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, 2019 as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of August 26, 2019 in conjunction with our interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2019 ("interim financial statements") and our 2018 audited annual consolidated financial statements. Our interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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"). DLC's subsidiary Newton Connectivity Systems Inc. is referred to herein as "NCS".

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

- The 2019 outlook and strategic objectives;
- The Corporation's expectation that its collaborative approach with its investees will enhance and accelerate growth and performance;
- Our investee entities ability to distribute cash to the corporate head office;
- Revenue from investees in the future being greater than revenue from investees for the current period;
- Our business plan and investment strategy;
- General business strategies and objectives;
- Investee growth plans including: Club16 successfully opening additional clubs and continuing to offer personal training; DLC effectively maintaining its existing number of franchisees and adding additional franchisees; and Impact growing organically;
- The completion of the sale of our 50% ownership interest in AG on September 30, 2019 (the "AG Transaction"), and the expected benefits of the AG Transaction including the reduction of annual interest expense, the decrease in the Corporation's leverage ratio and the reduction in the Corporation's proportionate share of investee EBITDA; and
- FAC head office achieving a reduction in Corporate overhead expenses.

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

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

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

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

USE OF NON-IFRS FINANCIAL PERFORMANCE MEASURES

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

OVERVIEW

OUR BUSINESS

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

We currently operate a corporate head office and three business segments, being Franchise (DLC and its subsidiaries); Consumer Products and Services (Club16); and Business Products and Services (Impact, AG and their 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 interim financial statements for the three and six months ended June 30, 2019 include 100% of the accounts of our subsidiaries. Corporate and Consolidated segment contains corporate costs and consolidating accounting entries.

On July 31, 2019, we announced the execution of a binding agreement to sell our 50% interest in AG for aggregate proceeds of $17.0 million (the "AG Purchase Price"). The AG Purchase Price is comprised of a cash payment of $14.2 million and the cancellation of the $2.5 million promissory note (and $0.3 million in interest). The AG Transaction is expected to close on September 30, 2019. The cash proceeds received from the AG Transaction will be used to repay corporate debt.

SECOND QUARTER 2019 FINANCIAL HIGHLIGHTS

Below are the financial highlights of our results for the three and six months ended June 30, 2019.

	Three months ended		Six months ended	
(in thousands except per share amounts)	**Jun 30, 2019**	Jun 30, 2018	**Jun 30, 2019**	Jun 30, 2018
Revenues	**$ 37,288**	$ 35,626	**$ 70,283**	$ 65,767
Income from operations	**6,214**	5,831	**7,590**	7,273
Adjusted EBITDA [(1)]	**12,094**	10,709	**19,849**	16,952
Adjusted EBITDA attributable to: [(1)]				
Shareholders	**6,618**	5,554	**10,744**	8,640
Non-controlling interests	**5,476**	5,155	**9,105**	8,312
Adjusted EBITDA margin [(1)]	**32%**	30%	**28%**	26%
Proportionate share of investee adjusted EBITDA [(1)]	**7,075**	6,511	**11,854**	10,445
Free cash flow [(1)]	**2,353**	2,531	**1,980**	1,443
Net (loss) income for the period	**(3,499)**	663	**(4,394)**	(1,376)
Net (loss) income attributable to:				
Shareholders	**(2,288)**	(976)	**(3,760)**	(3,267)
Non-controlling interests	**(1,211)**	1,639	**(634)**	1,891
Adjusted net income [(1)]	**2,682**	3,604	**1,447**	3,674
Adjusted net income (loss) attributable to: [(1)]				
Shareholders	**372**	886	**(1,495)**	107
Non-controlling interests	**2,310**	2,718	**2,942**	3,567
Diluted loss per share	**(0.06)**	(0.03)	**(0.10)**	(0.09)
Adjusted income (loss) per share [(1)]	**0.01**	0.02	**(0.04)**	-
Dividend declared per share	**-**	0.0125	**-**	0.0250

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

(in thousands)	Three months ended **Jun 30, 2019**	 Jun 30, 2018	Six months ended **Jun 30, 2019**	 Jun 30, 2018
Adjusted EBITDA [(1)]				
Franchise [(2)]	**$ 3,896**	$ 4,838	**$ 6,462**	$ 8,372
Consumer Products and Services	**4,502**	3,067	**6,574**	3,833
Business Products and Services	**4,153**	3,761	**7,923**	6,552
Corporate and consolidated	**(457)**	(957)	**(1,110)**	(1,805)
Total adjusted EBITDA [(1)]	**12,094**	10,709	**19,849**	16,952
Proportionate share of investee adjusted EBITDA [(1)]				
Franchise [(2)]	**2,273**	2,831	**3,876**	4,946
Consumer Products and Services	**2,701**	1,840	**3,944**	2,300
Business Products and Services	**2,101**	1,840	**4,034**	3,199
Total Proportionate share of investee adjusted EBITDA [(1)]	**7,075**	6,511	**11,854**	10,445

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

(2) Year to date includes a $0.5 million loss on settlement of a contract dispute with a third-party provider.

Three-month highlights

Income from operations for the three months ended June 30, 2019 increased $0.4 million when compared to the three months ended June 30, 2018. Higher income from operations within the Consumer Products and Services and Business Products and Services segments was partly offset by lower Franchise segment income. Additional income of $0.4 million and $0.4 million was generated from the Business Products and Services and Consumer Products and Services segments, respectively, through higher revenues in each segment compared to the three months ended June 30, 2018. Franchise segment decreased $0.7 million compared to prior year due to higher operating expenses primarily from higher advertising expenses due to additional advertising initiatives in 2019 and the timing of marketing events. Franchise segment revenue increased $0.4 million compared to prior year. Corporate general and administrative expenses decreased $0.4 million primarily from expense reductions achieved from our ongoing initiative to reduce corporate general and administrative expenses.

Adjusted EBITDA increased $1.4 million or 13% compared to the three months ended June 30, 2018. Adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $1.6 million of lease payments previously recognized as rent expense are now reflected as $1.5 million of depreciation expense and $0.6 million of interest expense in the three months ended June 30, 2019. In addition, the Consumer Products and Services segment increased $0.4 million from recent club openings and expansions, and Corporate adjusted EBITDA increased $0.5 million from lower expenses. Franchise segment adjusted EBITDA decreased $1.0 million compared to the three months ended June 30, 2018 due to higher operating expenses primarily from higher advertising expenses due to the timing of marketing events.

Free cash flow decreased $0.2 million compared to the three months ended June 30, 2018 due to higher maintenance capital expenditures compared to prior year partly offset by an increase in adjusted EBITDA attributable to shareholders excluding lease payments.

Net loss for the period increased $4.2 million compared to the three months ended June 30, 2018. An increase in other expenses and higher taxes was offset by higher income from operations when compared to the three months ended June 30, 2018. Other expenses increased by $3.4 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to $6.8 million non-cash impairment of AG goodwill (see Business Products and Services segment for additional information) and $0.6 million increase in finance expense partly offset by $2.3 million foreign exchange movement related to our USD debt and cash balances.

Adjusted net income for the three months ended June 30, 2019 of $2.7 million decreased $0.9 million compared to the same period in the previous year due to increased income from operations offset by higher deferred tax expense and finance expense.

Six-month highlights

Income from operations for the six months ended June 30, 2019 increased $0.3 million when compared to the six months ended June 30, 2018. Higher income from operations within the Business Products and Services and Consumer Products and Services segments was partly offset by lower Franchise segment. Additional income of $1.3 million and $0.7 million was generated from the Business Products and Services and Consumer Products and Services segments, respectively, through higher revenues in each segment compared to the six months ended June 30, 2018. Franchise segment decreased $1.6 million compared to prior year due to a $0.5 million loss on the settlement of a contract dispute with a third party provider combined with higher operating expenses primarily from higher advertising expenses due to the timing of marketing events. Franchise segment revenue increased $0.4 million compared to prior year. Corporate general and administrative expenses were relatively consistent with the prior year primarily due to $0.8 million of restructuring costs recognized in the first quarter 2019 for management severance and staff retention payments offset by expense reductions achieved from our ongoing initiative to reduce corporate general and administrative expenses.

Adjusted EBITDA increased $2.9 million or 17% compared to the six months ended June 30, 2018. Adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $3.1 million of lease payments previously recognized as rent expense are now reflected as $2.9 million of depreciation expense and $1.1 million of interest expense in the six months ended June 30, 2019. In addition, the Business Products and Services segment's adjusted EBITDA increased $0.5 million due to higher Impact revenue, Consumer Products and Services segment increased $0.6 million from recent club openings and expansions, and Corporate adjusted EBITDA increased $0.7 million from lower expenses. Franchise segment adjusted EBITDA decreased $2.0 million compared to the six months ended June 30, 2018 primarily due to a $0.5 million loss on the settlement of a contract dispute with a third party combined with higher operating expenses primarily from higher advertising expenses due to the timing of marketing events.

