MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management's Discussion and Analysis ("MD&A") contains important information about the results of operations of Founders Advantage Capital Corp. ("FAC", "we", "our", or "the Corporation") for the three and six months ended June 30, 2018, as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of August 21, 2018, in conjunction with the interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 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; the ability of the Corporation to continue to execute on its business strategy during the strategic review process, and the various risks and assumptions customarily related thereto; the likelihood that the Corporation will be able to identify and undertake alternatives which enhance shareholder value; 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; the realization of lower DLC dealer commission costs as a result of the terminated dealer agreement; 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 and six months ended June 30, 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 results for the first half of 2018 are in-line with managements’ expectations given the seasonality of some of our investees. The Franchise segment has shown resilience in growing funded mortgage 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.

As announced on August 8, 2018 we recently commenced a formal process to initiate a strategic review in effort to enhance shareholder value. In connection with this process, our Board of Directors intends to consider a broad range of alternatives and has appointed a special committee of independent directors and engaged financial and legal advisors to assist it with the review. The Corporation does not intend to set a definite schedule to complete its evaluation or process and cautions that there are no assurances or guarantees that the process will result in a transaction or, if a transaction is undertaken, the terms or timing of such a transaction. The Corporation does not plan to disclose or comment on developments regarding the strategic review until further disclosure is deemed appropriate.

In the meantime, the Corporation will continue to manage its business interests carefully and remain focused on our 2018 key priorities including (i) continuing to target potential investees with an attractive 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.

SECOND QUARTER 2018 FINANCIAL HIGHLIGHTS

Below are the financial highlights of our results for the three and six months ended June 30, 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 June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues	$ **35,626**	$ 19,500	$ **65,767**	$ 33,194
Income from operations	**5,831**	2,640	**7,273**	850
Adjusted EBITDA [(1)]	**10,709**	5,787	**16,952**	7,744
Adjusted EBITDA attributable to: [(1)]				
Shareholders	**5,554**	3,042	**8,640**	3,708
Non-controlling interests	**5,155**	2,745	**8,312**	4,036
Adjusted EBITDA margin [(1)]	**30%**	30%	**26%**	23%
Proportionate share of adjusted EBITDA [(1)]	**6,511**	4,122	**10,445**	6,247
Free cash flow [(1)]	**2,531**	1,526	**1,443**	1,218
Net income (loss) for the period	**663**	3,091	**(1,376)**	1,431
Net income (loss) attributable to:				
Shareholders	**(976)**	975	**(3,267)**	(655)
Non-controlling interests	**1,639**	2,116	**1,891**	2,086
Adjusted net income[(1)]	**3,604**	1,594	**3,674**	347
Adjusted net income (loss) attributable to: [(1)]				
Shareholders	**886**	(14)	**107**	(1,297)
Non-controlling interests	**2,718**	1,608	**3,567**	1,644
Diluted (loss) income per share	**(0.03)**	0.03	**(0.09)**	(0.02)
Adjusted income (loss) per share [(1)]	**0.02**	-	**-**	(0.03)
Dividend declared per share	**0.0125**	0.0125	**0.0250**	0.0250

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

(in thousands)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Adjusted EBITDA [(1)]	$	$	$	$
Franchise	**4,838**	2,591	**8,372**	4,680
Consumer Products and Services	**3,067**	3,295	**3,833**	4,411
Business Products and Services	**3,761**	981	**6,552**	1,192
Corporate and consolidated	**(957)**	(1,080)	**(1,805)**	(2,539)
Total adjusted EBITDA [(1)]	**10,709**	5,787	**16,952**	7,744
Proportionate share of adjusted EBITDA [(1)]				
Franchise	**2,831**	1,635	**4,946**	2,980
Consumer Products and Services	**1,840**	1,977	**2,300**	2,647
Business Products and Services	**1,840**	510	**3,199**	620
Total Proportionate share of adjusted EBITDA [(1)]	**6,511**	4,122	**10,445**	6,247

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

Three-month highlights

Income from operations for the three months ended June 30, 2018, increased $3.2 million when compared to the three months ended June 30, 2017. This increase is driven by a $1.9 million increase in income from the Franchise segment operations, additional income from Business Products and Services segment of $1.0 million, partially offset by a $0.4 million decrease in operating income from the Consumer Products and Services segment. Further, Corporate income increased $0.8 million from lower share-based payments and lower general and administrative expenses.

Adjusted EBITDA increased $4.9 million compared to the three months ended June 30, 2017. This variance is primarily due to a $2.8 million increase in the Business Products and Services segment's adjusted EBITDA primarily due to the timing of the AG acquisition in this segment. Franchise segment adjusted EBITDA increased $2.2 million compared to the three months ended June 30, 2017. The increase in Franchise segment EBITDA was achieved from an increase in franchise revenue because of higher funded mortgage volumes, higher connectivity revenues, and on higher revenues within Newton Connectivity Systems Inc. ("NCS") operations. The adjusted EBITDA of Consumer Products and Services segment decreased $0.2 million compared to the three months ended June 30, 2017 due to higher operating expenses associated with recent club openings and expansions.

Free cash flow increased $1.0 million compared to the three months ended June 30, 2017. The increase in adjusted EBITDA attributable to shareholders was partly 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 renewal costs in DLC and reinvestment in equipment in AG.

Net income for the period decreased $2.4 million compared to the three months ended June 30, 2017. The above- mentioned increase in income from operations was offset by $1.4 million additional finance costs, a $1.7 million movement in foreign exchange loss related to our USD debt and cash balances, $1.8 million decrease in gain on sale of assets primarily due to sale of assets by DLC in 2017 which did not occur in 2018, and recognition of AG NCI dividends of $0.5 million as finance expense in 2018. In addition, during the three months ended June 30, 2018, DLC terminated a franchise sourcing contract resulting in a $1.4 million expense in the period, reducing commission costs related to specific franchises in the future.

Adjusted net income for the three months ended June 30, 2018, increased $2.0 million from the same period in the previous year. The increase in adjusted net income was primarily 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.

