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 nine months ended September 30, 2018, as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of November 21, 2018, in conjunction with the interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2018, ("interim financial statements"), and our 2017 Annual Report. The interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. Unless otherwise indicated, all amounts are presented in Canadian dollars.

Our subsidiaries are referred to herein as Dominion Lending Centres Limited Partnership ("DLC"), Club16 Limited Partnership operating as Club16 Trevor Linden Fitness ("Club16"), Cape Communications International Inc. operating as Impact Radio Accessories ("Impact"), and Astley Gilbert Limited ("AG").

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as "anticipate," "believe," "estimate," "will," "expect," "plan," "intend," or similar words suggesting future outcomes or an outlook. Forward-looking information in this document includes, but is not limited to, the 2018 outlook and strategic objectives; completion of the Proposed Transaction as outlined in the Strategic Review section below; Club16's investments positioning it for growth; the Corporation's expectation that its collaborative approach will enhance and accelerate growth and performance; our investee entities being able to distribute cash to the corporate head office; revenue from investees in the future being greater than revenue from investees for the current period; our business plan and investment strategy; general business strategies and objectives; Club16 successfully opening additional clubs and continuing to offer personal training; and Impact and AG growing organically.

Such forward-looking information is necessarily based on many estimates and assumptions, including material estimates and assumptions, related to the factors identified below that, while considered reasonable by the Corporation as at the date of this MD&A considering management's experience and perception of current conditions and expected developments, are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to, not satisfying the conditions to close the Proposed Transaction; changes in taxes and capital; increased operating, general and administrative, and other costs; changes in interest rates; general business, economic and market conditions; our ability to obtain services and personnel in a timely manner and at an acceptable cost to carry out our activities; DLC's ability to maintain its existing number of franchisees and add additional franchisees; changes in Canadian mortgage lending and mortgage brokerage laws; material decreases in the aggregate Canadian mortgage lending business; the timely receipt of required regulatory approvals; changes in the fees paid for mortgage brokerage services in Canada; the realization of lower DLC dealer commission costs as a result of the terminated dealer agreement; changes in the regulatory framework for the Canadian housing sector; demand for DLC, Club16, Impact and AG's products remaining consistent with historical demand; our ability to realize the expected benefits of the DLC, Club16, Impact and AG transactions; our ability to generate sufficient cash flow from investees and obtain financing to fund planned investment activities and meet current and future commitments and obligations; the uncertainty of estimates and projections relating to future revenue, taxes, costs and expenses; changes in, or in the interpretation of, laws, regulations or policies; the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and other risks and uncertainties described elsewhere in this document and in our other filings with Canadian securities authorities.

Many of these uncertainties and contingencies can affect our actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, us. Readers are cautioned that forward-looking statements are not guarantees of future performance. All forward-looking statements made in this MD&A are qualified by these cautionary statements. The foregoing list of risks is not exhaustive. For more information relating to risks, see the Business Risks and Uncertainties section herein and the risk factors identified in our 2017 Annual Information Form and our 2017 Annual Report. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities laws, we undertake no obligation to update publicly or revise any forward-looking statements or information, whether because of new information, future events or otherwise.

USE OF NON-IFRS FINANCIAL PERFORMANCE MEASURES

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

OVERVIEW

OUR BUSINESS

Through our innovative investment approach, our model enables owner-operators to remain actively involved in the business operations. We use a collaborate approach to help enhance and accelerate growth and performance. We currently operate a corporate head office and three business segments, being Franchise (DLC and its subsidiaries), Consumer Products and Services (Club16), and Business Products and Services (Impact and AG and its subsidiaries). We currently own a 60% interest in DLC, a 60% interest in Club16, a 52% interest in Impact and a 50% interest in AG.

For financial reporting purposes, FAC controls these portfolio companies, and as a result this MD&A and the consolidated financial statements for the three and nine months ended September 30, 2018, include 100% of the accounts of our subsidiaries. Corporate and Consolidated segment contains corporate costs and consolidating accounting entries.

2018 OUTLOOK AND STRATEGIC OBJECTIVE

The information in this section is forward-looking and should be read in conjunction with the Cautionary Note Regarding Forward-Looking Information section found at the beginning of this MD&A. See the 2017 Annual Report for a detailed description of the key initiatives supporting this outlook.

