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, 2020, as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of May 26, 2020, in conjunction with our interim condensed consolidated financial statements and related notes for the three months ended March 31, 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.

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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 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;
- Investee growth plans including: Club16 growing membership numbers from new clubs opened in 2019 and expanding personal training; DLC adding additional franchises through targeted recruiting initiatives; and 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 seeking rent abatements and deferrals during 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;
- 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; 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 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 isolation and social distancing. The Corporation expects that COVID-19 will have a material impact on our subsidiary partners, DLC, Club16 and Impact. Club16 has temporarily closed all clubs, effective March 17, 2020. On May 25, 2020, the Corporation announced Club16 is scheduled to re-open its fitness centres effective June 1, 2020. In an effort to ensure the health and safety of staff and members, Club16 has adopted enhanced cleaning measures, implemented a work-out 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, management has deferred compensation, unwound its foreign currency exchange forward agreement in exchange for net proceeds of CAD $1.5 million as well as extended payment terms with its various vendor partners. At the subsidiary level: principal payments on term debt have been postponed for three to six months for Club16 and DLC; non-essential expenditures have been deferred; staff have temporarily been reduced at Club16; Club16 has increased its credit line by $1.5 million; and Club16 has entered into negotiations with landlords to arrange rent abatements or deferrals. 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 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.

The Corporation and its subsidiaries were in compliance with the financial covenants contained in its facilities as at March 31, 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 with these financial covenants on the Corporate Credit Facility and Club16 facilities in future periods. In response to this risk, the Corporation has initiated negotiations for financial covenant relief, and the negotiations are ongoing. Although the Corporation expects that such negotiations will be successful, there is no assurance that an agreement will be reached on acceptable terms.

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 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 period have been adjusted to present the financial results of AG segregated in the statement of income 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 60% interest in Club16 and a 52% interest in Impact.

For financial reporting purposes, FAC controls these portfolio companies, and as a result, this MD&A and the interim financial statements for the three months ended March 31, 2020, include 100% of the accounts of our subsidiaries. Corporate and Consolidated segment contains corporate costs and consolidating accounting entries.

FIRST QUARTER 2020 FINANCIAL HIGHLIGHTS

Below are the financial highlights of our results for the three months ended March 31, 2020. The results for the three months ended March 31, 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.

(in thousands except per share amounts)	Three months ended Mar. 31, 2020	Mar. 31, 2019
Revenues	**18,073**	20,600
Income from operations	**2,424**	1,887
Adjusted EBITDA (1)	**5,763**	6,373
Adjusted EBITDA attributable to: (1)		
Shareholders	**3,225**	3,435
Non-controlling interests	**2,538**	2,938
Adjusted EBITDA margin (1)	**32%**	31%
Proportionate share of investee adjusted EBITDA (1)	**3,718**	4,088
Free cash flow (1)	**(57)**	(322)
Net loss	**(1,716)**	(895)
Net loss from continuing operations	**(1,716)**	(386)
Net loss from discontinued operations	**-**	(509)
Net (loss) income attributable to:		
Shareholders	**(2,199)**	(1,472)
Non-controlling interests	**483**	577
Adjusted net loss (1)	**(319)**	(680)
Adjusted net (loss) income attributable to: (1)		
Shareholders	**(792)**	(1,568)
Non-controlling interests	**473**	888
Diluted loss per share	**(0.06)**	(0.04)
Adjusted loss per share (1)	**(0.02)**	(0.04)

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

(in thousands)	Three months ended Mar. 31, 2020	Mar. 31, 2019
Adjusted EBITDA (1)		
DLC	**$ 4,540**	$ 2,566
Club16	**1,393**	2,072
Impact	**323**	2,388
Corporate and consolidated	**(493)**	(653)
Total adjusted EBITDA (1)	**5,763**	6,373
Proportionate share of investee adjusted EBITDA (1)		
DLC	**2,715**	1,603
Club16	**835**	1,243
Impact	**168**	1,242
Total Proportionate share of investee adjusted EBITDA (1)	**$ 3,718**	$ 4,088

(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 March 31, 2020, increased when compared to the corresponding period in 2019. Higher income from operations within DLC was partly offset by lower income from Impact and Club16. Additional income of $2.1 million was generated from DLC through higher revenues from a 30% increase in funded mortgage volumes compared to the three months ended March 31, 2019. Impact and Club16 decreased $2.0 million and

$0.8 million, respectively, compared to prior year due to lower revenues. Corporate general and administrative expenses decreased $1.1 million arising from our initiative to reduce corporate general and administrative expenses and the recording of $0.8 million of restructuring costs (management severance and staff retention payments) recognized in the first quarter 2019 versus none in 2020.