Six-month highlights

Income from operations for the six months ended June 30, 2018, increased $6.4 million when compared to the six months ended June 30, 2017. This increase is driven by a $3.4 million increase in income from the Franchise segment operations combined with additional income from Business Products and Services segment acquisitions of $1.6 million, partially offset by a $0.9 million decrease in operating income from the Consumer Products and Services segment. Further, Corporate income increased $2.4 million from lower share-based payments and lower general and administrative expenses.

Adjusted EBITDA increased $9.2 million compared to the six months ended June 30, 2017. This variance is primarily due to a $3.7 million increase in Franchise segment adjusted EBITDA compared to the six months ended June 30, 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 despite changes in regulatory environment, and lower advertising and promotion expenses compared to the prior period. The Business Products and Services segment's adjusted EBITDA increased $5.4 million due primarily to the timing of the acquisition in this segment. In addition, there was an increase in corporate EBITDA of $0.7 million due to lower general and administrative costs. The adjusted EBITDA of Consumer Products and Services segment decreased $0.6 million compared to the six months ended June 30, 2017 due to higher operating expenses associated with recent club openings and expansions.

Free cash flow increased $0.2 million compared to the six months ended June 30, 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 renewal costs in DLC and reinvestment in equipment in AG.

Net loss for the period increased $2.8 million compared to the six months ended June 30, 2017. The above- mentioned increase in income from operations was offset was offset by $2.8 million additional finance costs, a $3.2 million foreign exchange loss related to our USD debt and cash balances, $1.8 million decrease in gain on sale of assets primarily due to sale of assets by DLC in 2017 which did not occur in 2018, and recognition of AG NCI dividends of $1.0 million as finance expense in 2018. In addition, during the three months ended June 30, 2018, DLC terminated a franchise sourcing contract resulting in a $1.4 million expense in the period, reducing commission costs related to specific franchises in the future.

Adjusted net income for the six months ended June 30, 2018, increased $3.3 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 higher income tax expense and 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.

(in thousands, except shares outstanding)	**As at June 30, 2018**	**As at December 31, 2017**
Cash and cash equivalents	**$ 7,071**	$ 10,316
Working capital deficiency	**$ (5,757)**	$ (2,402)
Total assets	**$ 348,664**	$ 354,365
Total loans and borrowings	**$ 82,535**	$ 77,700
Shareholders' equity	**$ 98,145**	$ 101,386
Common shares outstanding	**38,182,542**	38,128,606

REVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS

Below is selected financial information from our three and six months ending June 30, 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.

(in thousands)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues	**$ 35,626**	$ 19,500	**$ 65,767**	$ 33,194
Operating expenses	**29,795**	16,860	**58,494**	32,344
Income from operations	**5,831**	2,640	**7,273**	850
Other expense, net	**(5,229)**	1,188	**(9,051)**	535
Income (loss) before tax	**602**	3,828	**(1,778)**	1,385
Add back:				
Depreciation and amortization	**4,098**	2,332	**8,224**	4,445
Finance expense	**2,254**	889	**4,197**	1,417
Other adjusting items (1)	**3,755**	(1,262)	**6,309**	497
Adjusted EBITDA (1)	**$ 10,709**	$ 5,787	**$ 16,952**	$ 7,744

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

Revenues

Three-month highlights

Consolidated revenues for the three months ended June 30, 2018, increased $16.1 million over the three-month period ended June 30, 2017, from $19.5 million to $35.6 million. This variance is reflective of the timing of the acquisitions combined with an increase in revenue across all segments. The results from the three months ended June 30, 2017, did not include AG which was acquired on October 31, 2017. Business Products and Services revenue increased $14.5 million due to the AG acquisition and a $0.5 million Impact revenue increase. Franchise segment revenues increased by $1.2 million over the comparative period, which can be largely attributed an increase in funded mortgage volumes, higher connectivity revenues, and an increase in revenues in NCS. 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.

Six-month highlights

Consolidated revenues for the six months ended June 30, 2018, increased $32.6 million over the six-month period ended June 30, 2017, from $33.2 million to $65.8 million. This variance is reflective of the timing of the acquisitions, as the results from the six months ended June 30, 2017, included only DLC, Club16 and four months for Impact. Impact was acquired on March 1, 2017 and AG was acquired on October 31, 2017. Franchise segment revenues increased by $2.0 million over the comparative period, which can be largely attributed to improvements at NCS and an increase in funded mortgage volumes. Consumer Products and Services increased member numbers through club expansions and new club openings which drove an increase in the segment revenue of $0.9 million. Business Products and Services revenue increased $29.7 million due to the timing of acquisitions and increased revenue at Impact.

Operating expenses

(in thousands)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Direct costs	**$ 10,774**	$ 3,325	**$ 20,436**	$ 5,557
General and administrative	**14,745**	10,446	**29,509**	20,370
Share-based payments	**178**	757	**325**	1,972
Depreciation and amortization	**4,098**	2,332	**8,224**	4,445
	$ 29,795	$ 16,860	**$ 58,494**	$ 32,344

Direct costs

Three-month highlights

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. Consolidated direct costs have increased by $7.4 million over the three months ended June 30, 2017, to $10.8 million from $3.3 million. This variance is reflective of the timing of the acquisitions combined with higher direct costs associated with the increase in revenue during the three months ended June 30, 2018. An increase in the Business Products and Services segment of $7.2 million for the Impact and AG acquisitions, and an increase of $0.2 million for the Franchise and Consumer Product and Services segments.

Six-month highlights

During the six months ended June 30, 2017, direct costs increased $14.9 million over the six months ended June 30, 2017, to $20.4 million from $5.6 million. This variance is reflective of the timing of acquisitions arising from an increase in the Business Products and Services segment of $14.9 million for the Impact and AG acquisitions.

General and administrative

Three-month highlights

Consolidated general and administrative expenses increased by $4.3 million over the three months ended June 30, 2017, to $14.7 million. This variance is primarily due to a $4.8 million increase in the Business Products and Services segment because of the acquisition of AG, which was acquired on October 31, 2017. 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 advertising and promotion events with fewer events occurring in 2018 when compared to 2017 combined with lower NCS salary related costs from 2017 restructuring of the NCS operations. Corporate costs decreased $0.2 million on lower salary and travel related expenses.