Previously, FAC issued 2018 guidance for our expected proportionate share of annual adjusted EBITDA from our four investees of approximately $21.5 million to $22.5 million for the year ended December 31, 2018. Overall, the results to date for 2018 are generally in-line with managements' expectations given the seasonality of some of our investees. However, considering the softening revenue for AG due to the anticipated postal strike and contraction in construction activity, and lower than anticipated revenue ramp up for Newton Connectivity Systems ("NCS") within the Franchise segment, we expect proportionate share of annual adjusted EBITDA from our four investees to be between $19.0 million and $20.0 million for the year ended December 31, 2018.

Strategic Review

As a result of a strategic alternatives review process, the Corporation entered into a letter of intent on September 25, 2018 (the "LOI") to acquire the remaining 40% interest (the "Proposed Transaction") in Dominion Lending Centres Limited Partnership ("DLC") from companies controlled by Gary Mauris and Chris Kayat (the "DLC Principals") and certain minority holders of DLC for $75.772 million (the "Purchase Price"). The Purchase Price will be funded through a combination of: (i) 41,012,571 class "A" common shares of the Corporation (the "Common Shares"), with each Common Share having a deemed price of $1.75 per share; and (ii) subordinated 6% promissory notes issued to the DLC Principals and the other vendors in the aggregate amount of $4.0 million.

On November 16, 2018, the Corporation entered into a definitive agreement for the Proposed Transaction (the "Share Purchase Agreement") with the DLC Principals and the other vendors. The Share Purchase Agreement contemplates that the proposed transaction will be completed on December 31, 2018. The Proposed Transaction, if completed, will be a related-party transaction as both the DLC Principals are directors of the Corporation and are management of DLC. Completion of the Proposed Transaction is subject to a number of conditions, including approval by a majority of the minority shareholders; approval by the TSX Venture Exchange; and approval by the Corporation's senior lender.

The Corporation has called a special meeting of shareholders for December 18, 2018 (the "Meeting") for consideration of the Proposed Transaction. The Corporation has mailed a management information circular dated November 16, 2018 (the "Circular") to all shareholders in connection with the Meeting which contains full disclosure on the Proposed Transaction. A copy of the Circular is available on SEDAR.

As a result of the Proposed Transaction the Corporation recorded a $2.6 million restructuring provision during the three months ended September 30, 2018. The accrual recognizes certain costs for the anticipated management severance, corporate lease contract for the Calgary head office, and the transaction related expenses.

In addition, in light of the Proposed Transaction, FAC assessed the impact of the transaction on the existing deferred tax asset. As at September 30, 2018, the Corporation had a non-capital loss carry forward balance of $38.7 million, representing

deferred tax asset value of $10.4 million. FAC recognized a non-cash deferred tax expense of $10.4 million during the third quarter given the uncertainty on the timing and ability to use the non-capital losses.

As such, with a $2.6 million accrual for restructuring expenses and a non-cash deferred tax expense of $10.4 million, the Proposed Transaction had a significant negative impact on the Corporation's reported net income for the quarter.

THIRD QUARTER 2018 FINANCIAL HIGHLIGHTS

Below are the financial highlights of our results for the three and nine months ended September 30, 2018. Due to the growth from acquisitions in 2017, our results may not be directly comparable to prior period balances.

	Three months ended		Nine months ended	
(in thousands except per share amounts)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Revenues	$ **33,117**	$ 21,759	**98,884**	54,953
Income from operations	**2,508**	4,537	**9,781**	5,387
Adjusted EBITDA (1)	**9,565**	8,262	**26,517**	16,006
Adjusted EBITDA attributable to: (1)				
Shareholders	**5,219**	4,092	**13,859**	7,800
Non-controlling interests	**4,346**	4,170	**12,658**	8,206
Adjusted EBITDA margin (1)	**29%**	38%	**27%**	29%
Proportionate share of adjusted EBITDA (1)	**5,985**	5,827	**16,430**	12,074
Free cash flow (1)	**2,001**	1,415	**3,444**	2,633
Net income (loss) for the period	**(10,209)**	3,611	**(11,585)**	5,042
Net income (loss) attributable to:				
Shareholders	**(11,080)**	1,140	**(14,347)**	485
Non-controlling interests	**871**	2,471	**2,762**	4,557
Adjusted net income(1)	**1,871**	1,959	**5,545**	2,306
Adjusted net income (loss) attributable to: (1)				
Shareholders	**403**	46	**509**	(1,252)
Non-controlling interests	**1,468**	1,913	**5,036**	3,558
Diluted (loss) income per share	**(0.29)**	0.03	**(0.38)**	0.01
Adjusted income (loss) per share (1)	**0.01**	-	**0.01**	(0.03)
Dividend declared per share	**0.0125**	0.0125	**0.0375**	0.0375