Adjusted EBITDA decreased $0.6 million or 10% compared to the three months ended March 31, 2019. DLC's adjusted EBITDA increased $2.0 million due to higher revenue from increased funded mortgage volumes, while Corporate adjusted EBITDA increased $0.2 million as a result of lower expenses. Impact decreased $2.1 million compared to the three months ended March 31, 2019, primarily due to lower revenues, and Club16's adjusted EBITDA decreased $0.7 million from decreases in membership revenues from the temporary closure of clubs effective March 17, 2020, in response to the COVID-19 pandemic.

Free cash flow improved $0.3 million compared to the three months ended March 31, 2019, due to a $0.6 million decrease in interest paid and $0.1 million in lower maintenance capital expenditures offset by decreased adjusted EBITDA attributable to shareholders of $0.2 million and higher taxes paid of $0.1 million. Finance expense has 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 March 31, 2020, when compared to the three months ended March 31, 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 three months ended March 31, 2020, increased $0.8 million compared to the corresponding period in 2019. The increase in net loss was primarily due to an increase in net loss from continuing operations of $1.3 million offset by a decrease in net loss from discontinued operations of $0.5 million. The increase in net loss from continuing operations is due to an increase in other expenses of $2.4 million, partly offset from an increase in earnings of operations of $0.5 million and lower taxes of $0.5 million. Other expenses increased for the three months ended March 31, 2020, compared to the three months ended March 31, 2019, primarily due to $4.9 million negative movement in foreign exchange related to our USD debt and cash balances, partly offset by a $2.1 million positive movement related to our foreign exchange forward contract and a $0.3 million decrease in finance expense.

The Corporation's discontinued operations were sold on September 30, 2019, and therefore had no operating activities during the three months ended March 31, 2020, compared to a net loss of $0.5 million in the three months ended March 31, 2019.

Adjusted net loss for the three months ended March 31, 2020, decreased $0.4 million compared to the same period in the previous year due to increased income from operations.

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, 2020**		December 31, 2019
Cash and cash equivalents	**$**	**8,976**	$	5,458
Working capital deficiency	**$**	**(11,562)**	$	(14,637)
Total loans and borrowings (1)	**$**	**64,891**	$	61,173
Shareholders' equity	**$**	**72,310**	$	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 our three months ending March 31, 2020 consolidated financial results. See the Significant Accounting Policies section of this MD&A and notes to our March 31, 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	
(in thousands)	**Mar. 31, 2020**	Mar. 31, 2019
Continuing Operations		
Revenues	**$ 18,073**	$ 20,600
Operating expenses (1)	**15,649**	18,713
Income from operations	**2,424**	1,887
Other expenses, net	**(3,787)**	(1,408)
(Loss) income before tax	**(1,363)**	479
Add back:		
Depreciation and amortization	**3,436**	3,503
Finance expense	**2,210**	2,498
Other adjusting items (2)	**1,480**	(107)
Adjusted EBITDA (2)	**$ 5,763**	$ 6,373

(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

Consolidated revenues for the three months ended March 31, 2020, decreased $2.5 million over the three-month period ended March 31, 2019, from $20.6 million to $18.1 million. Impact's revenues decreased $3.7 million when compared to the corresponding period in 2019, primarily from the timing of several large orders partially fulfilled during the first three months of 2019. In addition, Club16 revenues decreased by $0.2 million when compared to the three months ended March 31, 2019, as a result of temporary club closures effective March 17, 2020, in response to the COVID-19 pandemic. Partially offsetting these decreases was an increase of $1.4 million in DLC revenues from a 30% increase in funded mortgage volumes.

Operating expenses

	Three months ended	
(in thousands)	**Mar. 31, 2020**	Mar. 31, 2019
Direct costs	**$ 3,113**	$ 4,606
General and administrative	**9,225**	10,514
Share-based payments (recovery) expense	**(125)**	90
Depreciation and amortization	**3,436**	3,503
	$ 15,649	$ 18,713

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. Consolidated direct costs decreased by $1.5 million over the three months ended March 31, 2019, to $3.1 million from $4.6 million. The decrease is primarily from lower direct costs associated with lower revenues within Impact.

General and administrative

Consolidated general and administrative expenses decreased by $1.3 million compared to the three months ended March 31, 2019, to $9.2 million from $10.5 million. This variance is primarily due to a decrease in Corporate general and administrative expenses of $1.1 million arising from our initiative to reduce corporate general and administrative expenses and the recording of $0.8 million of restructuring costs (management severance and staff retention payments) recognized in the first quarter 2019 versus none in 2020. In addition, DLC general and administrative expenses decreased $0.5 million as the three months ended March 31, 2019, included a $0.5 million loss on settlement of a contract dispute with a third party; this was partly offset by an increase of $0.3 million in Club16, from higher salaries due to additional staff from the opening of Club16 Langley in November 2019 (previously She's Fit! Langley) and the addition of a Director of Personal Training hired in mid-2019. Impact's general and administrative expenses remained relatively consistent period over period.