Six-month highlights

During the six months ended June 30, 2017, general and administrative expenses increased $9.1 million. This variance is primarily due to a $10.1 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. 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. Corporate costs decreased $0.7 million primarily due to lower professional fees, salary and travel related expenses.

Share-based payments

When compared to the three and six months ended June 30, 2017, share-based payments decreased by $0.6 million and $1.6 million, respectively. This was primarily due to higher costs in the three and six months ended June 30, 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 certain common shares held in escrow, which were fully vested in 2017. No options have been issued in 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 $1.8 million and $3.8 million when compared to the three and six months ended June 30, 2017. This variance is reflective of the timing of the acquisitions of the new subsidiaries.

Other expenses

(in thousands)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Other expenses, net	**$ (5,229)**	$ 1,188	**$ (9,051)**	$ 535

Three-month highlights

Other expenses increased by $6.4 million for the three months ended June 30, 2018, compared to the three months ended June 30, 2017. The increase in other expenses is driven by several factors including $1.4 million increase in finance expense and a $1.7 million movement in 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 June 30, 2018 was 0.7594 CAD to USD (December 31, 2017 – 0.7971 CAD to USD) effectively reversing the foreign exchange gain recognized in 2017. For information on foreign exchange risk refer to the Market Risk section of this MD&A. In 2017, DLC recognized a gain on sale of a non-core asset of $1.4 million which did not reoccur in the three months ended June 30, 2018. In addition, during the three months ended June 30, 2018, DLC terminated a franchise sourcing contract resulting in a $1.4 million expense in the period, reducing commission costs related to specific franchises in the future.

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.

Six-month highlights

Other expenses increased by $9.6 million for the six months ended June 30, 2018, compared to the six months ended June 30, 2017. The increase in other expenses is driven by several factors including $2.8 million increase in finance expense and a $3.2 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 June 30, 2018 was 0.7594 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.

Further, $1.0 million of dividend payments to AG's NCI was recognized as a finance expense during the six months ended June 30, 2018. In 2017, DLC recognized a gain on sale of a non-core asset of $1.4 million which did not reoccur in the six months ended June 30, 2018. In addition, during the three months ended June 30, 2018, DLC terminated a franchise sourcing contract resulting in a $1.4 million expense in the period which will reduce commission costs related to specific franchises in the future.

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		Six months ended	
(in thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Adjusted EBITDA [1]	**$ 10,709**	$ 5,787	**$ 16,952**	$ 7,744

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

Three-month highlights

Adjusted EBITDA increased $4.9 million compared to the three months ended June 30, 2017. This variance is primarily due to a $2.8 million increase in the Business Products and Services segment's adjusted EBITDA due primarily to the timing of the acquisition in this segment. Franchise segment adjusted EBITDA increased $2.2 million compared to the three months ended June 30, 2017. The increase in Franchise segment EBITDA was achieved from an increase in franchise revenue because of higher funded mortgage volumes and on higher revenues within NCS operations. The adjusted EBITDA of Consumer Products and Services segment decreased $0.2 million compared to the three months ended June 30, 2017 due to higher operating expenses associated with recent club openings and expansions.

Six-month highlights

Adjusted EBITDA increased $9.2 million compared to the six months ended June 30, 2017. This variance is primarily due to a $3.7 million increase in Franchise segment adjusted EBITDA compared to the six months ended June 30, 2017. The increase in Franchise segment EBITDA was achieved from higher revenues and lower expenses within NCS operations, an increase in franchise revenue because of higher funded mortgage volumes despite changes in regulatory environment, and lower advertising and promotion expenses compared to the prior period. The Business Products and Services segment's adjusted EBITDA increased $5.4 million due primarily to the timing of the acquisition in this segment. In addition, there was an increase in corporate EBITDA of $0.7 million due to lower general and administrative costs. The adjusted EBITDA of Consumer Products and Services segment decreased $0.6 million compared to the six months ended June 30, 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 June 30, 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		Six months ended	
(in thousands)	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Revenues				
Franchise	$ **10,035**	$ 8,802	$ **18,155**	$ 16,140
Consumer Products and Services	**8,246**	7,811	**14,143**	13,277
Business Products and Services	**17,345**	2,887	**33,469**	3,777
Consolidated revenues	**35,626**	19,500	**65,767**	33,194
Operating expenses [1]				
Franchise	**6,933**	7,572	**12,939**	14,301
Consumer Products and Services	**6,066**	5,189	**11,992**	10,211
Business Products and Services	**15,656**	2,204	**31,109**	3,003
Corporate	**1,140**	1,895	**2,454**	4,829
Consolidated operating expenses	**29,795**	16,860	**58,494**	32,344
Income (loss) from operations				
Franchise	**3,102**	1,230	**5,216**	1,839
Consumer Products and Services	**2,180**	2,622	**2,151**	3,066
Business Products and Services	**1,689**	683	**2,360**	774
Corporate	**(1,140)**	(1,895)	**(2,454)**	(4,829)
Consolidated income from operations	**5,831**	2,640	**7,273**	850
Adjusted EBITDA [2]				
Franchise	**4,838**	2,591	**8,372**	4,680
Consumer Products and Services	**3,067**	3,295	**3,833**	4,411
Business Products and Services	**3,761**	981	**6,552**	1,192
Corporate	**(957)**	(1,080)	**(1,805)**	(2,539)
Consolidated Adjusted EBITDA [2]	**10,709**	5,787	**16,952**	7,744
Free Cash Flow [2]				
Franchise	**2,001**	872	**2,102**	1,627
Consumer Products and Services	**1,760**	1,776	**2,064**	2,399
Business Products and Services	**1,134**	341	**1,774**	449
Corporate	**(2,364)**	(1,463)	**(4,497)**	(3,257)
Consolidated Free Cash Flow [2]	$ **2,531**	$ 1,526	$ **1,443**	$ 1,218

(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.