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

	Three months ended		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Adjusted EBITDA (1)	$	$	$	$
Franchise	**6,816**	7,626	**15,188**	12,306
Consumer Products and Services	**1,312**	1,493	**5,145**	5,904
Business Products and Services	**2,203**	878	**8,755**	2,070
Corporate and consolidated	**(766)**	(1,735)	**(2,571)**	(4,274)
Total adjusted EBITDA (1)	**9,565**	8,262	**26,517**	16,006
Proportionate share of adjusted EBITDA (1)				
Franchise	**3,967**	4,476	**8,913**	7,456
Consumer Products and Services	**787**	895	**3,087**	3,542
Business Products and Services	**1,231**	456	**4,430**	1,076
Total Proportionate share of adjusted EBITDA (1)	**5,985**	5,827	**16,430**	12,074

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

Three-month highlights

Income from operations for the three months ended September 30, 2018, decreased $2.0 million when compared to the three months ended September 30, 2017. This decrease is primarily due to a $2.6 million restructuring accrual and $1.0 million decrease in income from the Franchise segment operations largely due to decrease in connectivity fees revenue due to the timing of the execution of a large contract in the three months ended September 30, 2017 thereby increasing the prior period above normal trend levels. A decrease in Corporate share-based payments and lower general and administrative expenses was more than offset by $2.6 million restructuring accrual in the period resulting in a decrease in Corporate income of $0.8 million. The $2.6 million restructuring provision accrual recognized certain costs for management severance, corporate lease contract, and transaction related expenses associated with the above-mentioned strategic review process. Additional income from Consumer Products and Services segment of $0.1 million was partly offset by lower Business Products and Services segment income of $0.3 million.

Adjusted EBITDA increased $1.3 million compared to the three months ended September 30, 2017. This variance is primarily due to a $1.3 million increase in the Business Products and Services segment's adjusted EBITDA primarily due to the timing of the AG acquisition on October 31, 2017. Franchise segment adjusted EBITDA decreased $0.8 million compared to the three months ended September 30, 2017 primarily due to lower NCS revenues with otherwise relatively consistent results in the segment. The adjusted EBITDA of Consumer Products and Services segment decreased $0.2 million compared to the three months ended September 30, 2017 due to higher operating expenses associated with recent club openings and expansions. Further, the revenue potential has not yet been fully realized for the new clubs, which is typical for new club openings from standard ramp up periods to reach anticipated member numbers.

Free cash flow increased $0.6 million compared to the three months ended September 30, 2017. The increase in adjusted EBITDA attributable to shareholders was partly offset by higher maintenance capital expenditures compared to prior year. The high level of maintenance capital investment is primarily related to franchise renewal costs for DLC and reinvestment in equipment for AG.

Net income for the period decreased $13.8 million compared to the three months ended September 30, 2017 primarily due to the above- mentioned $10.4 million non-cash write-off of a portion of the Corporation's deferred tax asset as a result of the Proposed Transaction. In addition, $2.0 million reduction in income from operations, $0.5 million additional finance costs, a $0.2 million movement in foreign exchange related to our USD debt and cash balances, $1.9 million decrease in gain on sale of investments due to sale of non-core investment by DLC in 2017 which did not occur in 2018, and recognition of AG NCI dividends of $0.5 million as finance expense in 2018.

Adjusted net income for the three months ended September 30, 2018, decreased $0.1 million compared to the same period in the previous year was a result of lower Corporate expenses, offset by lower Consumer Products and Services and Business Products and Services segment adjusted net income.

Nine-month highlights

Income from operations for the nine months ended September 30, 2018, increased $4.4 million when compared to the nine months ended September 30, 2017. This increase is driven by a $2.4 million increase in income from the Franchise segment operations combined with additional income from Business Products and Services segment acquisitions of $1.2 million, partially offset by a $0.8 million decrease in operating income from the Consumer Products and Services segment. Further, Corporate income increased $1.6 million from lower share-based payments and lower general and administrative expenses which were partly offset by a restructuring provision accrual.