Share-based payments
When compared to the three months ended March 31, 2019, share-based payments decreased $0.2 million due to a decrease in the liability associated with the Corporation's restricted share units ("RSUs"), as a result of the Corporation's declining share price at March 31, 2020. The amounts include vesting expense associated with the Corporation's RSUs and related to Impact's share appreciation rights. 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; Impact's non-compete covenants, and Impact's supplier relationships.

Depreciation and amortization remained relatively consistent when compared to the three months ended March 31, 2019.

Other expenses

	Three months ended	
(in thousands)	**Mar. 31, 2020**	Mar. 31, 2019
Finance expense	**$ 2,210**	$ 2,498
Foreign exchange loss (gain)	**3,712**	(1,151)
Change in fair value of foreign exchange forward contract	**(2,061)**	-
Loss on settlement of contract	**114**	118
Income on equity accounted investment	**(68)**	-
Other income	**(120)**	(57)
	$ 3,787	$ 1,408

Other expenses increased $2.4 million for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. The increase in other expenses is primarily due to a $4.9 million negative movement on foreign exchange related to our USD debt and cash balances, offset by a $2.1 million positive change in the fair value of our foreign exchange forward contract and a $0.3 million decrease in finance expense. The foreign exchange movement is primarily related to the revaluation of our USD $32.0 million debt. The exchange rate at March 31, 2020, was 0.7049 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 quarter primarily relates to lower Corporate borrowings and a decrease in USD LIBOR rate during the three months ended March 31, 2020, when compared to the three months ended March 31, 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 had entered into 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 three months ended March 31, 2020. Subsequent to March 31, 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 March 31, 2020, interim financial statements: DLC, Club16, and Impact. 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 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 months ended March 31, 2019, exclude discontinued operations results from AG. See the Discontinued Operations section of this document.

	Three months ended	
(in thousands)	**Mar. 31, 2020**	Mar. 31, 2019
Revenues		
DLC	**$ 9,498**	$ 8,079
Club16	**6,315**	6,557
Impact	**2,260**	5,964
Consolidated revenues	**18,073**	20,600
Operating expenses (1)		
DLC	**6,169**	6,884
Club16	**6,975**	6,378
Impact	**2,233**	3,890
Corporate	**272**	1,561
Consolidated operating expenses	**15,649**	18,713
Income (loss) from operations		
DLC	**3,329**	1,195
Club16	**(660)**	179
Impact	**27**	2,074
Corporate	**(272)**	(1,561)
Consolidated income from operations	**2,424**	1,887
Adjusted EBITDA (2)		
DLC	**4,540**	2,566
Club16	**1,393**	2,072
Impact	**323**	2,388
Corporate	**(493)**	(653)
Consolidated Adjusted EBITDA (2)	**5,763**	6,373
Free Cash Flow (2)		
DLC	**1,777**	869
Club16	**(159)**	16
Impact	**(5)**	994
Corporate	**(1,670)**	(2,201)
Consolidated Free Cash Flow (2)	**$ (57)**	$ (322)

(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 Mar. 31, 2020		Mar. 31, 2019
Revenues	$	**9,498**	$	8,079
Operating expenses (1)		**6,169**		6,884
Income from operations		**3,329**		1,195
Other income (expense), net		**18**		(252)
Income before tax		**3,347**		943
Add back:				
Depreciation and amortization		**1,086**		1,296
Finance expense		**148**		160
Other adjusting items		**(41)**		167
Adjusted EBITDA (2)	$	**4,540**	$	2,566
Adjusted EBITDA margin		**48%**		32%
Adjusted EBITDA attributable to:				
Shareholders	$	**2,715**	$	1,603
Non-controlling interests	$	**1,825**	$	963
Free Cash Flow (2)	$	**1,777**	$	869
Key performance indicators:				
Funded mortgage volumes (3)	$	**8,431,137**	$	6,480,912
Number of franchises (4)		**532**		536
Number of brokers (4)		**5,760**		5,475

(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.

Revenue increased $1.4 million when compared to the three months ended March 31, 2019, primarily from an increase in funded mortgage volumes. The segment's operating expenses for the three months ended March 31, 2020, decreased by $0.7 million over the same three months in the prior year. The decrease can be primarily attributed to a $0.5 million loss on settlement of a contract dispute with a third-party provider recognized in 2019 and none in 2020, and lower depreciation and amortization expense of $0.2 million.

Income from operations and adjusted EBITDA increased by $2.1 million and $2.0 million over the three months ended March 31, 2019. The increase in both income from operations and adjusted EBITDA can be attributed to increase revenues from higher funded mortgage volumes.