Franchise segment

(in thousands, unless otherwise noted)	Three months ended June 30, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenues	**$ 10,035**	$ 8,802	**$ 18,155**	$ 16,140
Operating expenses [1]	**6,933**	7,572	**12,939**	14,301
Income from operations	**3,102**	1,230	**5,216**	1,839
Other (expense) income, net	**(1,551)**	1,587	**(1,742)**	1,312
Income before tax	**1,551**	2,817	**3,474**	3,151
Add back:				
Depreciation and amortization	**1,512**	1,365	**2,984**	2,703
Finance expense	**325**	168	**464**	345
Other income	**1,450**	(1,759)	**1,450**	(1,519)
Adjusted EBITDA	**$ 4,838**	$ 2,591	**$ 8,372**	$ 4,680
Adjusted EBITDA margin	**48%**	29%	**46%**	29%
Adjusted EBITDA attributable to:				
Shareholders	**$ 2,831**	$ 1,635	**$ 4,946**	$ 2,980
Non-controlling interests	**$ 2,007**	$ 956	**$ 3,426**	$ 1,700
Free Cash Flow	**$ 2,001**	$ 872	**$ 2,102**	$ 1,627
Key performance indicators:				
Funded mortgage volumes [2]	**$ 9,199,837**	$ 8,548,385	**$ 16,213,891**	$ 15,317,629
Number of franchises [3]	**499**	473	**499**	473
Number of brokers [3]	**5,427**	5,396	**5,427**	5,396

(1) Operating expenses comprise of 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.

Three-month highlights

Revenues have increased by $1.2 million during the three months ended June 30, 2018, when compared to the same three months in the prior year. The increase in revenue can be largely attributed to an increase in funded mortgage volumes, an increase in connectivity revenues and an increase in NCS revenue, and when compared to the three months ended June 30, 2017.

The segment's operating expenses for the three months ended June 30, 2018, decreased by $0.6 million over the same three months in the prior year. The decrease can be primarily attributed to $0.4 million from fewer advertising and promotion events, $0.3 million reduction in professional fees due to lower audit costs in 2018, and $0.1 million lower wages and salaries primarily as a result of the NCS restructuring which occurred in the prior year.

Income from operations increased $1.9 million, and adjusted EBITDA increased by $2.2 million over the three months ended June 30, 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 from higher funded mortgage volumes compared to the three months ended June 30, 2017 and lower operating expenses due to fewer advertising and promotion events and lower professional fees.

Free cash flow increased $1.1 million during the three months ended June 30, 2018 when compared to the prior period directly related to the above-mentioned increase in adjusted EBITDA and the amount attributed to FAC shareholders.

Six-month highlights

Revenues have increased by $2.0 million during the six months ended June 30, 2018, when compared to the same six 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 2017. Franchise recruiting efforts continue to expand our franchise presence and have contributed additional volumes.

The segment's operating expenses for the six months ended June 30, 2018, decreased by $1.4 million over the prior year. The decrease can be primarily attributed to $0.9 million decrease in advertising and promotion events due to the timing of events in 2018 compared to 2017 and $0.5 million decrease in wages and salaries as a result of the NCS restructuring which occurred in the prior year.

Income from operations increased $3.4 million, and adjusted EBITDA increased by $3.7 million over the six months ended June 30, 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 2017 and lower operating expenses due to the timing of advertising and promotion events.

Free cash flow increased $0.5 million during the six months ended June 30, 2018 compared to the same period in the prior year. The increase is from the above-mentioned increase in adjusted EBITDA resulting in a $2.5 million increase in adjusted EBITDA attributed to shareholders, partly offset by higher maintenance capital expenditures in the current year due to additional maintenance capital investment related to enewal costs.

Consumer Products and Services segment

	Three months ended		Six months ended	
(in thousands, unless otherwise noted)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues	**$ 8,246**	$ 7,811	**$ 14,143**	$ 13,277
Operating expenses [1]	**6,066**	5,189	**11,992**	10,211
Income from operations	**2,180**	2,622	**2,151**	3,066
Other expense, net	**(101)**	(92)	**(171)**	(132)
Income before tax	**2,079**	2,530	**1,980**	2,934
Add back:				
Depreciation and amortization	**887**	673	**1,682**	1,345
Finance expense	**80**	57	**144**	97
Other income expense	**21**	35	**27**	35
Adjusted EBITDA	**$ 3,067**	$ 3,295	**$ 3,833**	$ 4,411
Adjusted EBITDA margin	**37%**	42%	**27%**	26%
Adjusted EBITDA attributable to:				
Shareholders	**$ 1,840**	$ 1,977	**$ 2,300**	$ 2,647
Non-controlling interests	**$ 1,227**	$ 1,318	**$ 1,533**	$ 1,764
Free Cash Flow	**$ 1,760**	$ 1,776	**$ 2,064**	$ 2,399
Key performance indicators:				
Total fitness club members [2]	**83,731**	80,808	**83,731**	80,808

(1) Operating expenses comprise of 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 2018 and is expected to set up the segment for the next level of strategic growth.

The Consumer Products and Services segment is subject to seasonality associated with the annual club enhancement fee earned in the second quarter each year.

Three-month highlights

Revenues increased by $0.4 million when compared to the three months ended June 30, 2017. Late 2017 and early 2018 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 $0.4 million for the three months ended June 30, 2018 when compared to the same three months in the prior year. The segment contributed $3.1 million in adjusted EBITDA compared to $3.3 million in the three months ended June 30, 2017. 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 in 2018 as the segment prepares for growth associated with the new club openings and additional staffing.

Free cash flow was relatively consistent for the three months ended June 30, 2018 when compared to the prior period as the above-mentioned decrease in adjusted EBITDA attributable to shareholders was partly offset by slightly lower maintenance capital expenditures in the quarter.

Six-month highlights

Revenues increased by $0.9 million when compared to the six months ended June 30, 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 2018 when compared to 2017. In addition, the Club16 Newton location entered its third year of operations and has achieved higher, more stable member numbers.