Adjusted EBITDA increased $10.5 million compared to the nine months ended September 30, 2017. This variance is primarily due to a $6.7 million increase in Business Products and Services segment's adjusted EBITDA due to the timing of the AG acquisition in this segment. The Franchise segment's adjusted EBITDA increased $2.9 million compared to the nine months ended September 30, 2017. The increase in Franchise segment EBITDA was achieved from an increase in franchise revenue because of higher funded mortgage volumes, lower advertising and promotion expenses, salary and wages, and professional fees compared to the prior period. In addition, there was an increase in Corporate EBITDA of $1.7 million due to lower general and administrative costs. The adjusted EBITDA of Consumer Products and Services segment

decreased $0.8 million compared to the nine months ended September 30, 2017 due to higher operating expenses associated with recent club openings and expansions.

Free cash flow increased $0.8 million compared to the nine months ended September 30, 2017. The increase in adjusted EBITDA attributable to shareholders was offset by higher corporate interest from an increase in the Corporate head office's total loans and borrowings and higher maintenance capital expenditures compared to prior year. The high level of maintenance capital investment is primarily related to renewal costs in DLC and reinvestment in equipment in AG.

Net loss for the period increased $16.6 million compared to the nine months ended September 30, 2017. The above-mentioned increase in income from operations was offset by a $10.4 million non-cash write-off of the Corporation's deferred tax asset as a result of the Proposed Transaction, $3.3 million additional finance costs, a $3.4 million foreign exchange loss related to our USD debt and cash balances, $3.6 million decrease in gain on sale of assets and investments primarily due to sale of assets and investments by DLC in 2017 which did not occur in 2018, and recognition of AG NCI dividends of $1.5 million as finance expense in 2018. In addition, DLC terminated a franchise sourcing contract resulting in a $1.5 million expense in the period, which is expected to reduce commission costs related to specific franchises in the future.

Adjusted net income for the nine months ended September 30, 2018, increased $3.2 million from the same period in the previous year. The increase in adjusted net income was a result of the above-mentioned increase in income from operations, excluding the impact of the restructuring provision accrual and excluding the write-off of the deferred tax asset. This increase was partially offset by higher income tax expense and an increase in financing costs related to an increase in the corporate head office's total loans and borrowings from $26.6 million to $42.0 million USD (CAD—$54.2 million). See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities. The additional loans and borrowings were used to fund the acquisition of the 50% interest in AG.

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

(in thousands, except shares outstanding)		As at		
		Sept. 30, 2018		December 31, 2017
Cash and cash equivalents	**$**	**6,257**	$	10,316
Working capital deficiency	**$**	**(9,280)**	$	(2,402)
Total assets	**$**	**347,675**	$	354,365
Total loans and borrowings	**$**	**80,750**	$	77,700
Shareholders' equity	**$**	**86,475**	$	101,386
Common shares outstanding		**38,182,542**		38,128,606

REVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS

Below is selected financial information from our three and nine months ending September 30, 2018, consolidated financial results. See the Accounting Policies section below and details in our 2017 Annual Report for the accounting policies and estimates as they relate to the following discussion.

A reconciliation of our reportable segments to our consolidated results presented in this table can be found in the Segmented Results section below.

(in thousands)	Three months ended Sept. 30, 2018	Sept. 30, 2017	Nine months ended Sept. 30, 2018	Sept. 30, 2017
Revenues	**$ 33,117**	$ 21,759	**$ 98,884**	$ 54,953
Operating expenses	**30,609**	17,222	**89,103**	49,566
Income from operations	**2,508**	4,537	**9,781**	5,387
Other (expense) income, net	**(1,938)**	390	**(10,989)**	925
Income (loss) before tax	**570**	4,927	**(1,208)**	6,312
Add back:				
Depreciation and amortization	**4,619**	2,854	**12,843**	7,299
Finance expense	**2,170**	1,692	**6,367**	3,109
Other adjusting items (1)	**2,206**	(1,211)	**8,515**	(714)
Adjusted EBITDA (1)	**$ 9,565**	$ 8,262	**$ 26,517**	$ 16,006

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

Revenues

Three-month highlights

Consolidated revenues for the three months ended September 30, 2018, increased $11.4 million over the three-month period ended September 30, 2017, from $21.8 million to $33.1 million. The results from the three months ended September 30, 2017, did not include AG which was acquired on October 31, 2017. Business Products and Services revenue increased $12.3 million due to the AG acquisition and $0.1 million due to a revenue increase at Impact. Consumer Products and Services increased member numbers which drove the $0.3 million increase in the segment revenue. Franchise segment revenues decreased by $1.3 million over the comparative period, which can be largely attributable to a decrease in connectivity fees primarily due to the timing of the execution of a large contract in the three months ended September 30, 2017 thereby increasing the prior period above normal trend levels. In the current year the contract was in place for the full year to date.