Free cash flow increased $0.9 million during the three months ended March 31, 2020, when compared to the prior period directly related to an increase in adjusted EBITDA attributable to shareholders, partly offset by higher taxes in the current period.

Club16 segment

(in thousands, unless otherwise noted)		Three months ended Mar. 31, 2020		Mar. 31, 2019
Revenues	$	6,315	$	6,557
Operating expenses (1)		6,975		6,378
(Loss) Income from operations		(660)		179
Other expense, net		(705)		(430)
Loss before tax		(1,365)		(251)
Add back:				
Depreciation and amortization		2,053		1,893
Finance expense		705		430
Adjusted EBITDA (2)	$	1,393	$	2,072
Adjusted EBITDA margin		22%		32%
Adjusted EBITDA attributable to:				
Shareholders	$	835	$	1,243
Non-controlling interests	$	558	$	829
Free Cash Flow (2)	$	(159)	$	16
Key performance indicators:				
Total fitness club members (3)		98,342		90,421

(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.

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, and has deferred collection of the 2020 club enhancement fee subsequent to re-opening.

Revenues decreased $0.2 million when compared to the three months ended March 31, 2019, due to the suspension of collection of membership dues during COVID-19, related to temporary closure of all Club16 clubs. Prior to club closures, Club16's Tsawwassen and Langley (previously She's Fit! Langley) locations which opened in January and November 2019, respectively, continued to grow members. Overall memberships grew 9% at March 31, 2020, when compared to March 31, 2019. The decrease in membership revenues is partly offset by increased personal training revenues from the introduction of personal training at three additional locations compared to the prior period.

Operating expenses increased $0.6 million from the same period in the prior year primarily due to higher personal training costs and higher general and administrative expenses. Increase in personal training costs corresponds as a direct result of the increase in personal training revenue in the period. Increases in general and administrative expenses are from higher salaries due to additional staff from the opening of Club16 Langley in November 2019 (previously She's Fit! Langley) and the addition of a Director of Personal Training hired in mid-2019.

Income from operations decreased $0.8 million for the three months ended March 31, 2020, when compared to the same three months in the prior year. The segment contributed $1.4 million in adjusted EBITDA compared to $2.1 million in the three months ended March 31, 2019. The decrease in both income from operations and adjusted EBITDA was from a decrease in membership revenues and higher operating expenses, partly offset by an increase in personal training revenues.

Free cash flow decreased $0.2 million for the three months ended March 31, 2020, when compared to the prior period directly related to a decrease in adjusted EBITDA attributable to shareholders, partly offset by lower interest paid and lower capital expenditures in the period.

The club closures were considered an indicator of impairment for the Club16 cash generating unit ("CGU"). As a result, an impairment test was performed at March 31, 2020, which determined the Club16 CGU was not impaired, as the fair value less costs of disposal exceeded the carrying value. No impairment loss was recognized during the three months ended March 31, 2020.

Impact segment

(in thousands)	Three months ended Mar. 31, 2020	Mar. 31, 2019
Revenues	**$ 2,260**	$ 5,964
Operating expenses (1)	**2,233**	3,890
Income from operations	**27**	2,074
Other (expense), net	**(6)**	(20)
Income before tax	**21**	2,054
Add back:		
Depreciation and amortization	**292**	299
Finance expense	**5**	3
Other adjusting items (2)	**5**	32
Adjusted EBITDA (2)	**$ 323**	$ 2,388
Adjusted EBITDA margin	**14%**	40%
Adjusted EBITDA attributable to:		
Shareholders	**$ 168**	$ 1,242
Non-controlling interests	**$ 155**	$ 1,146
Free Cash Flow (2)	**$ (5)**	$ 994

(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 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.

Impact revenue decreased by $3.7 million compared to the three months ended March 31, 2019. The decrease in segment revenues was attributable to the timing of several large orders received in 2019, 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.

Operating expenses for the three months ended March 31, 2020, decreased $1.7 million compared to the three months ended March 31, 2019. The decrease in operating expenses is largely due to a decrease in direct costs associated with Impact's revenue decrease.

The segment contributed $27 thousand of income from operations and $0.3 million in adjusted EBITDA to our quarterly consolidated results. This is a decrease of $2.0 million and $2.1 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 a decrease in expenses.

Free cash flow decreased $1.0 million compared to the three months ended March 31, 2019, due to the decrease in adjusted EBITDA attributable to shareholders.

The decrease in sales from the COVID-19 pandemic, resulting in a decreased adjusted EBITDA, was an indicator of impairment for the Impact CGU. As a result, an impairment test was performed at March 31, 2020, which determined the Impact CGU was not impaired, as the fair value less costs of disposal exceeded the carrying value. No impairment loss was recognized during the three months ended March 31, 2020.