Operating expenses increased $1.8 million from the same period in the prior year due primarily to higher facility and salary costs. As mentioned above, 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 of $2.2 million for the six months ended June 30, 2018, was $0.9 million lower when compared to the prior year. The segment contributed $3.8 million in adjusted EBITDA compared to $4.4 million. The variance for both income from operations and adjusted EBITDA is due to the increase in operating expenses partly offset by the 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 for the new clubs, which is typical for new club openings as they build their momentum to reach anticipated member numbers.

Free cash flow decreased $0.3 million for the six months ended June 30, 2018 when compared to the prior period primarily related to the above-mentioned decrease in adjusted EBITDA attributed to FAC shareholders.

Business Products and Services segment

(in thousands) [1]	Three months ended			Six months ended	
	June 30, 2018	**March 31, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Revenues	**$ 17,345**	$ 16,124	$ 2,887	**$ 33,469**	$ 3,777
Operating expenses [2]	**15,656**	15,453	2,204	**31,109**	3,003
Income from operations	**1,689**	671	683	**2,360**	774
Other (expense), net	**(636)**	(604)	6	**(1,240)**	18
Income before tax	**1,053**	67	689	**1,120**	792
Add back:					
Depreciation and amortization	**1,690**	1,851	287	**3,541**	383
Finance expense	**114**	97	-	**211**	-
Other adjusting items [3]	**904**	776	5	**1,680**	17
Adjusted EBITDA	**$ 3,761**	$ 2,791	$ 981	**$ 6,552**	$ 1,192
Adjusted EBITDA margin	**22%**	17%	34%	**20%**	32%
Adjusted EBITDA attributable to:					
Shareholders	**$ 1,840**	$ 1,359	$ 510	**$ 3,199**	$ 620
Non-controlling interests	**$ 1,921**	$ 1,432	$ 471	**$ 3,353**	$ 572
Free Cash Flow	**$ 1,134**	$ 640	$ 341	**$ 1,774**	$ 449

(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 of 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 acquisitions completed 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.

Three-month highlights

Business Products and Services revenue increased by $1.2 million compared to the three months ended March 31, 2018. The increase in segment revenues was attributable to a $0.5 million increase in revenue from AG combined with a $0.7 million increase in Impact driven by several large orders during the period.

Operating expenses for the three months ended June 30, 2018, increased $0.2 million compared to the three months ended March 31, 2018. The slight increase in operating expenses is primarily due to an increase in direct costs associated with the revenue movement during the period, partly offset by a decrease in Impact's general and administrative costs.

The segment contributed $1.7 million of income from operations and $3.8 million in adjusted EBITDA to the quarterly consolidated results. This is an increase of $1.0 million and $1.0 million, respectively, over the previous quarter. The increase in both income from operations and EBITDA was achieved on revenue growth in Impact and AG, combined with maintaining expenses relatively consistent with the preceding quarter.

Free cash flow increased $0.5 million for the three months ended June 30, 2018 when compared to the prior quarter due to the above-mentioned increase in adjusted EBITDA attributable to shareholders combined with lower AG maintenance capital expenditures incurred in the quarter.

Six-month highlights

Business Products and Services segment contributed $2.4 million of income from operations and $6.6 million in adjusted EBITDA to the year to date consolidated results. This is an increase of $1.6 million and $5.4 million, respectively, due to the timing of acquisitions within this segment. The 2017 results do not include AG as it was acquired in October 2017 and only include a partial period for Impact from the acquisition on March 1, 2017.

Corporate and Consolidated Segment

	Three months ended		Six months ended	
(in thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues	$ -	$ -	$ -	$ -
Operating expenses (1)	1,140	1,895	2,454	4,829
Loss from operations	(1,140)	(1,895)	(2,454)	(4,829)
Other expense, net	(2,941)	(313)	(5,898)	(663)
Loss before tax	(4,081)	(2,208)	(8,352)	(5,492)
Add back:				
Depreciation and amortization	9	7	17	14
Finance expense	1,735	664	3,378	975
Share-based payments	160	748	288	1,939
Foreign exchange loss (gain)	1,170	(555)	2,616	(560)
Other adjusting items (2)	50	264	248	583
Adjusted EBITDA	$ (957)	$ (1,080)	$ (1,805)	$ (2,539)
Adjusted EBITDA attributable to:				
Shareholders	$ (957)	$ (1,080)	$ (1,805)	$ (2,539)
Non-controlling interests	$ -	$ -	$ -	$ -
Free Cash Flow	$ (2,364)	$ (1,463)	$ (4,497)	$ (3,257)

(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.

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

	Three months ended		Six months ended	
(in thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
General and administrative	$ 971	$ 1,140	$ 2,149	$ 2,876
Share-based compensation	160	748	288	1,939
Depreciation and amortization	9	7	17	14
Corporate operating expenses	$ 1,140	$ 1,895	$ 2,454	$ 4,829

Other expense, net includes the following:

(in thousands)	Three months ended				Six months ended			
	June 30, 2018		June 30, 2017		June 30, 2018		June 30, 2017	
Finance expense	$	**1,735**	$	664	**$**	**3,378**	$	975
Fair value adjustment on NCI		**36**		261		**70**		305
Foreign exchange loss (gain)		**1,170**		(555)		**2,616**		(560)
Other		**-**		(57)		**(166)**		(57)
Other expense, net	$	**2,941**	$	313	**$**	**5,898**	$	663

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.

Three-month highlights

Operating expenses decreased by $0.8 million for the three months ended June 30, 2018, compared to the prior year's quarter. The decrease in expenses is primarily due to a decrease in share-based payments expense of $0.6 million, and a $0.2 million decrease in general and administrative expenses. A decrease in share-based compensation expense was due to higher costs in the three months ended June 30, 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 2018. The decrease in general and administrative expenses was primarily due to lower salary and travel related expenses.

Other expense for the three months ended June 30, 2018, compared to the same three months in the prior year, increased by $2.6 million primarily due to $1.1 million increase in finance expense and a $1.2 million foreign exchange loss compared to $0.6 million gain in 2017 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.

Free cash flow decreased $0.9 million for the three months ended June 30, 2018 when compared to the prior year quarter due to the higher finance costs offset partially by lower general and administration expenses.