Nine-month highlights

Consolidated revenues for the nine months ended September 30, 2018, increased $43.9 million over the nine-month period ended September 30, 2017, from $55.0 million to $98.9 million. This variance is reflective of the timing of the acquisitions, as results from the nine months ended September 30, 2017, included only DLC, Club16 and seven months for Impact. Impact was acquired on March 1, 2017 and AG was acquired on October 31, 2017. Franchise segment revenues increased by $0.7 million over the comparative period, which can be largely attributed to an increase in funded mortgage volumes. Consumer Products and Services increased member numbers through club expansions and new club openings which drove an increase in the segment revenue of $1.2 million. Business Products and Services revenue increased $42.1 million due to the timing of acquisitions and increased revenue from Impact.

Operating expenses

(in thousands)	Three months ended Sept. 30, 2018	Sept. 30, 2017	Nine months ended Sept. 30, 2018	Sept. 30, 2017
Direct costs	**$ 10,074**	$ 3,101	**$ 30,510**	$ 8,658
General and administrative	**15,885**	10,529	**45,394**	30,899
Share-based payments	**31**	738	**356**	2,710
Depreciation and amortization	**4,619**	2,854	**12,843**	7,299
	$ 30,609	$ 17,222	**$ 89,103**	$ 49,566

Direct costs

Three-month highlights

Consolidated direct costs relate to the operations of each of the three business segments for the quarter. The Franchise segment's direct costs comprise franchise recruiting and support costs, and advertising fund expenditures. Consumer Products and Services' direct costs relate primarily to costs of personal training, and Business Products and Services' direct

costs relate to the cost of product sales. Consolidated direct costs have increased by $7.0 million over the three months ended September 30, 2017, to $10.1 million from $3.1 million. This variance is reflective of the timing of the acquisitions combined with higher personal training costs associated with higher personal training revenue within the Consumer Product and Services segment. An increase in the Business Products and Services segment of $6.8 million from the Impact and AG acquisitions, and an increase of $0.2 million for the Franchise and Consumer Product and Services segments.

Nine-month highlights

During the nine months ended September 30, 2018, direct costs increased $21.9 million over the nine months ended September 30, 2017, to $30.5 million from $8.7 million. This variance is reflective of the timing of acquisitions arising from an increase in the Business Products and Services segment of $21.7 million from the Impact and AG acquisitions.

General and administrative

Three-month highlights

Consolidated general and administrative expenses increased by $5.4 million over the three months ended September 30, 2017, to $15.9 million. This variance is primarily due to a $4.0 million increase in the Business Products and Services segment because of the acquisition of AG, which was acquired on October 31, 2017. Corporate costs increased $1.5 million primarily due to a $2.6 million restructuring provision offset by $1.1 million decrease in salary, acquisition costs and travel related expenses. The restructuring provision accrual recognized certain costs for management severance, corporate lease contract, and transaction related expenses associated with the above-mentioned strategic review process. Consumer Products and Services general and administrative expenses increased due to additional costs associated with club expansions and a new club opening, and additional corporate staff to prepare the segment for future growth. This segment is in a reinvestment cycle, incurring operating costs to support growth expected to generate higher revenues in later 2018 and 2019. The Franchise segment general and administrative expenses decreased primarily due to lower advertising and promotion events with fewer events occurring in 2018 when compared to 2017.

Nine-month highlights

During the nine months ended September 30, 2018, general and administrative expenses increased $14.5 million. This variance is primarily due to a $14.1 million increase in the Business Products and Services segment because of the acquisitions of Impact and AG, which were acquired on March 1, 2017 and October 31, 2017 respectively. Consumer Products and Services general and administrative expenses increased due to additional costs associated with club expansions and a new club opening, and additional corporate staff to prepare the segment for future growth. This segment is in a reinvestment cycle, incurring operating costs to support growth expected to generate higher revenues in later 2018 and 2019. Corporate costs increased $0.8 million primarily due to the restructuring provision recorded in the three months ended September 30, 2018, offset by lower professional fees, salary and travel related expenses. The restructuring provision accrual recognized certain costs for management severance, corporate lease contract, and transaction related expenses associated with the above-mentioned strategic review process. The Franchise segment general and administrative expenses decreased primarily due to the timing of advertising and promotion events, lower NCS salary related costs from 2017 restructuring of the NCS operations, and lower professional fees.

