USD $0.8 million (CAD—$1.0 million) compared to USD $1.6 million (CAD—$2.0 million) at December 31, 2017. The USD loans and borrowing balance is USD $42.0 million (CAD—$54.2 million); at December 31, 2017, it was USD $42.0 million (CAD—$52.7 million). The translation effect from changes in the USD exchange rate resulted in a foreign exchange gain on our consolidated USD cash balance of $4 thousand for the three months ended March 31, 2018 (March 31, 2017—$17 thousand). Our USD debt balance resulted in an offsetting foreign exchange loss of $1.5 million for the three months ended March 31, 2018 (March 31, 2017— $nil). Net foreign translation gain of $0.6 million (March 31, 2017—$23 thousand loss) was recorded within consolidated other comprehensive income related to Impact's operations.

Management has assessed that our exposure to foreign exchange risk at March 31, 2018, is high and monitors foreign exchange rates on an ongoing basis. A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a $5.3 million decrease in income before tax for the three months ended March 31, 2018 (March 31, 2017—$0.1 million gain).

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% change in the interest rates on the loans and borrowings would have a $0.2 million impact on net income for the three months ended March 31, 2018 (March 31, 2017—$0.1 million).

CREDIT RISK

Credit risk is the risk of financial loss to us if a counterparty to a financial instrument fails to meet its contractual obligations. Our credit risk is mainly attributable to our cash and cash equivalents and trade and other receivables.

We have assessed our exposure to credit risk on our cash and cash equivalents and have determined that such risk is minimal as our cash and cash equivalents are held with financial institutions in Canada.

Our primary source of credit risk relates to AG customers and DLC's franchisees and agents not repaying receivables. DLC manages its credit risk by performing credit risk evaluations on its franchisees and agents, and by monitoring overdue trade and other receivables. AG manages its credit risk through evaluation and by monitoring overdue trade and other receivables. Another source of credit risk comes from Impact's customers not paying amounts owed to Impact, which is also managed by performing credit risk evaluations and monitoring overdue trade receivables. The management teams of AG, DLC and Impact established an allowance for doubtful accounts based on the specific credit risk of their customers. As at March 31, 2018, $1.1 million (December 31, 2017—$1.0 million) of our trade receivables are greater than 90 days' outstanding and total expected credit losses as at March 31, 2018 is $61 thousand (December 31, 2017—$56 thousand). Our maximum exposure to credit risk, as related to certain financial instruments identified in the following table, approximates the carrying value of the assets of our consolidated statement of financial position.

(in thousands)		As at March 31, 2018		December 31, 2017
Cash and cash equivalents	**$**	**6,026**	$	10,316
Trade and other receivables		**23,114**		23,498
Notes receivable		**338**		342
	$	**29,478**	$	34,156

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, could result in a reduction or termination of the Corporation's dividends, and 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 2017 MD&A and the 2017 Annual Information Form.

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, Impact and AG lease and rent office space from companies that are controlled by minority partners within the subsidiaries. During the three months ended March 31, 2018, the total costs incurred under these leases was $0.3 million (March 31, 2017—$0.1 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 months ended March 31, 2018, was $0.1 million (March 31, 2017—$0.1 million). The lease term maturities range from 2020-2021.

The expenses related to these related party leases are recorded in general and administrative 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 March 31, 2018, the Corporation has recorded a receivable due from the DLC founders in the amount of $1.0 million for the sales tax amounts payable recorded by DLC (December 31, 2017—$0.8 million). This receivable has been recorded in trade and other receivables in the Corporation's consolidated statement of financial position.

Corporate tax and U.S. state tax receivable

On acquisition of Impact, the Corporation was indemnified against any U.S. state sales tax and corporate tax amounts assessed based on Impact's past results. As at March 31, 2018, the Corporation has recorded a receivable due from the Impact founders in the amount of $0.2 million (December 31, 2017—$0.2 million) for the U.S. state tax and corporate tax amounts payable recorded by Impact. This receivable has been recorded in trade and other receivables in the Corporation's consolidated financial statements.

Loans and advances

DLC has amounts due to/from companies that are controlled by key management personnel and both significant and minority shareholders of DLC. Due to amounts of $22 thousand (December 31, 2017—$10 thousand) have been included in accounts payable and accrued liabilities in the Corporation's financial statements as at March 31, 2018. Due from amounts of $31 thousand (December 31, 2017—$21 thousand) have been included in trade and other receivables in the Corporation's financial statements as at March 31, 2018.

Club16 has loans and advances due from companies that are controlled by key management personnel of Club16 in the amount of $2.3 million as at March 31, 2018, (December 31, 2017—$1.8 million). The balance is included in accounts receivable in the Corporation's consolidated financial statements.

All related party loans and advances are unsecured, due on demand and non-interest bearing.