Free cash flow improved $0.5 million or 37% compared to the six months ended June 30, 2018 due to an increase in adjusted EBITDA attributable to shareholders excluding lease payments and $1.0 million lower maintenance capital expenditures compared to prior year. The higher level of maintenance capital investment in prior year primarily related to franchise renewal costs for DLC and reinvestment in equipment for AG.

Net loss for the period increased $3.0 million compared to the six months ended June 30, 2018. An increase in other expenses was offset by higher taxes when compared to the six months ended June 30, 2018. Other expenses increased by $1.1 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to $6.8 million non-cash impairment of AG goodwill (see Business Products and Services segment for additional information) and $1.3 million increase in finance expense partly offset by $4.9 million foreign exchange movement related to our USD debt and cash balances.

Adjusted net loss for the six months ended June 30, 2019 increased $2.2 million compared to the same period in the previous year due to increased income from operations offset by higher deferred tax expense and finance expense.

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

	As at			
(in thousands, except shares outstanding)		**June 30, 2019**		December 31, 2018
Cash and cash equivalents	**$**	**4,958**	$	5,492
Working capital deficiency	**$**	**(16,338)**	$	(11,053)
Total assets	**$**	**378,707**	$	346,621
Total loans and borrowings [1]	**$**	**82,868**	$	86,705
Shareholders' equity	**$**	**77,086**	$	79,956
Common shares outstanding		**38,182,542**		38,182,542

(1) Net of debt issuance costs.

REVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS

Below is selected financial information from our three and six months ending June 30, 2019 consolidated financial results. See the Significant Accounting Policies section of this MD&A and notes to our June 30, 2019 interim financial statements for accounting policies and estimates as they relate to the following discussion. A reconciliation of our reportable segments to our consolidated results presented in this table can be found in the Segmented Results section.

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2019**	Jun 30, 2018	**Jun 30, 2019**	Jun 30, 2018
Revenues	**$ 37,288**	$ 35,626	**$ 70,283**	$ 65,767
Operating expenses [1]	**31,074**	29,795	**62,693**	58,494
Income from operations	**6,214**	5,831	**7,590**	7,273
Other expense, net	**(8,631)**	(5,229)	**(10,181)**	(9,051)
(Loss) income before tax	**(2,417)**	602	**(2,591)**	(1,778)
Add back:				
Depreciation and amortization	**5,339**	4,098	**10,733**	8,224
Finance expense	**2,852**	2,254	**5,540**	4,197
Other adjusting items [2]	**6,320**	3,755	**6,167**	6,309
Adjusted EBITDA [2] [3]	**$ 12,094**	$ 10,709	**$ 19,849**	$ 16,952

(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.

(3) Year to date includes a $0.5 million loss on settlement of a contract dispute with a third-party provider.

Revenues

Three-month highlights

Consolidated revenues for the three months ended June 30, 2019 increased $1.7 million over the three-month period ended June 30, 2018, from $35.6 million to $37.3 million. Consumer Products and Services segment revenues increased by $1.0 million driven by Club16's membership growth from recent club openings. Franchise segment revenues increased $0.4 million due to an increase in funded volumes and Business Products and Services revenue increased $0.3 million when compared to the three months ended June 30, 2018.

Six-month highlights

Consolidated revenues for the six months ended June 30, 2019 increased $4.5 million over the six-month period ended June 30, 2018, from $65.8 million to $70.3 million. Business Products and Services revenue increased $2.5 million due to an increase in Impact revenue from several large orders. In addition, Consumer Products and Services segment revenues increased by $1.7 million when compared to the six months ended June 30, 2018 achieved on membership growth from recent club openings. Franchise segment revenues increased $0.3 million compared to the prior period.

Operating expenses

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2019**	Jun 30, 2018	**Jun 30, 2019**	Jun 30, 2018
Direct costs [1]	**$ 12,211**	$ 11,525	**$ 24,404**	$ 22,371
General and administrative [1]	**13,336**	13,994	**27,278**	27,574
Share-based payments	**188**	178	**278**	325
Depreciation and amortization	**5,339**	4,098	**10,733**	8,224
	$ 31,074	$ 29,795	**$ 62,693**	$ 58,494

(1) Prior period information has been revised to conform to current period presentation, see Note 3 of our interim financial statements for additional information.

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 of franchise recruiting and support costs, and advertising fund expenditures. Consumer Products and Services' direct costs primarily relate to costs of personal training, and Business Products and Services' direct costs relate to the cost of product sales. Consolidated direct costs increased by $0.7 million over the three months ended June 30, 2018 to $12.2 million from $11.5 million. The increase is primarily from higher direct costs associated with personal training costs connected to higher personal training revenue within the Consumer Product and Services segment and higher direct costs in the Franchise segment from additional advertising initiatives in 2019.

Six-month highlights

Consolidated direct costs increased by $2.0 million over the six months ended June 30, 2018 to $24.4 million from $22.4 million. The increase is primarily from higher direct costs associated with an increase in Impact sales combined with an increase in advertising expenses within the Franchise segment, and higher personal training costs within the Consumer Product and Services segment.

General and administrative

Three-month highlights

Consolidated general and administrative expenses decreased by $0.7 million compared to the three months ended June 30, 2018 to $13.3 million. This variance is primarily due a decrease in general and administrative expenses in Consumer Products and Services upon the adoption of IFRS 16 – Leases, decrease in expenses for Business Products and Services, and a decrease in Corporate general and administrative expenses. Business Products and Services segment decrease was primarily due to NCI special bonus accrual in 2018 which was not reoccurring in 2019. Corporate general and administrative expenses decreased $0.4 million due to expense reductions achieved on our ongoing initiative to reduce corporate general and administrative expenses. Franchise segment expenses increased primarily due to higher advertising expenses due to the timing of marketing events and an increase in wages and salaries from personnel growth.

Six-month highlights

Consolidated general and administrative expenses decreased by $0.3 million compared to the six months ended June 30, 2018 to $27.3 million. This variance is primarily due to a $1.5 million decrease in Consumer Products and Services segment upon the adoption of IFRS 16 – Leases, a $0.8 million decrease in Business Products and Services segment, partly offset by $2.1 million increase in Franchise segment expenses. The increase in Franchise segment expenses is primarily due to a $0.5 million loss on settlement of a contract dispute with a third party combined with higher advertising expenses due to the timing of marketing events and higher personnel related costs. Corporate general and administrative expenses were relatively consistent with the prior year due to $0.8 million of restructuring costs recognized in the first quarter 2019 for management severance and staff retention payments. The increase in restructuring costs were offset by expense reductions achieved on our ongoing initiative to reduce corporate general and administrative expenses.

Share-based payments

When compared to the three and six months ended June 30, 2018, share-based payments were relatively consistent. The amounts include vesting expense associated with the Corporation's share options, restricted share units, and related to Impact's share appreciation rights. There were no share options granted in 2018 or 2019.

Depreciation and amortization

Depreciation and amortization primarily relate to the acquisition of, and subsequent additions to, finite life intangible assets acquired as part of the Corporation's acquisition of our subsidiaries, capital asset amortization, and right-of-use asset amortization for assets held at the subsidiary level. The intangible assets acquired as part of our acquisitions are being amortized into consolidated income include DLC's and NCS's software; DLC's renewable franchise rights 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 $1.2 million and $2.5 million when compared to the three and six months ended June 30, 2018. This variance reflects right-of-use asset amortization of $1.5 million and $2.9 million for the three and six months ended June 30, 2019 upon the adoption of IFRS 16—Leases. In addition, additional amortization expense associated with franchise intangibles and recent capital expenditures for new club expansions and was partly offset by a

change in how we classify depreciation and amortization of certain Franchise non-competition agreements and relationships. The change recognizes depreciation of certain Franchise non-competition agreements to be classified as a charge against revenue, decreasing revenue, instead of being recognized as depreciation and amortization expense. The total depreciation charged against revenue for the three and six months ended June 30, 2019 was $0.3 million and $0.7 million, respectively. Refer to Note 3 of the interim financial statements for additional detail regarding classification.