Six-month highlights

Operating expenses decreased by $2.4 million for the six months ended June 30, 2018, compared to the prior year. The decrease in expenses is primarily due to the above-mentioned decrease in share-based payments expense of $1.6 million, and a $0.7 million decrease in general and administrative expenses. A decrease in share-based compensation expense was due to higher costs in the six months ended June 30, 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 2017, which were fully vested in 2017. There were not any options issued in 2018. The decrease in general and administrative expenses was primarily due to lower professional fees, salary and travel related expenses.

Other expense for the six months ended June 30, 2018, compared to the same period in the prior year, increased by $5.2 million primarily due to $2.4 million increase in finance expense and a $2.6 million foreign exchange loss related to our USD debt and cash balances compared to a $0.6 million gain in the prior year. 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.

Free cash flow decreased $1.2 million for the six months ended June 30, 2018 when compared to the prior year period due to the higher finance costs offset partially by lower general and administration expenses.

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)	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sep. 30, 2016
Revenues	**35,626**	30,141	27,952	21,759	19,500	13,694	9,277	10,643
Income (loss) from operations	**5,831**	1,442	51	4,537	2,640	(1,790)	(1,606)	699
Adjusted EBITDA	**10,709**	6,243	4,340	8,262	5,787	1,957	1,726	4,918
Net income (loss)	**663**	(2,039)	(5,699)	3,611	3,091	(1,660)	(1,916)	(1,171)
Adjusted net income (loss)	**3,604**	70	208	1,959	1,594	(1,247)	(1,721)	(1,281)
Net income (loss) attributable to:								
Shareholders	**(976)**	(2,291)	(6,697)	1,140	975	(1,630)	(2,410)	(2,842)
Non-controlling interests	**1,639**	252	998	2,471	2,116	(30)	494	1,671
Adjusted net income (loss) attributable to:								
Shareholders	**886**	(779)	(836)	46	(14)	(1,283)	(2,215)	(2,955)
Non-controlling interests	**2,718**	849	1,044	1,913	1,608	36	494	1,674
Net income (loss) per common share:								
Basic	**(0.03)**	(0.06)	(0.18)	0.03	0.03	(0.04)	(0.07)	(0.08)
Diluted	**(0.03)**	(0.06)	(0.18)	0.03	0.03	(0.04)	(0.07)	(0.08)
Adjusted net income (loss) per common share:								
Diluted	**0.02**	(0.02)	(0.02)	-	-	(0.03)	(0.06)	(0.08)

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 $5.5 million over the three months ended March 31, 2018, mainly attributed to seasonal fluctuations within the Consumer Products and Services segment and the Franchise segment. The Consumer Products and Services segment increased $2.3 million compared to March 31, 2018 linked to seasonality associated with the annual club enhancement fee earned in the second quarter each year. The Franchise segment revenue increased $1.9 million compared to March 31, 2018. 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. In addition, Business Products and Services revenue increased 1.2 million from an increase in revenue from AG combined with a $0.7 million increase in Impact driven by several large orders during the period.

Income from operations for the three months ended June 30, 2018 increased to $5.8 million from $1.4 million during the three months ended March 31, 2018. The increase is primarily due to the above-mentioned increase in revenue partly offset by higher operating expenses. The increase in operating expenses is from an increase in direct costs across all segments associated with the increase in revenue. Overall general and administrative expenses were consistent with the three months ended March 31, 2017, with offsetting movements between the segments. An increase in expenses within the Franchise segment for advertising and promotion was offset by lower Corporate costs and Business Products and Services general and administrative costs.

Adjusted net income for the three months ended June 30, 2018 increased by $3.5 million compared to the preceding three months. The increase in adjusted net income was a result of an increase in income from operations discussed above net of tax impacts compared to the previous three months.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

	As at			
(in thousands)		June 30, 2018		December 31, 2017
Cash and cash equivalents	$	**7,071**	$	10,316
Trade and other receivables		**21,292**		22,442
Prepaid expenses and deposits		**2,711**		2,410
Notes receivable		**312**		342
Inventories		**4,778**		4,834
Bank indebtedness		**(80)**		(766)
Accounts payable and accrued liabilities		**(17,258)**		(21,032)
Current portion of loans and borrowing		**(19,796)**		(16,370)
Deferred revenue		**(1,958)**		(1,838)
Other current liabilities		**(356)**		(413)
Current portion capital lease obligation		**(473)**		(327)
Current portion non-controlling interest liability		**(2,000)**		(2,000)
Net working capital deficit	**$**	**(5,757)**	$	(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 June 30, 2018, we had a consolidated cash position of $7.1 million and a net working capital deficit of $5.8 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 June 30, 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:

	Six months ended	
(in thousands)	**June 30, 2018**	**June 30, 2017**
Cash provided by operating activities	**$ 7,385**	$ 6,949
Cash used in investing activities	**(11,244)**	(16,899)
Cash provided by financing activities	**1,313**	35,826
(Decrease) increase in net cash	**(2,546)**	25,876
Impact of foreign exchange on net cash and cash equivalents	**(13)**	(526)
Net cash and cash equivalents, beginning of period	**9,550**	7,824
Net cash and cash equivalents, end of period	**$ 6,991**	$ 33,174

Operating activities

The net cash provided by operating activities for the six months ended June 30, 2018, was primarily related to cash flows generated by cash flows from the Franchise segment operations of $4.5 million (compared to $3.5 million in the prior year), the Business Products and Services segment of $4.7 million (compared to $1.3 million in the prior year), the Consumer Products and Services segment of $2.7 million (compared to $4.6 million in the prior year). The decrease in Consumer Products and Services segment cash inflow from operating activities primarily relates to working capital movement associated with the payment of accounts payable invoices in 2018 associated with the recent club expansions. The cash provided was partially offset by corporate head office requirements of $3.8 million, which are primarily related to general and administration costs, finance expense, acquisition and due diligence costs.