Promissory notes

On October 31, 2017, as part of the purchase of AG, FAC entered a two-year promissory note payable totaling $2.5 million due to vendors of AG. During the three months ended March 31, 2018, interest of $38 thousand (March 31, 2017—$nil) was accrued and recorded as an accounts payable and accrued liability.

Administrative services

Club16 has entered into an agreement to provide administrative services to a company controlled by key management personnel of Club16. Total fees charged for services under this agreement for the three months ended March 31, 2018, was $25 thousand (March 31, 2017—$25 thousand). The agreement can be terminated by either party with six months' prior written notice.

AG has entered into a consulting agreement with a company controlled by key management personnel for consulting services. Total fees charged under this agreement was $27 thousand (March 31, 2017—$nil).

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 March 31, 2018, a liability has been recognized for the current fair value of the liability of $0.7 million (December 31, 2017—$0.6 million).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the amounts reported and disclosed in the consolidated 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, 2017 as filed on SEDAR at www.sedar.com. In preparing these unaudited interim consolidated 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, 2017 except for those changes described within Accounting Policy section herein.

ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements prepared for the year ended December 31, 2017 and as described in Note 3 except for IFRS 9 and IFRS 15 were adopted by the Corporation and there was no material impact as a result of the adoption. Refer to Note 3 of the accompanying unaudited condensed interim consolidated financial statements for additional details.

FUTURE ACCOUNTING STANDARDS

Standards that are issued but not yet effective and that we reasonably expect to be applicable at a future date are listed below.

IFRS 16 Leases

IFRS 16 introduces a single accounting model for leases. The standard requires a lessee to recognize assets and liabilities on its statement of financial position for all leases with a term of more than 12 months. IFRS 16 can be applied through a full or modified retrospective approach for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 revenue from contracts with customers has also been applied. The Corporation intends to adopt the new standard on the required effective date, and is currently assessing the impact the amendment will have on the consolidated financial statements.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

CHANGES IN PRESENTATION OF NON-IFRS FINANCIAL PERFORMANCE MEASURES

In previous MD&As, FAC presented EBITDA related measures as the only non-IFRS financial performance measure. Starting in this MD&A, we have begun including additional non-IFRS performance measures such as adjusted income, adjusted income per share and free cash flow to provide information that we believe will assist analysts, investors and other stakeholders in better understanding our operations. In addition, FAC clarified its definition of adjusted EBITDA adding realized foreign exchange gains and losses and unusual non-core items to the list of adjustable items, which included acquisition, restructuring and integration costs.

EBITDA, 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 Company 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 acquired 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, reinvest in the existing portfolio, and provide consistent dividends to shareholders.

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

	Three months ended			
(in thousands)		March 31, 2018		March 31, 2017
LOSS BEFORE INCOME TAX	**$**	**(2,380)**	$	(2,443)
Add back:				
Depreciation and amortization		**4,126**		2,113
Finance expense		**1,943**		528
EBITDA	**$**	**3,689**	$	198
Adjustments to remove:				
Share-based payments		**147**		1,215
Foreign exchange loss (gain)		**1,460**		(17)
Dividends paid to non-controlling interest shareholders		**500**		-
Change in fair value of non-controlling interest		**34**		44
Special NCI bonuses		**250**		-
Acquisition, integration and restructuring costs		**164**		517
Adjusted EBITDA	**$**	**6,244**	$	1,957
Adjustments:				
NCI portion of adjusted EBITDA		**(3,159)**		(1,252)
Cash interest expense(1)		**(1,455)**		(441)
Maintenance capex attributable to FAC shareholders(1)		**(1,901)**		(84)
Free Cash Flow	**$**	**(271)**	$	180

(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 the non-controlling interest.

PROPORTIONATE SHARE OF INVESTEE EBITDA

FAC proportionate share of annual 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.

ADJUSTED NET INCOME AND ADJUSTED EPS

Adjusted Net Income and Adjusted EPS are defined as net income (loss) before any unusual non-operating items such as foreign exchange, fair value adjustments, dividends paid to non-controlling shareholders recognized in income, and other one-time non-recurring items.

While adjusted net 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 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 income may differ from those utilized by other issuers or companies and, accordingly, adjusted net income as used in this MD&A may not be comparable to similar measures used by other issuers or companies.

	Three months ended	
(in thousands)	March 31, 2018	March 31, 2017
Net loss	$ (2,039)	$ (1,660)
Add back:		
Foreign exchange loss (gain)	1,460	(17)
Dividend paid to non-controlling interest	500	-
Change in fair value of non-controlling interest	34	44
Special NCI bonuses	250	-
Acquisition, integration and restructuring costs	164	517
Income tax effects of adjusting items	(298)	(131)
Adjusted net income (loss)	$ 71	$ (1,247)
Adjusted net loss attributable to shareholders	(779)	(1,249)
Adjusted net income attributable to non-controlling interest	850	2
Diluted adjusted loss per share	(0.02)	(0.03)