Other expenses

	Three months ended		Six months ended	
(in thousands)	**Jun 30, 2019**	Jun 30, 2018	**Jun 30, 2019**	Jun 30, 2018
Finance expense	**$ 2,852**	$ 2,254	**$ 5,540**	$ 4,197
Finance expense - dividends paid to non-controlling interest	**-**	500	**-**	1,000
Foreign exchange (gain) loss	**(1,122)**	1,186	**(2,277)**	2,646
Non-cash impairment	**6,832**	-	**6,832**	-
Net gain on disposal of capital and intangible assets	**10**	64	**(74)**	63
Change in fair value of non-controlling interest liability	**44**	36	**86**	70
Loss on settlement of contract	**118**	1,417	**236**	1,417
Income on equity accounted investment	**(12)**	-	**(12)**	-
Other income	**(91)**	(228)	**(150)**	(342)
	$ 8,631	$ 5,229	**$ 10,181**	$ 9,051

Three-month highlights

Other expenses increased by $3.4 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018. The increase in other expenses is primarily due to $6.8 million non-cash impairment of AG goodwill (see Business Products and Services segment for additional information) and $0.6 million increase in finance expense partly offset by $2.3 million foreign exchange movement related to our USD debt and cash balances. The foreign exchange movement is primarily related to the revaluation of our $42.0 million USD debt. This debt originated on June 14, 2017 at an exchange rate of 0.7556 CAD to USD. The exchange rate at June 30, 2019 was 0.7641 CAD to USD (December 31, 2018 – 0.7330 CAD to USD). For information on foreign exchange risk refer to the Market Risk section of this MD&A.

The increase in financing costs over the prior quarter primarily relates to an $0.6 million increase in finance expense from the adoption of IFRS 16—Leases. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

Six-month highlights

Other expenses increased by $1.1 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The increase in other expenses is primarily due to $6.8 million non-cash impairment of AG goodwill (see Business Products and Services segment for additional information) and $1.3 million increase in finance expense partly offset by $4.9 million foreign exchange movement related to our USD debt and cash balances. The foreign exchange movement is primarily related to the revaluation of our $42.0 million USD debt. This debt originated on June 14, 2017 at an exchange rate of 0.7556 CAD to USD. The exchange rate at June 30, 2019 was 0.7641 CAD to USD (December 31, 2018 – 0.7330 CAD to USD). For information on foreign exchange risk refer to the Market Risk section of this MD&A.

The increase in financing costs over the prior quarter primarily relates to an $1.0 million increase in finance expense from the adoption of IFRS 16—Leases and due to an increase in USD LIBOR rate during the six months ended June 30, 2019 when compared to the six months ended June 30, 2018. The corporate head office's $42.0 million USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

SEGMENTED RESULTS

We discuss the results of the corporate head office and three reportable segments as presented in our June 30, 2019 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 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)	**Jun 30, 2019**	Jun 30, 2018	**Jun 30, 2019**	Jun 30, 2018
Revenues				
Franchise [1]	**$ 10,440**	$ 10,035	**$ 18,519**	$ 18,155
Consumer Products and Services	**9,270**	8,246	**15,827**	14,143
Business Products and Services	**17,578**	17,345	**35,937**	33,469
Consolidated revenues	**37,288**	35,626	**70,283**	65,767
Operating expenses [2]				
Franchise	**8,005**	6,933	**14,889**	12,939
Consumer Products and Services	**6,645**	6,066	**13,023**	11,992
Business Products and Services	**15,514**	15,656	**32,310**	31,109
Corporate	**910**	1,140	**2,471**	2,454
Consolidated operating expenses	**31,074**	29,795	**62,693**	58,494
Income (loss) from operations				
Franchise	**2,435**	3,102	**3,630**	5,216
Consumer Products and Services	**2,625**	2,180	**2,804**	2,151
Business Products and Services	**2,064**	1,689	**3,627**	2,360
Corporate	**(910)**	(1,140)	**(2,471)**	(2,454)
Consolidated income from operations	**6,214**	5,831	**7,590**	7,273
Adjusted EBITDA [3]				
Franchise [1] [4]	**3,896**	4,838	**6,462**	8,372
Consumer Products and Services	**4,502**	3,067	**6,574**	3,833
Business Products and Services	**4,153**	3,761	**7,923**	6,552
Corporate	**(457)**	(957)	**(1,110)**	(1,805)
Consolidated Adjusted EBITDA [3]	**12,094**	10,709	**19,849**	16,952
Free Cash Flow [3]				
Franchise	**1,075**	2,001	**1,944**	2,102
Consumer Products and Services	**2,048**	1,760	**2,064**	2,064
Business Products and Services	**1,335**	1,134	**2,278**	1,774
Corporate	**(2,105)**	(2,364)	**(4,306)**	(4,497)
Consolidated Free Cash Flow [3]	**$ 2,353**	$ 2,531	**$ 1,980**	$ 1,443

(1) The Corporation changed how we classify depreciation and amortization of certain Franchise non-competition agreements and relationships to be classified as a charge against revenue, lowering revenue, instead of being recognized as depreciation and amortization expense. Refer to Note 3 of the interim financial statements for additional detail regarding classification.

(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.

(4) Year to date includes a $0.5 million loss on settlement of a contract dispute with a third-party provider.

Franchise segment

		Three months ended				Six months ended		
(in thousands, unless otherwise noted)		**Jun 30, 2019**		Jun 30, 2018		**Jun 30, 2019**		Jun 30, 2018
Revenues	**$**	**10,440**	$	10,035	**$**	**18,519**	$	18,155
Operating expenses [1]		**8,005**		6,933		**14,889**		12,939
Income from operations		**2,435**		3,102		**3,630**		5,216
Other expense, net		**(228)**		(1,551)		**(480)**		(1,742)
Income before tax		**2,207**		1,551		**3,150**		3,474
Add back:								
Depreciation and amortization		**1,261**		1,512		**2,557**		2,984
Finance expense		**199**		325		**359**		464
Other adjusting items		**229**		1,450		**396**		1,450
Adjusted EBITDA [2] [3]	**$**	**3,896**	$	4,838	**$**	**6,462**	$	8,372
Adjusted EBITDA margin		**37%**		48%		**35%**		46%
Adjusted EBITDA attributable to:								
Shareholders	**$**	**2,273**	$	2,831	**$**	**3,876**	$	4,946
Non-controlling interests	**$**	**1,623**	$	2,007	**$**	**2,586**	$	3,426
Free Cash Flow [2]	**$**	**1,075**	$	2,001	**$**	**1,944**	$	2,102
Key performance indicators:								
Funded mortgage volumes [4]	**$**	**9,385,307**	$	9,199,837	**$**	**15,866,218**	$	16,213,891
Number of franchises [5]		**527**		499		**527**		499
Number of brokers [5]		**5,549**		5,427		**5,549**		5,427

(1) Operating expenses comprise of direct costs, general and administrative expenses, and depreciation and amortization expense.
(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.
(3) Year to date includes a $0.5 million loss on settlement of a contract dispute with a third-party provider.
(4) Funded mortgage volumes are a key performance indicator for the segment that allows us to measure performance against our operating strategy.
(5) The number of franchises and brokers are as at the respective balance sheet date (not in thousands).

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. In addition, the Corporation changed how we classify depreciation and amortization of certain Franchise non-competition agreements and relationships to be classified as a charge against revenue, decreasing revenue, instead of being recognized as depreciation and amortization expense (refer to Note 3 of the interim financial statements for additional detail). During the three and six months ended June 30, 2019 the reduction of revenue from this change was $0.3 million and $0.7 million, respectively.

Three-month highlights

Revenue increased $0.4 million compared to the three months ended June 30, 2018. An increase in network fee and connectivity revenue was partly offset by $0.3 million charge against revenue for depreciation of Franchise non-competition agreements and relationships.

The segment's operating expenses for the three months ended June 30, 2019 increased by $1.1 million over the same three months in the prior year. The increase can be primarily attributed to a $0.8 million increase in advertising expense as a result of additional advertising initiatives in 2019 and from the timing of events, an increase in personnel costs, and higher IT related costs.

Income from operations and adjusted EBITDA decreased by $0.7 million and $0.9 million over the three months ended June 30, 2018. The decrease in both income from operations and adjusted EBITDA can be attributed to higher operating expenses primarily from advertising expense initiatives partly offset by revenue growth compared to prior year.

Free cash flow decreased $0.9 million during the three months ended June 30, 2019 when compared to the prior period related to the decrease in adjusted EBITDA and additional maintenance capital expenditures.

Six-month highlights

Revenue increased $0.4 million when compared to the six months ended June 30, 2018. An increase in network fee and connectivity revenue was partly offset by $0.7 million charge against revenue for depreciation of Franchise non-competition agreements and relationships.