Corporate and Consolidated Segment

(in thousands)	Three months ended Mar. 31, 2020	Mar. 31, 2019
Revenues	$ -	$ -
Operating expenses (1)	272	1,561
Loss from operations	(272)	(1,561)
Other expense, net	(3,094)	(706)
Loss before tax	(3,366)	(2,267)
Add back:		
Depreciation and amortization	5	15
Finance expense	1,352	1,905
Share-based payments (recovery) expense	(127)	75
Foreign exchange loss (gain)	3,704	(1,175)
Change in fair value of foreign exchange forward contract	(2,061)	-
Acquisition, integration and restructuring costs	-	794
Adjusted EBITDA (2)	$ (493)	$ (653)
Adjusted EBITDA attributable to:		
Shareholders	$ (493)	$ (653)
Non-controlling interests	$ -	$ -
Free Cash Flow (2)	$ (1,670)	$ (2,201)

(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:

(in thousands)	Three months ended Mar. 31, 2020	Mar. 31, 2019
General and administrative	$ 394	$ 1,471
Share-based payments (recovery) expense	(127)	75
Depreciation and amortization	5	15
Corporate operating expenses	$ 272	$ 1,561

Other expense, net includes the following:

(in thousands)	Three months ended Mar. 31, 2020	Mar. 31, 2019
Finance expense	$ 1,352	$ 1,889
Foreign exchange loss (gain)	3,704	(1,175)
Change in fair value of foreign exchange forward contract	(2,061)	-
Other	99	(8)
Other expense, net	$ 3,094	$ 706

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

Operating expenses decreased by $1.3 million for the three months ended March 31, 2020, compared to the prior year quarter. General and administrative expenses decreased $1.1 million primarily from $0.8 million of restructuring costs recognized in the first quarter 2019 for management severance and staff retention payments, which did not occur in 2020. The decrease in operating costs were also from expense reductions achieved from our initiative to reduce corporate general and administrative expenses.

Other expense for the three months ended March 31, 2020, increased by $2.4 million primarily due to a $3.7 million foreign exchange loss compared to a $1.2 million gain in 2019 related to the revaluation of our USD debt partly offset by a $2.1

million increase in fair value of our foreign exchange forward contract and a decrease of $0.5 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 March 31, 2020, was 0.7049 CAD to USD (March 31, 2019—0.7483 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 had entered into a foreign exchange forward contract to partially mitigate foreign currency exchange risk in connection with its USD denominated debt which was unwound during the three months ended March 31, 2020. Subsequent to March 31, 2020, the Corporation entered new foreign exchange forward contracts. Please refer to the Market Risk section of this document for further information.

Free cash flow increased $0.5 million for the three months ended March 31, 2020, when compared to the prior year quarter. The increase is primarily from decreased interest expense on 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 March 31, 2020, when compared to the three months ended March 31, 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 per common share.

(in thousands except per share amounts)	**Mar. 31, 2020**	**Dec. 31, 2019**	**Sep. 30, 2019**	**Jun. 30, 2019**	**Mar. 31, 2019**	**Dec. 31, 2018**	**Sep. 30, 2018**	**Jun. 30, 2018**
Revenues	**18,073**	22,895	23,248	23,579	20,600	20,614	20,833	21,680
Income from operations	**2,424**	4,957	7,131	5,206	1,887	3,548	2,902	4,971
Adjusted EBITDA (1)	**5,763**	8,315	10,790	9,182	6,373	6,288	8,206	8,057
Net (loss) income	**(1,716)**	1,321	(1,338)	(3,499)	(895)	(8,792)	(10,209)	663
Adjusted net (loss) income (1)	**(319)**	1,193	2,192	2,100	(680)	(297)	2,306	2,988
Net (loss) income attributable to:								
Shareholders	**(2,199)**	170	(3,157)	(2,288)	(1,472)	(6,715)	(11,080)	(976)
Non-controlling interests	**483**	1,151	1,819	(1,211)	577	(2,077)	871	1,639
Adjusted net (loss) income attributable to: (1)								
Shareholders	**(792)**	(60)	54	104	(1,568)	(1,401)	578	664
Non-controlling interests	**473**	1,253	2,138	1,996	888	1,104	1,728	2,324
Net loss per common share:								
Basic	**(0.06)**	-	(0.08)	(0.06)	(0.04)	(0.18)	(0.29)	(0.03)
Diluted	**(0.06)**	-	(0.08)	(0.06)	(0.04)	(0.18)	(0.29)	(0.03)
Adjusted net (loss) income per common share: (1)								
Diluted	**(0.02)**	-	-	-	(0.04)	(0.04)	0.02	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.

Consolidated revenues for the current quarter decreased by $4.8 million over the three months ended December 31, 2019. DLC segment revenue decreased $3.6 million compared to the three months ended December 31, 2019. DLC's revenues are subject to seasonal variances that move in line with the normal home buying season. Club16's revenues decreased $0.8 million due to temporary club closures effective March 17, 2020, in response to the COVID-19 pandemic. Impact's revenues decreased $0.4 million due to decreased sales.