Investing activities

The net cash used in investing activities for the six months ended June 30, 2018, consisted primarily of DLC's investments in intangible assets of $2.9 million, Club16 and AG's investment in capital assets of $3.2 million and $5.5 million in distributions paid to non-controlling interest unitholders.

Cash used by investing activities for the six months ended June 30, 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 $1.3 million, and $3.2 million in distributions paid to DLC's non-controlling interest unitholders. Cash used in investing activities was partly offset by cash received from the disposal of assets by DLC for total proceeds of $1.5 million.

Financing activities

Cash provided by financing activities for the six months ended June 30, 2018, consisted primarily of proceeds from debt financing of $2.1 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. Offsetting the increase in cash from financing activities was the $2.7 repayment on DLC, Club16 and AG's term loan facilities, $1.0 million dividends paid to common shareholders, costs for debt amendments, and payments for capital lease commitments.

Cash provided by financing activities for the six months June 30, 2017, was result of Corporate head office entering the $42.0 million USD credit facility with Sagard, an increase in the corporate senior credit facilities from $17.0 million to $28.0 million, and the increase in the amount drawn on DLC's operating facility of $0.9 million. Offsetting this increase in cash from financing activities was the $27.1 million repayment of senior credit facilities, $2.7 million in principal repayments of DLC's term loan facilities and $0.3 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 six months ended June 30, 2018, corporate head office received dividends and distributions from its subsidiaries of $6.1 million (June 30, 2017—$4.6 million). During the six months ended June 30, 2018, total distributions paid to NCI holders were $5.5 million (June 30, 2017—$3.2 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 June 30, 2018, and December 31, 2017.

	As at	
(in thousands)	**June 30, 2018**	**December 31, 2017**
Loans and borrowings	**$ 82,535**	$ 77,700
Less: net cash and cash equivalents	**(6,991)**	(9,550)
Net loans and borrowings	**$ 75,544**	$ 68,150
Shareholders' equity	**$ 98,145**	$ 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 quarters ending June 30, 2018, and September 30, 2018;
- 4.00:1.00 for the fiscal quarter ending December 31, 2018; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

On August 10, 2018, the Corporation amended its Corporate Credit Facility. The amendment increased the financial covenant for the total leverage ratio to 4.50:1.00 (previously 4.00:1:00) for the fiscal quarter ending September 30, 2018. The total leverage ratio for quarters subsequent to September 30, 2018 have not been amended.

As at June 30, 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 $6.0 million at June 30, 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 1.0% 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 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at June 30, 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 $5.9 million at June 30, 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 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at June 30, 2018, DLC was in compliance with all such covenants.

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

Club16 has a $9.0 million available credit facility, of which $5.7 million was drawn at June 30, 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 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 June 30, 2018, Club16 was in compliance with all such covenants.

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 for debt service coverage ratio to be greater than 1.05:1:00 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. The facility is held at the Club16 level and has $nil million drawn as at June 30, 2018 (December 31,2017—$0.3 million). As at June 30, 2018, Club16 was in compliance with all such covenants.

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 June 30, 2018, AG was in compliance with all such covenants. The facility is held at the AG level and has $4.8 million drawn as at June 30, 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 June 30, 2018, AG was in compliance with all such covenants. The facilities are held at the AG level and have $4.4 million drawn as at June 30, 2018 (December 31, 2017—$5.0 million).

AG vehicle and equipment loans

AG has four equipment and automobile financing loans bearing interest between 1.99% 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 six months ended June 30, 2018, the Corporation declared quarterly dividends of $0.0250 per share totalling $1.0 million. Total dividends paid during the six months ended June 30, 2018 was $1.0 million (June 30, 2017 - $0.5 million).

	Six months ending	
(in thousands)	**June 30, 2018**	**June 30, 2017**
$0.0250 per share	**$ 954**	**$** 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 August 21, 2018, and June 30, 2018 we had 38,182,542 common shares outstanding (December 31, 2017—38,128,606). During the three and six months ended June 30, 2018, 53,936 of broker warrants (June 30, 2017—25,675) were exercised for total proceeds of $0.1 million (2017—$0.1 million).

As at August 21, 2018, there were outstanding stock options to purchase 2,568,911 common shares with exercise prices ranging from $2.40 to $4.40, and 2,078,568 warrants with exercise prices ranging from $3.508 to $3.965. No options have been issued in 2018.

Normal course issuer bid

FAC implemented a normal course issuer bid in June 2018 (the "NCIB"). The NCIB will terminate on the earlier of: (i) June 26, 2019; and (ii) the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Purchases of Common Shares under the NCIB will be effected through the facilities of the TSXV or alternative Canadian trading systems at the market price at the time of purchase. FAC may purchase up to 2,250,000 Common Shares under the NCIB. Any Common Shares purchased pursuant to the NCIB will be cancelled by the Corporation. Any shareholder may obtain, for no charge, a copy of the notice in respect of the NCIB filed with the TSXV by contacting the Corporate Secretary of the Corporation at 403-455-2218. To date, FAC has not purchased any Common Shares under the NCIB.

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 15 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	$ 17,258	$ -	$ -	$ -	$ **17,258**
Loans and borrowings	19,796	7,917	57,620	-	**85,333**
Long-term accrued liabilities	-	2,048	96	-	**2,144**
Capital leases	473	764	256	-	**1,493**
Operating leases	6,333	11,948	7,800	9,543	**35,624**
	$ 43,860	**$** 22,677	**$** 65,772	**$** 9,543	**$ 141,852**

Consulting agreement

In January 2016, DLC entered into a consulting agreement whereby DLC has agreed to incur an annual amount of $0.4 million, paid quarterly, for consulting services related to promotional support. The consulting agreement expires in January 2019.

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 2018, DLC entered into an agreement with a software development company to develop and support a customized mortgage application ("app") for an annual amount of $0.7 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 the three months ended June 30, 2018, a contract with a dealer was terminated, resulting an expense on contract settlement of $1.4 million.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at June 30, 2018, or August 21, 2018, not disclosed or discussed previously.

CONTINGENCIES

The Corporation has 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 June 30, 2018, is as follows.