The segment's operating expenses for the six months ended June 30, 2019 increased by $2.0 million over the same six months in the prior year. The increase can be primarily attributed to: $1.6 million higher advertising expenses due to timing of marketing events and additional advertising initiatives in 2019; $0.5 million loss on settlement of a contract dispute with a third party provider; an increase in personnel costs; higher IT related costs; partly offset by lower amortization expense due to reclassification of depreciation to revenue for certain Franchise non-completion agreements and relationships.

Income from operations and adjusted EBITDA decreased by $1.6 million and $1.9 million over the six months ended June 30, 2018. The decrease in both income from operations and adjusted EBITDA can be attributed to $0.5 million loss on settlement of the contract dispute combined with higher operating expenses primarily from advertising expense due to timing of marketing events.

Free cash flow decreased $0.2 million during the six months ended June 30, 2019 when compared to the prior period directly related to the decrease in maintenance capital expenditures in the current period offset by the decrease in adjusted EBITDA.

Consumer Products and Services segment

	Three months ended		Six months ended	
(in thousands, unless otherwise noted)	**Jun 30, 2019**	Jun 30, 2018	**Jun 30, 2019**	Jun 30, 2018
Revenues	**$ 9,270**	$ 8,246	**$ 15,827**	$ 14,143
Operating expenses [(1)]	**6,645**	6,066	**13,023**	11,992
Income from operations	**2,625**	2,180	**2,804**	2,151
Other expense, net	**(604)**	(101)	**(1,034)**	(171)
Income before tax	**2,021**	2,079	**1,770**	1,980
Add back:				
Depreciation and amortization	**1,877**	887	**3,770**	1,682
Finance expense	**594**	80	**1,024**	144
Other adjusting items	**10**	21	**10**	27
Adjusted EBITDA [(2)]	**$ 4,502**	$ 3,067	**$ 6,574**	$ 3,833
Adjusted EBITDA margin	**49%**	37%	**42%**	27%
Adjusted EBITDA attributable to:				
Shareholders	**$ 2,701**	$ 1,840	**$ 3,944**	$ 2,300
Non-controlling interests	**$ 1,801**	$ 1,227	**$ 2,630**	$ 1,533
Free Cash Flow [(2)]	**$ 2,048**	$ 1,760	**$ 2,064**	$ 2,064
Key performance indicators:				
Total fitness club members [(3)]	**92,139**	83,731	**92,139**	83,731

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

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

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

The Consumer Products and Services segment includes the operating results of Club16 for all periods presented. The Consumer Products and Services segment is subject to seasonality associated with the annual club enhancement fee earned in the second quarter of each year.

Three-month highlights

Revenues increased $1.0 million when compared to the three months ended June 30, 2018. Club16's member number growth continues to be the primary source of increased revenue in the quarter. Club16's member numbers increased 10% since June 30, 2018 and continues to grow increasing 2% since March 31, 2019. Club16's new Tsawwassen location opened January 2019 and Club16's South Surrey location (previously She's Fit! White Rock club) opened in January 2018, both contributed to the membership growth in the quarter. In addition, personal training was introduced at three additional locations and contributed to revenue growth when compared to prior year.

Operating expenses increased $0.6 million from the same period in the prior year primarily due to higher personal training costs and higher salary expense associated with additional staff for new clubs. Increase in personal training costs corresponds as a direct result of the increase in personal training revenue in the period.

Income from operations increased $0.4 million for the three months ended June 30, 2019 when compared to the same three months in the prior year. The segment contributed $4.5 million in adjusted EBITDA compared to $3.1 million in the three months ended June 30, 2018. The increase in both income from operations and adjusted EBITDA was from an increase in membership revenues partly offset by additional operating expenses. In addition, adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $1.0 million of lease payments previously recognized as rent expense are now reflected as $1.1 million of depreciation expense and $0.5 million of interest expense in the three months ended June 30, 2019.

Free cash flow increased by $0.3 million for the three months ended June 30, 2019 when compared to the prior period primarily due to higher adjusted EBITDA.

Six-month highlights

Revenues increased $1.7 million when compared to the six months ended June 30, 2018. Club16's member number growth is the primary source of increased revenue compared to prior year. Club16's Tsawwassen location opened January 2019. Club16's Tsawwassen location enrolled over 1,700 of members through pre-registration and continues to add members. Club16's South Surrey location (previously She's Fit! White Rock club) opened in January 2018 continues to grow member numbers. In addition, personal training was introduced at three additional locations and contributed to revenue growth when compared to prior year.

Operating expenses increased $1.0 million from the same period in the prior year primarily due to higher personal training costs and higher salary expense associated with additional staff for new clubs. Increase in personal training costs corresponds as a direct result of the increase in personal training revenue in the period.

Income from operations increased $0.7 million for the six months ended June 30, 2019 when compared to the same period in the prior year. The segment contributed $6.6 million in adjusted EBITDA compared to $3.8 million in the six months ended June 30, 2018. The increase in both income from operations and adjusted EBITDA was from an increase in membership revenues partly offset by additional operating expenses. In addition, adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $2.1 million of lease payments previously recognized as rent expense are now reflected as $1.8 million of depreciation expense and $0.8 million of interest expense in the six months ended June 30, 2019.

Free cash flow for the six months ended June 30, 2019 was consistent when compared to the prior period.

Business Products and Services segment

(in thousands, unless otherwise noted)	Three months ended		Six months ended	
	Jun 30, 2019	Jun 30, 2018	**Jun 30, 2019**	Jun 30, 2018
Revenues	**$ 17,578**	$ 17,345	**$ 35,937**	$ 33,469
Operating expenses [1]	**15,514**	15,656	**32,310**	31,109
Income from operations	**2,064**	1,689	**3,627**	2,360
Other expense, net	**(7,079)**	(636)	**(7,241)**	(1,240)
(Loss) income before tax	**(5,015)**	1,053	**(3,614)**	1,120
Add back:				
Depreciation and amortization	**2,192**	1,690	**4,382**	3,541
Finance expense	**224**	114	**417**	211
Other adjusting items	**6,752**	904	**6,738**	1,680
Adjusted EBITDA [2]	**$ 4,153**	$ 3,761	**$ 7,923**	$ 6,552
Adjusted EBITDA margin	**24%**	22%	**22%**	20%
Adjusted EBITDA attributable to:				
Shareholders	**$ 2,101**	$ 1,840	**$ 4,034**	$ 3,199
Non-controlling interests	**$ 2,052**	$ 1,921	**$ 3,889**	$ 3,353
Free Cash Flow [2]	**$ 1,335**	$ 1,134	**$ 2,278**	$ 1,774

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

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

The Business Products and Services segment results include the operating results of Impact and AG. The Business Products and Services segment revenues can fluctuate due to customer purchasing patterns and due to the cyclical nature of advertising campaigns, revenues tend to be somewhat higher in the second and fourth quarters. Further, large one-time orders, can and have occurred at various times throughout the year, causing irregular increases in revenues in some quarters.

Three-month highlights

Business Products and Services revenue increased by $0.2 million compared to the three months ended June 30, 2018. The increase in segment revenues was attributable to a $0.5 million increase in revenue from Impact due to a large order partly offset by a $0.2 decrease in AG's revenue. AG revenues were lower than prior quarter primarily due to softened market conditions in the Ontario construction and retail industries.

Operating expenses for the three months ended June 30, 2019 decreased $0.1 million compared to the three months ended June 30, 2018. The decrease in operating expenses is largely due to lower AG expenses partly offset by an increase in direct costs associated with Impact's revenue increase. The decrease in AG expenses was due to lower personnel related expenses and from NCI special bonus accrual in 2018 which was not reoccurring in 2019.

Other expenses for the three months ended June 30, 2019 includes a non-cash impairment loss on AG goodwill of $6.8 million ($3.4 million is attributable to shareholders of FAC). Since completing the acquisition of our 50% interest in AG on October 31, 2017, the Ontario print industry has faced challenges as the retail and construction sectors both softened considerably. In addition, subsequent to June 30, 2019, the Corporation entered into a binding sale agreement to sell its 50% interest in AG for aggregate proceeds of $17.0 million (see note 17 of the interim financial statements for additional detail). As a result, management performed an impairment test as at June 30, 2019 for the AG CGU. A non-cash impairment was recognized against the AG CGU for the period ended June 30, 2019 to reflect the fair value of AG based on the AG Purchase Price.

The segment contributed $2.1 million of income from operations and $4.2 million in adjusted EBITDA to our quarterly consolidated results. This is an increase of $0.4 million and $0.4 million, respectively, over the prior year. The increase in both income from operations and adjusted EBITDA was achieved on higher Impact revenue combined with lower AG expenses.