Income from operations for the three months ended March 31, 2020, decreased to $2.4 million from $5.0 million during the three months ended December 31, 2019. 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 a decrease in operating expenses across all segments, driven primarily from lower general and administrative expenses at DLC from lower consulting expenses, lower advertising expenses due to timing of events and lower salaries and wages from year-end bonuses recognized in Q4 2019; and a decrease in advertising and salaries and wages expenses at Club16 during club closures.

Adjusted net income for the three months ended March 31, 2020, decreased by $1.5 million compared to the preceding three months. The decrease in adjusted net income was primarily due to a decrease in income from operations, offset by a $0.3 million decrease in finance expense primarily from reduced Corporate borrowings from the repayment of debt from free cash flow, and $0.2 million decrease in share-based payments from a recovery in Q1 2020.

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 2020 first quarter operating results demonstrates the success of its growth initiatives which are reflected in the material growth in adjusted EBITDA and funded mortgage volumes when compared to the first quarter of 2019 of 77% and 30%, respectively. DLC continues to focus on market penetration and expanding the network of mortgage brokers and franchises. The mortgage industry may see headwinds from the COVID-19 pandemic. While DLC's first quarter 2020 results were not impacted by the COVID-19 pandemic, DLC's funded mortgage volumes may be negatively affected in future quarters, depending on the duration and scale of the pandemic.

Club16 has temporarily closed all its clubs effective March 17, 2020, in response to COVID-19. All membership payments have been frozen for the duration of this temporary closure. During the temporary closure period, Club16 intends to seek rent abatements and deferrals from its various landlords and expects to reduce costs to increase liquidity. The financial impact of the temporary closure will depend on the duration of the closure period and the negotiations with Club16's landlords. On May 25, 2020, the Corporation announced Club16 is scheduled to re-open its fitness centers effective June 1, 2020. In an effort to ensure the health and safety of staff and members, Club16 has adopted enhanced cleaning measures, implemented a work-out reservation system to reduce club traffic and has reconfigured club equipment to ensure adequate social distancing. Club16 may face new operational costs and procedures relating to COVID-19 on re-opening.

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 re-opened; however, Impact's manufacturing may be negatively affected if a second wave of the COVID-19 pandemic occurs in China.

The Corporation is working to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19.

The Corporation made a repayment on its Corporate borrowings of $0.8 million from free cash flow during the three months ended March 31, 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 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)	**March 31, 2020**	December 31, 2019
Cash and cash equivalents	**$ 8,976**	$ 5,458
Trade and other receivables	**12,153**	16,270
Prepaid expenses and deposits	**1,611**	2,087
Notes receivable	**389**	410
Inventories	**3,046**	3,563
Accounts payable and accrued liabilities	**(12,951)**	(16,775)
Current portion of loans and borrowing	**(20,334)**	(22,201)
Deferred contract liability	**(1,014)**	(674)
Other current liabilities	**(389)**	(326)
Current portion lease liability	**(3,049)**	(2,449)
Net working capital deficit	**$ (11,562)**	$ (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 March 31, 2020, we had a consolidated cash position of $9.0 million and a net working capital deficit of $11.6 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 increases in cash from financing activities, repayments on Corporate borrowings and suspension of principal payments on Club16 borrowings. Our sources and uses of cash are described below. Our credit facilities are discussed in greater detail in the Capital Resources section.

At March 31, 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 and isolation, Club16 has temporarily closed all clubs effective March 17, 2020. Club16 will not collect membership fees during club closures. On March 26, 2020, to strengthen its liquidity position during club closures, Club16 has amended its existing debt facilities to increase the revolving operating facility limit from $1.5 million to $3.0 million. Further, Club16's debt amendment included the suspension of principal payments for three months, from March to May 2020, for all debt facilities and removed the covenant test for the quarter-ended June 30, 2020. During the temporary closure period, Club16 intends to seek rent abatements and deferrals from its various landlords and expects to reduce costs to increase liquidity.

The Corporation is working closely with its subsidiaries to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19.

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. Subsequent to the period-ended March 31, 2020, the Corporation entered into new foreign exchange forward contracts totalling USD $15.0 million with a blended forward rate of $1.398. 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 FAC'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.

The Corporation was in compliance with the financial covenants contained in its Corporate USD credit facility and Club16's borrowing facilities as at March 31, 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 with these financial covenants in future periods. In response to this risk, the Corporation has initiated negotiations for financial covenant relief, and the negotiations are ongoing. Although the Corporation expects that such negotiations will be successful, there is no assurance that an agreement will be reached on acceptable terms.