(in thousands)	Carrying value	Fair value	Classification
Financial assets			
Cash and cash equivalents	$ 7,071	$ 7,071	Fair value through profit or loss
Trade and other receivables	21,874		Amortized cost
Notes receivable	312	312	Amortized cost
Investments	557	557	Fair value through profit or loss
Financial liabilities			
Bank indebtedness	80	80	Fair value through profit or loss
Accounts payable and accrued liabilities	17,258		Amortized cost
Loans and borrowings	82,535	82,535	Amortized cost
Other current liabilities	356	356	Amortized cost
Other long-term liabilities	3,889	3,889	Amortized cost
Capital lease obligation	1,493	1,493	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 June 30, 2018, the USD cash balance is USD $1.0 million (CAD—$1.4 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—$55.3 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 movement on our consolidated USD cash balance of $13 thousand loss for the six months ended June 30, 2018. Our USD debt balance resulted in foreign exchange movement of $2.6 million loss for the six months ended June 30, 2018 (June 30, 2017—$0.5 million). Net foreign translation gain of $1.1 million (June 30, 2017—$0.5 million loss) was recorded within consolidated other comprehensive income related to Impact's operations for the six months ended June 30, 2018.

Management has assessed that our exposure to foreign exchange risk at June 30, 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 six months ended June 30, 2018 (June 30, 2017—$2.6 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 $0.4 million impact on net income for the six months ended June 30, 2018 (June 30, 2017—$0.2 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 June 30, 2018, $1.3 million (December 31, 2017—$1.0 million) of our trade receivables are greater than 90 days' outstanding and total expected credit losses as at June 30, 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 June 30, 2018		December 31, 2017
Cash and cash equivalents	**$**	**7,071**	$	10,316
Trade and other receivables		**21,874**		23,498
Notes receivable		**312**		342
	$	**29,257**	$	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 Annual Information Form for the year ended December 31, 2017.

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 and six months ended June 30, 2018, the total costs incurred under these leases was $0.3 million and $0.6 million, respectively (June 30, 2017—$0.1 million and $0.2 million). The lease term maturities range from 2020–2022.

Club16 leases office space and a facility for one of its fitness clubs from companies that are controlled by key management personnel. The total costs incurred under these leases for the three and six months ended June 30, 2018, was $0.1 million and $0.2 million, respectively (June 30, 2017—$0.1 million and $0.2 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 June 30, 2018, the Corporation has recorded a receivable due from the DLC founders in the amount of $0.3 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 June 30, 2018, the Corporation has recorded a receivable due from the Impact founders in the amount of $0.1 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 $13 thousand (December 31, 2017—$10 thousand) have been included in accounts payable and accrued liabilities in the Corporation's financial statements as at June 30, 2018. Due from amounts of $43 thousand (December 31, 2017—$21 thousand) have been included in trade and other receivables in the Corporation's financial statements as at June 30, 2018.

Club16 has loans and advances due from companies that are controlled by key management personnel of Club16 in the amount of 1.4 million as at June 30, 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 and six months ended June 30, 2018, interest of $38 thousand and $75 thousand, respectively (June 30, 2017—$nil and $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 and six months ended June 30, 2018, was $25 thousand and $50 thousand (June 30, 2017—$25 thousand and $49 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 and $54 thousand for the three and six months ended June 30, 2018 (June 30, 2017—$nil and $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 June 30, 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 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, 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		Six months ended	
(in thousands)	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
INCOME (LOSS) BEFORE INCOME TAX	$ **602**	$ 3,828	**$ (1,778)**	$ 1,385
Add back:				
Depreciation and amortization	**4,098**	2,332	**8,224**	4,445
Finance expense	**2,254**	889	**4,197**	1,417
EBITDA	**6,954**	7,049	**10,643**	7,247
Adjustments to remove:				
Share-based payments	**178**	757	**325**	1,972
Gain on sale of asset	**64**	(1,722)	**63**	(1,722)
Foreign exchange loss (gain)	**1,186**	(559)	**2,646**	(576)
Dividends paid to non-controlling interest shareholders	**500**	-	**1,000**	-
Loss on settlement of contract	**1,417**	-	**1,417**	-
Change in fair value of non-controlling interest	**36**	261	**70**	305
Gain on financial instrument	**-**	(59)	**-**	(59)
Special NCI bonuses	**250**		**500**	
Acquisition, integration and restructuring costs	**124**	60	**288**	577
Adjusted EBITDA	**10,709**	5,787	**16,952**	7,744
Adjustments:				
NCI portion of adjusted EBITDA	**(5,155)**	(2,745)	**(8,312)**	(4,036)
Cash interest expense[(1)]	**(1,703)**	(470)	**(3,158)**	(894)
Cash income tax expense[(1)]	**(813)**	(678)	**(1,630)**	(1,144)
Maintenance capex[(1)]	**(507)**	(368)	**(2,409)**	(452)
Free Cash Flow attributable to FAC shareholders	**2,531**	1,526	**1,443**	1,218

(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		Six months ended	
(in thousands)	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Net income (loss)	**$ 663**	$ 3,091	**$ (1,376)**	$ 1,431
Add back:				
Foreign exchange loss (gain)	**1,186**	(559)	**2,646**	(576)
Gain on sale of asset	**64**	(1,722)	**63**	(1,722)
Dividend paid to non-controlling interest	**500**	-	**1,000**	-
Change in fair value of non controlling interest	**36**	261	**70**	305
Loss on settlement of contract	**1,417**	-	**1,417**	-
Gain on financial instrument	**-**	(59)	**-**	(59)
Special NCI bonuses	**250**	-	**500**	-
Acquisition, integration and restructuring costs	**124**	60	**288**	577
Income tax effects of adjusting items	**(636)**	522	**(934)**	391
Adjusted net income	**$ 3,604**	$ 1,594	**$ 3,674**	$ 347
Adjusted net income (loss) attributable to shareholders	**886**	(14)	**107**	(1,297)
Adjusted net income attributable to non-controlling interest	**2,718**	1,608	**3,567**	1,644
Diluted adjusted income (loss) per share	**0.02**	-	**-**	(0.03)