Free cash flow increased $0.2 million compared to the three months ended June 30, 2018 due to the increase in adjusted EBITDA attributable to shareholders.

Six-month highlights

Business Products and Services revenue increased by $2.5 million compared to the six months ended June 30, 2018. The increase in segment revenues was attributable to a $3.8 million increase in revenue from Impact partly offset by a $1.3 decrease in AG. Impact's revenue increase was primarily due to several large orders received in 2018, a portion of which was fulfilled in 2018 and the remainder fulfilled during the first half of 2019. The decrease in AG revenues was primarily due to softening market conditions in the Ontario construction and retail industries.

Operating expenses for the six months ended June 30, 2019 increased $1.2 million compared to the six months ended June 30, 2018. The increase in operating expenses is largely due to an increase in direct costs associated with Impact's revenue increase partly offset by lower AG expenses.

Other expenses for the six months ended June 30, 2019 includes a non-cash impairment loss on AG goodwill of $6.8 million ($3.4 million is attributable to shareholders of FAC). Since completing the acquisition of our 50% interest in AG on October 31, 2017, the Ontario print industry has faced challenges as the retail and construction sectors both softened considerably. In addition, subsequent to June 30, 2019, the Corporation entered into a binding sale agreement to sell its 50% interest in AG for aggregate proceeds of $17.0 million (see note 17 of the interim financial statements for additional detail). As a result, management performed an impairment test as at June 30, 2019 for the AG CGU. A non-cash impairment was recognized against the AG CGU for the period ended June 30, 2019 to reflect the fair value of AG based on the AG Purchase Price.

The segment contributed $3.6 million of income from operations and $7.9 million in adjusted EBITDA to our consolidated results. This is an increase of $1.3 million and $1.4 million, respectively, over the prior year. The increase in both income from operations and adjusted EBITDA was achieved on higher Impact revenue partly offset by an increase in expenses and a decrease in AG's revenue due to softening market conditions.

Free cash flow increased $0.5 million compared to the six months ended June 30, 2018 due to the increase in adjusted EBITDA attributable to shareholders and decrease in AG maintenance capital expenditures, partly offset by higher cash taxes paid.

Corporate and Consolidated Segment

(in thousands)	Three months ended Jun 30, 2019	Jun 30, 2018	Six months ended Jun 30, 2019	Jun 30, 2018
Revenues	**$ -**	$ -	**$ -**	$ -
Operating expenses (1)	**910**	1,140	**2,471**	2,454
Loss from operations	**(910)**	(1,140)	**(2,471)**	(2,454)
Other expense, net	**(720)**	(2,941)	**(1,426)**	(5,898)
Loss before tax	**(1,630)**	(4,081)	**(3,897)**	(8,352)
Add back:				
Depreciation and amortization	**9**	9	**24**	17
Finance expense	**1,835**	1,735	**3,740**	3,378
Share-based payments	**289**	160	**364**	288
Foreign exchange loss (gain)	**(1,100)**	1,170	**(2,275)**	2,616
Acquisition, integration and restructuring costs	**140**	14	**934**	178
Other adjusting items (2)	**-**	36	**-**	70
Adjusted EBITDA (2)	**$ (457)**	$ (957)	**$ (1,110)**	$ (1,805)
Adjusted EBITDA attributable to:				
Shareholders	**$ (457)**	$ (957)	**$ (1,110)**	$ (1,805)
Non-controlling interests	**$ -**	$ -	**$ -**	$ -
Free Cash Flow (2)	**$ (2,105)**	$ (2,364)	**$ (4,306)**	$ (4,497)

(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:

(in thousands)	Three months ended Jun 30, 2019	Jun 30, 2018	Six months ended Jun 30, 2019	Jun 30, 2018
General and administrative	**$ 612**	$ 971	**$ 2,083**	$ 2,149
Share-based compensation	**289**	160	**364**	288
Depreciation and amortization	**9**	9	**24**	17
Corporate operating expenses	**$ 910**	$ 1,140	**$ 2,471**	$ 2,454

Other expense, net includes the following:

(in thousands)	Three months ended Jun 30, 2019	Jun 30, 2018	Six months ended Jun 30, 2019	Jun 30, 2018
Finance expense	**$ 1,835**	$ 1,735	**$ 3,740**	$ 3,378
Fair value adjustment on NCI	**-**	36	**-**	70
Foreign exchange loss (gain)	**(1,100)**	1,170	**(2,275)**	2,616
Other	**(15)**	-	**(39)**	(166)
Other expense, net	**$ 720**	$ 2,941	**$ 1,426**	$ 5,898

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

Three-month highlights

Operating expenses decreased by $0.2 million for the three months ended June 30, 2019 compared to the prior year quarter from a decrease in general and administrative expenses partly offset by an increase in share-based compensation. The decrease in general and administrative expenses was achieved from our ongoing initiative to reduce corporate general and administrative expenses. Initiatives during the second half of 2018 and early 2019 included: eliminating six positions at staff and managerial levels; reducing consulting expenses; restricting travel; subletting a portion of Corporate office space; and

overall reducing general and administrative costs. The increase in share-based compensation was from issuance of Restricted Share Units ("RSU") to Directors and employees during the period. The Directors were granted RSU's in lieu of cash compensation.

Other expense for the three months ended June 30, 2019 decreased by $2.2 million primarily due to $1.1 million foreign exchange gain compared to $1.2 million loss in 2018 related to the revaluation of our $42.0 million USD debt partly offset by $0.1 million increase in finance expense. The increase in financing costs over the prior quarter primarily relates to an increase in LIBOR rate. The corporate head office's $42.0 million USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly.

Free cash flow increased $0.3 million for the three months ended June 30, 2019 when compared to the prior year quarter primarily due to the increase in adjusted EBITDA.

Six-month highlights

Operating expenses for the six months ended June 30, 2019 were relatively consistent to the prior year. Expense reductions achieved from our ongoing initiative to reduce corporate general and administrative expenses was offset by $0.8 million of restructuring costs recognized in 2019 for management severance and staff retention payments. Initiatives during the second half of 2018 and early 2019 included: eliminating six positions at staff and managerial levels; reducing consulting expenses; restricting travel; subletting a portion of Corporate office space; and overall reducing general and administrative costs.

Other expense for the six months ended June 30, 2019 decreased by $4.4 million primarily due to $2.3 million foreign exchange gain compared to $2.6 million loss in 2018 related to the revaluation of our $42.0 million USD debt partly offset by $0.4 million increase in finance expense. The increase in financing costs over the prior quarter primarily relates to an increase in LIBOR rate. The corporate head office's $42.0 million USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly.

Free cash flow was relatively consistent for the six months ended June 30, 2019 when compared to the prior year.

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, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017
Revenues	**37,288**	32,995	34,657	33,117	35,626	30,141	27,952	21,759
Income from operations	**6,214**	1,376	3,993	2,508	5,831	1,442	51	4,537
Adjusted EBITDA (1)	**12,094**	7,755	8,019	9,565	10,709	6,243	4,340	8,262
Net (loss) income	**(3,499)**	(895)	(8,792)	(10,209)	663	(2,039)	(5,699)	3,611
Adjusted net income (loss) (1)	**2,682**	(1,235)	(524)	1,871	3,604	70	208	1,959
Net (loss) income attributable to:								
Shareholders	**(2,288)**	(1,472)	(6,715)	(11,080)	(976)	(2,291)	(6,697)	1,140
Non-controlling interests	**(1,211)**	577	(2,077)	871	1,639	252	998	2,471
Adjusted net income (loss) attributable to: (1)								
Shareholders	**372**	(1,867)	(1,536)	403	886	(779)	(836)	46
Non-controlling interests	**2,310**	632	1,012	1,468	2,718	849	1,044	1,913
Net (loss) income per common share:								
Basic	**(0.06)**	(0.04)	(0.18)	(0.29)	(0.03)	(0.06)	(0.18)	0.03
Diluted	**(0.06)**	(0.04)	(0.18)	(0.29)	(0.03)	(0.06)	(0.18)	0.03
Adjusted net (loss) income per common share: (1)								
Diluted	**0.01**	(0.05)	(0.04)	0.01	0.02	(0.02)	(0.02)	-

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

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. On January 1, 2019 we adopted IFRS 16 – Leases, refer to the Accounting Policy section for additional information. Pursuant to the new accounting standard, $1.6 million of lease payments previously recognized as rent expense are now reflected as $1.5 million of depreciation expense and $0.4 million of interest expense in the three months ended June 30, 2019.