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

SOURCES AND USES OF CASH

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

	Three months ended			
(in thousands)		**Mar. 31, 2020**		Mar. 31, 2019
Cash provided by operating activities	**$**	**5,190**	$	5,643
Cash used in investing activities		**(2,106)**		(3,589)
Cash provided by / (used in) financing activities		**432**		(1,747)
Increase in net cash		**3,516**		307
Impact of foreign exchange on net cash and cash equivalents		**2**		14
Net cash and cash equivalents, beginning of period		**5,458**		5,095
Net cash and cash equivalents, end of period	**$**	**8,976**	$	5,416

Operating activities

The net cash provided by operating activities for the three months ended March 31, 2020, primarily related to cash flows generated by DLC operations of $5.1 million (compared to $2.1 million in the prior year), Club16 of $0.9 million (compared to $1.5 million in the prior year), and Impact of $0.5 million (compared to $2.3 million in the prior year). The cash provided was partially offset by corporate head office requirements of $1.3 million (compared to $2.5 million in prior year), which primarily related to finance expense and general and administration costs.

Cash provided by operating activities for the three months ended March 31, 2019, included cash flows from AG of $2.1 million.

Investing activities

The net cash used in investing activities for the three months ended March 31, 2020, consisted primarily of distributions and dividends paid to non-controlling interest unitholders of $1.1 million, DLC's investments in intangible assets of $0.6 million, and Club16's investment in capital assets of $0.4 million.

The net cash used in investing activities for the three months ended March 31, 2019, consisted primarily of Club16 and AG's investment in capital assets of $1.7 million, distributions and dividends paid to non-controlling interest unitholders of $1.5 million, and DLC's investments in intangible assets of $0.5 million.

Financing activities

Cash provided from financing activities for the three months ended March 31, 2020, consisted primarily of proceeds from debt financing of $1.7 million from the DLC and Club16 facilities and proceeds of $1.5 million received by Corporate for the settlement of the foreign exchange forward contract. Offsetting the cash provided from financing activities were repayments on Corporate debt from free cash flow of $0.8 million and repayments of $0.9 million on the DLC and Club16 facilities, and net payments for lease commitments.

Cash used in financing activities for the three months ended March 31, 2019, consisted primarily of the $2.9 million repayment on DLC, Club16 and AG's term loan facilities, $0.5 million dividends paid to common shareholders, costs for debt amendments, and 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 $2.3 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 three months ended March 31, 2020, corporate head office received dividends and distributions from its subsidiaries of $2.0 million (March 31, 2019—$2.6 million). During the three months ended March 31, 2020, total distributions paid to NCI holders were $1.1 million (March 31, 2019—$1.5 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 March 31, 2020 and December 31, 2019.

	As at	
(in thousands)	**March 31, 2020**	December 31, 2019
Loans and borrowings	**$ 64,891**	$ 61,173
Less: net cash and cash equivalents	**(8,976)**	(5,458)
Net loans and borrowings	**$ 55,915**	$ 55,715
Shareholders' equity	**$ 72,310**	$ 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 has no amounts drawn as at March 31, 2020, and has not historically drawn on the facility.

Corporate USD facility

At March 31, 2020, the Corporation had $1.2 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 March 31, 2020 and June 30, 2020; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

As at March 31, 2020, the Corporation was in compliance with all such covenants.

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 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 March 31, 2020 (December 31, 2019—$3.4 million).

DLC's $1.1 million term loan facility is held at the DLC subsidiary level and has $1.0 million outstanding as of March 31, 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 $8.1 million drawn as of March 31, 2020 (December 31, 2019—$7.0 million).

Borrowings under the term loan facility 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

Club16's $9.0 million demand credit facility had $8.3 million outstanding at March 31, 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 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 $1.4 million drawn as at March 31, 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 March 31, 2020 and are secured by a general security agreement with first charge over the assets of Club16. At March 31, 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. As at March 31, 2020, Club16 was in compliance with quarterly covenants. 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 three months ended March 31, 2020. Total dividends paid during the three months ended March 31, 2019 was $0.5 million relating to dividends declared in December 2018.

SHARE CAPITAL

As of May 26, 2020, and March 31, 2020, the Corporation had 38,082,513 common shares outstanding (December 31, 2019—38,182,513).

As at May 26, 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 three months ended March 31, 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 14 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	$ 12,951	$ -	$ -	$ -	**$ 12,951**
Loans and borrowings	20,334	46,232	559	-	**67,125**
Long-term accrued liabilities	-	256	-	-	**256**
Leases	5,488	9,563	7,542	10,194	**32,787**
	$ 38,773	$ 56,051	$ 8,101	$ 10,194	**$ 113,119**

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 for the three months ended March 31, 2020 (March 31, 2019—$0.1 million).