Consolidated revenues for the current quarter increased by $4.3 million over the three months ended March 31, 2019. Franchise segment revenue increased $2.4 million compared to the three months ended March 31, 2019. DLC's revenues are subject to seasonal variances that move in line with the normal home buying season. Consumer Products and Services segment revenues increased $2.7 million from the annual club enhancement fee earned in the second quarter each year. Business Products and Services segment decreased $0.8 million due to a $2.1 million decrease in Impact's revenue from timing of several large orders during the first quarter, partly offset by an increase in AG revenue due to seasonal fluctuations. Due to customer purchasing patterns and the cyclical nature of advertising campaigns, AG revenues tend to be somewhat higher in Q2 and Q4.

Income from operations for the three months ended June 30, 2019 increased to $6.2 million from $1.4 million during the three months ended March 31, 2019. The increase is primarily due to the increase in revenue combined with lower operating expenses. The decrease in operating expenses is primarily as a result of a decrease in Corporate general and administrative expenses. Included in the first quarter Corporate general and administrative expenses was $0.8 million of restructuring charges.

Adjusted net income for the three months ended June 30, 2019 increased by $3.9 million compared to the preceding three months. The increase in adjusted net income was primarily due to higher operating income within the Franchise and Consumer Products and Services segments from higher revenue due to seasonality.

2019 OUTLOOK AND STRATEGIC OBJECTIVES

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 2018 Annual MD&A for a detailed description of the key initiatives supporting this outlook.

On July 31, 2019 the Corporation entered into a binding agreement to sell the Corporation's 50% interest in AG, for proceeds of $17.0 million ("the AG Purchase Price"). The AG Purchase Price is comprised of: (i) a cash payment of $14.2 million; and (ii) the cancellation of the interest-bearing promissory note, which has a principal balance owing of $2.5 million and accrued interest of $0.3 million owing at the anticipated closing date. The AG Transaction is scheduled to close on September 30, 2019.

The Corporation will use the cash proceeds from the AG Transaction to repay Corporate debt and anticipates a principal payment of $10.7 million against its corporate credit facility with Sagard, bringing the principal balance owing to approximately $43.8 million CAD (the remaining cash proceeds of $3.5 million will be applied against the make-whole payment owed to Sagard for repaying debt prior to maturity of the facility). Further, the $2.5 million promissory note will be cancelled removing the debt and future associated interest. The Corporation's total debt to EBITDA ratio is expected to decrease due to the principal repayment on the Sagard facility and the removal of AG's debt which impacts the Corporation's total leverage.

AG is reported in the Corporation's Business Products and Services operating segment. Following completion of the AG Transaction, the Corporation's proportionate share of investee adjusted EBITDA will be reduced by AG's contribution. The Corporation's annual interest expense to Sagard is expected to reduce by $1.0 million (from $5.1 million per annum to $4.1 million per annum) resulting in a corresponding increase in free cash flow for the Corporate and Consolidation segment.

For the purposes of the disclosure herein, the Corporation has used a CAD/USD foreign exchange rate of 1.31 and a LIBOR 3-month rate of 2.27%. Material changes in the CAD/USD foreign exchange rate or in LIBOR prior to the closing date may have a material impact on the amounts disclosed herein.

Our strategic objective and focus is to continue to optimize operations and performance of our remaining portfolio companies while continuing to manage and reduce our corporate debt and corporate overhead expenses.

The Franchise segment has shown resilience in funded mortgage volumes and revenue notwithstanding the changes in Canadian mortgage regulations, and the Consumer Products and Services segments is achieving its growth initiatives planned for 2019. Club16 Tsawwassen opened in January 2019, and Langley will be opening in late 2019 (transitioning from She's Fit! Langley). In late 2018, Impact received several large orders from a key customer, a portion of which was fulfilled in 2018 and completed in 2019, which contributed to adjusted EBITDA growth for the segment in 2019. Impact continues to focus on strategic initiatives to secure similar large orders and grow revenues.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

		As at		
(in thousands)		**June 30, 2019**		December 31, 2018
Cash and cash equivalents	**$**	**4,958**	$	5,492
Trade and other receivables		**21,733**		27,627
Prepaid expenses and deposits		**3,122**		2,758
Notes receivable		**316**		299
Inventories		**5,310**		5,847
Bank indebtedness		**(32)**		(397)
Accounts payable and accrued liabilities		**(17,845)**		(22,970)
Current portion of loans and borrowing		**(25,538)**		(25,698)
Deferred contract liability		**(832)**		(650)
Other current liabilities		**(889)**		(788)
Current portion lease liability		**(4,641)**		(573)
Current portion non-controlling interest liability		**(2,000)**		(2,000)
Net working capital deficit	**$**	**(16,338)**	$	(11,053)

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

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

As at June 30, 2019 we had a consolidated cash position of $5.0 million and a net working capital deficit of $16.3 million, compared to $5.5 million and $11.1 million, respectively, as at December 31, 2018. The increase in working capital deficit from the comparative period is primarily due to cash used for investing activities for investment in capital assets and intangibles. Our sources and uses of cash are described below. Our credit facilities are discussed in greater detail in the Capital Resources section.

At June 30, 2019 we have several financial commitments (see Commitments under the Commitments and Contingencies section of this MD&A for further information), which will require 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; refer to the Capital Resources section. The Corporation's ability to maintain sufficient liquidity is driven by the operations of our subsidiaries and allocation of resources. 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.

SOURCES AND USES OF CASH

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

	Six months ended			
(in thousands)		**Jun. 30, 2019**		Jun. 30, 2018
Cash provided by operating activities	**$**	**14,134**	$	7,385
Cash used in investing activities		**(10,031)**		(11,244)
Cash (used in)/provided by financing activities		**(4,185)**		1,313
Decrease in net cash		**(82)**		(2,546)
Impact of foreign exchange on net cash and cash equivalents		**(87)**		(13)
Net cash and cash equivalents, beginning of period		**5,095**		9,550
Net cash and cash equivalents, end of period	**$**	**4,926**	$	6,991

Operating activities

The increase in net cash provided by operating activities for the six months ended June 30, 2019 primarily related to cash flows generated by the Consumer Products and Services segment of $8.1 million (compared to $2.7 million in the prior year), the Business Products and Services segment of $6.7 million (compared to $4.7 million in the prior year), and the Franchise segment operations of $5.9 million (compared to $4.5 million in the prior year). The cash provided was partially offset by corporate head office requirements of $6.5 million (compared to $3.8 million in prior year), which primarily related to finance expense, general and administration costs, and restructuring costs.

Investing activities

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

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.

Financing activities

Cash used in financing activities for the six months ended June 30, 2019 consisted primarily of the $5.0 million repayment on DLC, Club16 and AG's term loan facilities, $0.5 million dividends paid to common shareholders, costs for debt amendments, and $2.6 million of net payments for lease commitments. Upon adoption of IFRS 16—Leases, lease payments previously classified as rent expense of $3.1 million are now classified as cash flows from financing activities compared to cash flows from operating activities under the previous standard. Offsetting the cash used from financing activities were proceeds from debt financing of $1.3 million on Club16 facilities for additional draws related to financing capital expenditures for the recent club expansions, and additional proceeds from DLC and AG facilities of $3.0 million.

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 lease commitments.

Distribution from investees

Corporate head office uses the cash received from our operating subsidiaries to fund our operating expenses and financing costs. During the six months ended June 30, 2019, corporate head office received dividends and distributions from its subsidiaries of $5.5 million (June 30, 2018—$6.1 million). During the six months ended June 30, 2019 total distributions paid to NCI holders were $4.6 million (June 30, 2018—$5.5 million). The reduction in dividends and distributions for the period compared to the prior year is primarily due to AG not paying any dividends to FAC in 2019 (compared to $1.0 million paid to FAC in 2018).

CAPITAL RESOURCES

Our capital structure is composed of total shareholders' equity, and loans and borrowings, less net cash and cash equivalents. The following table summarizes our capital structure at June 30, 2019 and December 31, 2018.

	As at	
(in thousands)	**June 30, 2019**	December 31, 2018
Loans and borrowings	**$ 82,868**	$ 86,705
Less: net cash and cash equivalents	**(4,926)**	(5,095)
Net loans and borrowings	**$ 77,942**	$ 81,610
Shareholders' equity	**$ 77,086**	$ 79,956

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") to refinance our prior credit facility, finance future acquisitions and fund general corporate purposes. The Corporate Credit 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. Effective March 12, 2019 the Corporation amended its Corporate Credit Facility. The amending agreement requires the Corporation to repay debt at par with all excess free cashflow as defined in the agreement and increase the total leverage ratio. In consideration for the amendments, the Corporation agreed to pay a cash fee of 1.5% of the principal loan balance and reprice the existing 2,078,568 lender warrants to $1.4375 per share (half of which were previously exercisable at $3.508 per share and half were exercisable at $3.965 per share). Financial covenants under the Corporate Credit Facility include the requirement to maintain a fixed charge coverage ratio of not less than 1.00:1.00 and a total leverage ratio of:

- 4.25:1.00 for all fiscal quarters in 2019;
- 4.00:1.00 for the first two fiscal quarters in 2020; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

As at June 30, 2019, the Corporation was in compliance with all such covenants.