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at March 31, 2020, or May 26, 2020, not disclosed or discussed previously.

CONTINGENCIES

The Corporation's subsidiaries have outstanding legal claims, 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 March 31, 2020, is as follows.

(in thousands)		Carrying value		Fair value	Classification
Financial assets					
Investments	$	**557**	$	**557**	Fair value through profit or loss
Equity accounted investment		**1,297**		**1,297**	Fair value through profit or loss
Financial liabilities					
Loans and borrowings		**(64,891)**		**(64,891)**	Amortized cost

COVID-19 RISK

On March 11, 2020, the World Health Organization ("WHO") declared the COVID-19 outbreak a pandemic. As a result, all levels of government in Canada have implemented public health measures including isolation and social distancing. As a result of government implemented public health and safety measures, including social distancing and isolation, Club16 has temporarily closed all clubs effective March 17, 2020. Club16 will not collect membership fees during club closures. During the temporary closure period, Club16 intends to seek rent abatements and deferrals from its various landlords and expects to reduce costs to increase liquidity.

The Corporation is working closely to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19.

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 affect the Corporation's subsidiaries earnings 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.

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; and Impact's operations, as a significant portion of its business is conducted in USD. At March 31, 2020, the USD cash balance is USD $0.3 million (CAD $0.4 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 $45.4 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 $4.6 million increase in net loss before tax for the three months ended March 31, 2020 (March 31, 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 allows 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 March 31, 2020, the Corporation unwound its existing USD $15.0 million foreign exchange forward contract 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 $1.7 million (March 31, 2019—$nil).

Subsequent to the period-ended March 31, 2020, to mitigate exposure to forward 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, totaling USD $15.0 million 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

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 loss for the three months ended March 31, 2020 (March 31, 2019—$0.2 million).

CREDIT RISK

As at March 31, 2020, $0.8 million (December 31, 2019—$0.5 million) of our trade receivables are greater than 90 days outstanding and total expected credit losses as at March 31, 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.

(in thousands)		As at March 31, 2020		December 31, 2019
Cash and cash equivalents	**$**	**8,976**	$	5,458
Trade and other receivables		**12,704**		16,826
Notes receivable		**389**		410
	$	**22,069**	$	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 months ended March 31, 2020, the total costs incurred under these leases was $0.1 million, respectively (March 31, 2019—$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, 2020, was $0.1 million, respectively (March 31, 2019—$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, 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 $2.6 million as at March 31, 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 months ended March 31, 2020, was $0.2 million (March 31, 2019—$0.2 million).

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, 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	
(in thousands)	**Mar. 31, 2020**	Mar. 31, 2019
(LOSS) INCOME BEFORE INCOME TAX	**$ (1,363)**	$ 479
Add back:		
Depreciation and amortization	**3,436**	3,503
Finance expense	**2,210**	2,498
	4,283	6,480
Adjustments to remove:		
Share-based payments (recovery) expense	**(125)**	90
Foreign exchange loss (gain)	**3,712**	(1,151)
Change in fair value of foreign exchange forward contract	**(2,061)**	-
Loss on contract settlement	**114**	118
Other income	**(160)**	-
Acquisition, integration and restructuring costs	**-**	836
Adjusted EBITDA	**$ 5,763**	$ 6,373
Adjustments:		
NCI portion of adjusted EBITDA	**(2,538)**	(2,938)
Cash interest expense (1)	**(1,275)**	(1,859)
Cash income tax expense (1)	**(919)**	(801)
Maintenance capex (1)	**(277)**	(381)
Lease payments (1)	**(811)**	(716)
Free Cash Flow attributable to FAC shareholders	**$ (57)**	$ (322)

(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 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.

(in thousands)	Three months ended Mar. 31, 2020	Mar. 31, 2019
Adjusted EBITDA	**$ 5,763**	$ 6,373
Add back:		
Corporate and consolidated	**493**	653
NCI portion of adjusted EBITDA	**(2,538)**	(2,938)
Total Proportionate share of investee adjusted EBITDA	**$ 3,718**	$ 4,088

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.

(in thousands)	Three months ended Mar. 31, 2020	Mar. 31, 2019
Net loss	**$ (1,716)**	$ (895)
Add back:		
Discontinued operations	**-**	509
Foreign exchange loss (gain)	**3,712**	(1,151)
Change in fair value of foreign exchange forward contract	**(2,061)**	-
Loss on contract settlement	**114**	118
Other income	**(160)**	-
Acquisition, integration and restructuring costs	**-**	836
Income tax effects of adjusting items	**(208)**	(97)
Adjusted net loss	**$ (319)**	$ (680)
Adjusted net loss attributable to shareholders	**(792)**	(1,568)
Adjusted net income attributable to non-controlling interest	**473**	888
Diluted adjusted loss per share	**(0.02)**	(0.04)