Corporate—Promissory note

On October 31, 2017 the Corporation issued a promissory note payable totalling $2.5 million to a non-controlling interest shareholder of AG, which bears interest at a rate of 6% per annum. Interest and principal are payable at the later of maturity on October 31, 2019 and approval of the Corporation's lender. The promissory note was issued by the Corporation as partial consideration for the AG acquisition. Pursuant to the terms of the AG Transaction, the promissory note is expected to be cancelled as part of the AG Purchase Price.

DLC

On November 20, 2015 DLC established a $10.3 million term loan facility that matures on December 30, 2021. This facility is held at the DLC subsidiary level and has $4.2 million drawn as of June 30, 2019 (December 31, 2018—$5.1 million).

On June 12, 2013 DLC established a revolving credit facility as an operating demand loan to finance working capital requirements and fund acquisitions. On September 28, 2018 the DLC Operating Facility was increased to $9.5 million from $6.5 million. This facility is held at the DLC subsidiary level and has $9.0 million drawn as of June 30, 2019 (December 31, 2018—$7.3 million).

On July 23, 2019 DLC entered into a $1,100 term loan facility and amended its existing demand operating facility. The amendment decreased the frequency of the financial covenants for the debt service charge ratio and senior net debt to EBITDA from quarterly to annually.

Borrowings under the term loan facility and operating facility bear interest at a rate equal to 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. 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, 2019, DLC was in compliance with all such covenants.

Club16

On March 16, 2018 Club16 amended its existing credit facilities. The amendment increased the credit available on term loans from $7.0 million to $9.0 million, of which $6.5 million was drawn at June 30, 2019 (December 31, 2018—$6.1 million). 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.

On March 21, 2017 Club16 entered a $1.5 million revolving operating facility to finance its working capital requirements. The facility is held at the Club16 level and has $nil drawn as at June 30, 2019 (December 31, 2018—$1.0 million).

On August 12, 2019, Club16 amended its existing demand credit facility. The amendment decreased the frequency of the financial covenant for the debt service charge ratio from quarterly to annually and amended the interest rate. The interest rate is calculated based on prime plus a variable rate of 0.5% to 2.0% (from prime plus 1.25% previously), lowering the current interest rate calculated quarterly on the total debt to EBIDTA ratio.

Borrowings under the term loans and operating facility bear interest at prime rate plus 1.25% per annum as at June 30, 2019 and are secured by a general security agreement with first charge over the assets of Club16. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00, a debt service charge ratio greater than or equal to 1.50:1:00 excluding distributions, and a maximum debt-to-EBITDA ratio of less than or equal to 2.25:1.00. As at June 30, 2019, Club16 was in compliance with all such covenants.

AG

AG has two term loan facilities ("AG Term Loan 1" and "AG Term Loan 2"). AG Term Loan 1 matures in July 2020, and bears interest at a fixed rate of 3.48% per annum. AG Term Loan 2 matures in October 2022 and bears interest based on prime plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The facilities are held at the AG level and have $3.0 million drawn as at June 30, 2019 (December 31, 2018—$3.7 million).

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 company accounts. The loan bears interest at prime rate plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The facility is held at the AG level and has $4.1 million drawn as at June 30, 2019 (December 31, 2018—$5.5 million).

The committed term debts and operating facility 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 or equal to 2.25:1:00 and maintain a fixed charge coverage ratio of not less than 1.20:1.00. As at June 30, 2019, AG was in compliance with all such covenants.

On March 22, 2019 AG entered a $1.4 million term loan facility to finance equipment purchases. The term loan matures in April 2024 and bears interest at a fixed rate of 4.61% per annum. The committed term debt is secured by the specific financed equipment assets. The facility is held at the AG level and has $1.3 million drawn as at June 30, 2019 (December 31, 2018—$nil).

AG has 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 March 12, 2019 the Board of Directors resolved to suspend the dividend policy. As such, we do not anticipate declaring any dividends in 2019. Total dividends paid during the six months ended June 30, 2019 was $0.5 million relating to dividends declared in December 2018 (June 30, 2018—$1.0 million).

SHARE CAPITAL

As of August 28, 2019 and June 30, 2019, the Corporation had 38,182,542 common shares outstanding (December 31, 2018—38,182,542).

As at August 28, 2019, there were outstanding stock options to purchase 1,785,578 common shares with exercise prices ranging from $2.40 to $4.40, and 2,078,568 lender warrants with an exercise price of $1.4375. There were no options issued in the six months ended June 30, 2019 or in the year ended December 31, 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. As of June 26, 2019, the NCIB terminated and FAC did not purchase 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 16 of the consolidated interim financial statements for more information.

(in thousands)	Less than 1 year	1–3 years	4–5 years	After 5 years	Total
Bank indebtedness	$ 32	$ -	$ -	$ -	$ **32**
Accounts payable and accrued liabilities	17,845	-	-	-	**17,845**
Loans and borrowings	25,538	58,796	1,689	-	**86,023**
Long-term accrued liabilities	-	803	1,165	-	**1,968**
Leases	10,290	11,426	6,346	5,284	**33,346**
Non-controlling interest liability	2,000	11,707	-	-	**13,707**
	$ 55,705	$ 82,732	$ 9,200	$ 5,284	$ **152,921**

Consulting agreement

In January, 2016 DLC entered into a consulting agreement whereby DLC for consulting services related to promotional support. The consulting agreement was renewed in January 2019 for an annual amount of $0.1 million and expires in January 2020.

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.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at June 30, 2019 or August 28, 2019 not disclosed or discussed previously.

CONTINGENCIES

The Corporation's subsidiaries have outstanding legal claims, some of which the Corporation has been indemnified. The outcome of the outstanding claims are not determinable, and 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, 2019 is as follows.

(in thousands)	Carrying value	Fair value	Classification
Financial assets			
Cash and cash equivalents	$ **4,958**	$ **4,958**	Amortized cost
Trade and other receivables	**22,312**		Amortized cost
Notes receivable	**316**	**316**	Amortized cost
Investments	**557**	**557**	Fair value through profit or loss
Equity accounted investment	**1,137**	**1,137**	Fair value through profit or loss
Financial liabilities			
Bank indebtedness	**(32)**	**(32)**	Amortized cost
Accounts payable and accrued liabilities	**(17,845)**		Amortized cost
Loans and borrowings	**(82,868)**	**(82,868)**	Amortized cost
Other current liabilities	**(889)**	**(889)**	Amortized cost
Other long-term liabilities	**(1,968)**	**(1,968)**	Amortized cost
Non-controlling interest liability	**(13,707)**	**(13,707)**	Amortized cost

MARKET RISK

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

Foreign exchange risk

The Corporation's exposure to foreign exchange fluctuations is limited to: the balances in its USD bank accounts; USD loans and borrowings; USD interest expense, and Impacts operations, as a significant portion of its business is conducted in USD. At June 30, 2019 the USD cash balance is USD $0.7 million (CAD $0.9 million), compared to USD $0.2 million (CAD $0.3 million) at December 31, 2018. The USD loans and borrowings balance is USD $42.0 million (CAD $55.0 million); at December 31, 2018 it was USD $42.0 million (CAD $57.3 million). A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a $5.4 million increase in net loss before tax for the six months ended June 30, 2019 (June 30, 2018—$5.3 million increase).

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 loss for the six months ended June 30, 2019 (June 30, 2018—$0.4 million).

CREDIT RISK

As at June 30, 2019 $2.6 million (December 31, 2018—$2.1 million) of our trade receivables are greater than 90 days' outstanding and total expected credit losses as at June 30, 2019 is $11 thousand (December 31, 2018—$19 thousand). A decline in economic conditions, or other adverse conditions, could lead to reduced revenue and gross margin, and could impact the collectability of accounts receivable. The Corporation mitigates this risk by monitoring economic conditions and managing its customer credit risk.

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

		As at		
(in thousands)		**June 30, 2019**		December 31, 2018
Cash and cash equivalents	**$**	**4,958**	$	5,492
Trade and other receivables		**22,312**		28,226
Notes receivable		**316**		299
	$	**27,586**	$	34,017

LIQUIDITY RISK

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

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

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

BUSINESS RISKS AND UNCERTAINTIES

The corporate head office and our subsidiaries are subject to a number of business risks. These risks relate to the structure of the corporate head office and the operations at the subsidiary entity. There were no changes to our principal risks and uncertainties from those reported in our 2018 Annual MD&A.

RELATED PARTY TRANSACTIONS

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

Property leases

DLC, 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, 2019 the total costs incurred under these leases was $0.3 million and $0.6 million, respectively (June 30, 2018—$0.3 million and $0.6 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, 2019, was $0.1 million and $0.2 million, respectively (June 30, 2018—$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, 2019 the Corporation has recorded a receivable due from the DLC founders in an amount of $0.3 million for the sales tax amounts payable recorded by DLC (December 31, 2018—$0.3 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, 2019 the Corporation has recorded a receivable due from the Impact founders in an amount of $0.1 million (December 31, 2018—$0.1 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

Club16 has loans and advances due from companies that are controlled by key management personnel of Club16 in the amount of $1.6 million as at June 30, 2019 (December 31, 2018—$2.2 million). The balance is included in accounts receivable in the Corporation's consolidated financial statements. The advancement is unsecured, due on demand and non-interest bearing.

Administrative services

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, 2019 was $25 thousand and $50 thousand (June 30, 2018—$25 thousand and $50 thousand). The agreement can be terminated by either party with six months' prior written notice.

DLC has entered into an agreement with a software development company to develop and support a customized mortgage app controlled by key management. Total fees charged for services under this agreement for the three and six months ended June 30, 2019 was $0.2 million and $0.4 million (June 30, 2018—$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, 2019 a liability has been recognized for the current fair value of the liability of $0.9 million (December 31, 2018—$0.8 million).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these interim financial statements requires management to make certain estimates, judgments and assumptions that affect the amounts reported and disclosed in the interim financial statements and related notes. These include estimates that, by their nature, are uncertain, and actual results could differ materially from these estimates. The

impacts of such estimates may require accounting adjustments based on future results. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

Further information on our critical accounting estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2018 as filed on SEDAR at www.sedar.com. In preparing these unaudited interim financial statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018 except for those changes described within the Accounting Policy section.

ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements prepared for the year ended December 31, 2018, except for as disclosed in Note 3 of the interim financial statements.

On January 1, 2019, the Company adopted IFRS 16 Leases. The new standard is a significant change for the way we account for our buildings, gym locations, office spaces and vehicles. Under the new standard right-of-use assets and lease liabilities is recognized for operating leases. Rental costs previously captured under general and administrative expense shifted to depreciation and interest expense under the new standard, which increased adjusted EBITDA. While the standard change increased adjusted EBITDA, it did not change the cash flows associated with the lease. To aid in comparability to prior periods, the following table provides a summary of the current period lease payments (previously recognized as rent expense) by business segment and the corresponding depreciation and interest.

	June 30, 2019	
(in thousands)	**For the three months ended**	**For the six months ended**
Lease payments		
Franchise	**$ 46**	**$ 93**
Consumer Products and Services	**1,039**	**2,099**
Business Products and Services	**436**	**871**
Corporate and consolidated	**43**	**85**
Total lease payments	**$ 1,564**	**$ 3,148**
Depreciation on right-of-use asset		
Franchise	**44**	**88**
Consumer Products and Services	**914**	**1,834**
Business Products and Services	**498**	**995**
Corporate and consolidated	**4**	**16**
Total depreciation on right-of-use asset	**$ 1,460**	**$ 2,933**
Interest on lease liability		
Franchise	**5**	**8**
Consumer Products and Services	**502**	**836**
Business Products and Services	**104**	**173**
Corporate and consolidated	**16**	**33**
Total interest on lease liability	**$ 627**	**$ 1,050**
Total depreciation and interest	**$ 2,087**	**$ 3,983**

(in thousands)	Six months ended June 30, 2019 As reported	Excluding IFRS 16	Difference
Change on income statement items			
General and administrative expenses	**27,278**	**30,426**	**(3,148)**
Depreciation and amortization	**10,733**	**7,800**	**2,933**
Finance expense	**5,540**	**4,490**	**1,050**
Net loss	**4,394**	**5,229**	**(835)**
Change on non-IFRS measures			
Adjusted EBITDA	**19,849**	**16,701**	**(3,148)**

NON-IFRS FINANCIAL PERFORMANCE MEASURES

ADJUSTED EBITDA AND FREE CASH FLOW

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

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

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

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

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

(in thousands)	Three months ended Jun 30, 2019	Jun 30, 2018	Six months ended Jun 30, 2019	Jun 30, 2018
(LOSS) INCOME BEFORE INCOME TAX	**$ (2,417)**	$ 602	**$ (2,591)**	$ (1,778)
Add back:				
Depreciation and amortization	**5,339**	4,098	**10,733**	8,224
Finance expense	**2,852**	2,254	**5,540**	4,197
	5,774	6,954	**13,682**	10,643
Adjustments to remove:				
Share-based payments	**188**	178	**278**	325
Net loss (gain) on sale of capital and intangible assets	**10**	64	**(74)**	63
Foreign exchange loss (gain)	**(1,122)**	1,186	**(2,277)**	2,646
Dividends paid to non-controlling interest shareholders	**-**	500	**-**	1,000
Loss on contract settlement	**118**	1,417	**236**	1,417
Change in fair value of non-controlling interest liability	**44**	36	**86**	70
Non-cash write down/impairment	**6,832**	-	**6,832**	-
Special NCI bonus	**-**	250	**-**	500
Other income/expense	**110**	-	**110**	-
Acquisition, integration and restructuring costs	**140**	124	**976**	288
Adjusted EBITDA	**12,094**	10,709	**19,849**	16,952
Adjustments:				
NCI portion of adjusted EBITDA	**(5,476)**	(5,155)	**(9,105)**	(8,312)
Cash interest expense (1)	**(1,440)**	(1,703)	**(3,394)**	(3,158)
Cash income tax expense (1)	**(1,180)**	(813)	**(2,105)**	(1,630)
Maintenance capex (1)	**(733)**	(507)	**(1,429)**	(2,409)
Lease payments (1)	**(912)**	-	**(1,836)**	-
Free Cash Flow attributable to FAC shareholders	**2,353**	2,531	**1,980**	1,443

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

ADJUSTED EBITDA MARGIN

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

ADJUSTED EBITDA ATTRIBUTED TO SHAREHOLDERS AND NCI

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

PROPORTIONATE SHARE OF INVESTEE ADJUSTED EBITDA

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

(in thousands)	Three months ended Jun 30, 2019	 Jun 30, 2018	Six months ended Jun 30, 2019	 Jun 30, 2018
Adjusted EBITDA	**12,094**	10,709	**19,849**	16,952
Add back:				
Corporate and consolidated	**457**	957	**1,110**	1,805
NCI portion of adjusted EBITDA	**(5,476)**	(5,155)	**(9,105)**	(8,312)
Total Proportionate share of investee adjusted EBITDA	**7,075**	6,511	**11,854**	10,445

ADJUSTED NET INCOME AND ADJUSTED EPS

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

(in thousands)	Three months ended Jun 30, 2019	 Jun 30, 2018	Six months ended Jun 30, 2019	 Jun 30, 2018
Net loss	**$ (3,499)**	$ 663	**$ (4,394)**	$ (1,376)
Add back:				
Foreign exchange loss (gain)	**(1,122)**	1,186	**(2,277)**	2,646
Net loss (gain) on sale of capital and intangible assets	**10**	64	**(74)**	63
Non-cash write down/impairment	**6,832**	-	**6,832**	-
Dividend paid to non-controlling interest shareholders	**-**	500	**-**	1,000
Change in fair value of non-controlling interest liability	**44**	36	**86**	70
Loss on contract settlement	**118**	1,417	**236**	1,417
Special NCI bonus	**-**	250	**-**	500
Other income / expense	**110**	-	**110**	-
Acquisition, integration and restructuring costs	**140**	124	**976**	288
Income tax effects of adjusting items	**49**	(636)	**(48)**	(934)
Adjusted (loss) net income	**$ 2,682**	$ 3,604	**$ 1,447**	$ 3,674
Adjusted net (loss) income attributable to shareholders	**372**	886	**(1,495)**	107
Adjusted net income attributable to non-controlling interest	**2,310**	2,718	**2,942**	3,567
Diluted adjusted (loss) income per share	**0.01**	0.02	**(0.04)**	-