Share-based payments

When compared to the three and nine months ended September 30, 2017, share-based payments decreased by $0.7 million and $2.4 million, respectively. This was primarily due to higher costs in the three and nine months ended September 30, 2017 because of the graded expense vesting of the 2016 and 2017 option issuances which have higher expense in the first year of vesting, and because of the vesting expense in 2017 for the certain common shares held in escrow, which were fully vested in 2017. There were no options issued in the nine months ended September 30, 2018.

Depreciation and amortization

Depreciation and amortization primarily relates to the acquisition of, and subsequent additions to, finite life intangible assets acquired as part of the Corporation's acquisition transactions and capital asset amortization for assets held at the subsidiary level. The intangible assets acquired as part of these transactions are being amortized into consolidated income include DLC's and NCS's software; DLC's renewable franchise rights and intellectual property rights; the brand name license and customer relationships of Club16, Impact and AG; AG and Impact's non-compete covenants, and Impact's supplier

relationships. Depreciation and amortization increased $1.8 million and $5.5 million when compared to the three and nine months ended September 30, 2017. This variance reflects the timing of the acquisitions of the new subsidiaries.

Other expenses

	Three months ended		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Other (expenses) income, net	**$ (1,938)**	$ 390	**$ (10,989)**	$ 925

Three-month highlights

Other expenses increased by $2.3 million for the three months ended September 30, 2018, compared to the three months ended September 30, 2017. The increase in other expenses is driven by several factors including $0.5 million increase in finance expense and a $0.2 million movement in foreign exchange 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 was originated on June 14, 2017 at an exchange rate of 0.7556 CAD to USD. The exchange rate at September 30, 2018, was 0.7499 CAD to USD (December 31, 2017 – 0.7971 CAD to USD). For information on foreign exchange risk refer to the Market Risk section of this MD&A. Further, $0.5 million of dividend payments to AG's NCI was recognized as a finance expense during the three months ended September 30, 2018. In addition, in 2017, DLC recognized a gain on sale of a non-core investment of $1.9 million which did not reoccur in the three months ended September 30, 2018.

The increase in financing costs over the prior quarter primarily relates to an increase in the LIBOR rate during the three months ended September 30, 2018, when compared to the three months ended September 30, 2017. The corporate head office's $42.0 million USD loans and borrowings bears 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.

Nine-month highlights

Other expenses increased by $11.9 million for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017. The increase in other expenses is driven by several factors including $3.3 million increase in finance expense and a $3.4 million foreign exchange loss related to our USD debt and cash balances. The foreign exchange loss is primarily related to the revaluation of our $42.0 million USD debt. This debt was originated on June 14, 2017 at an exchange rate of 0.7556 CAD to USD. The exchange rate at September 30, 2018, was 0.7499 CAD to USD (December 31, 2017 – 0.7971 CAD to USD) effectively reversing the foreign exchange gain recognized in 2017. For information on foreign exchange risk refer to the Market Risk section of this MD&A.

Further, $1.5 million of dividend payments to AG's NCI was recognized as other expense during the nine months ended September 30, 2018. In 2017, DLC recognized a gain on sale of a non-core asset of $1.4 million and a gain on sale of an investment of $1.9 million which did not reoccur in the nine months ended September 30, 2018. In addition, DLC terminated a franchise sourcing contract resulting in a $1.5 million expense in the period which is expected to reduce commission costs related to specific franchises in the future.

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

SEGMENTED RESULTS

We discuss the results of the corporate head office and three reportable segments as presented in our September 30, 2018, interim financial statements: Franchise, Consumer Products and Services, and Business Products and Services. The performance of our reportable segments is assessed based on revenues, income from operations and adjusted EBITDA. Adjusted EBITDA is a supplemental measure of the segments' income from operations in which depreciation and amortization, finance expense, share-based payment expense and unusual or one-time items are added back to the segment's income from operations to arrive at each segment's adjusted EBITDA. Please see the Non-IFRS Financial Performance Measures section of this document for additional information. We also report corporate head office results, which include expenses incurred by 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		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Revenues				
Franchise	$ **11,549**	$ 12,895	**$ 29,704**	$ 29,035
Consumer Products and Services	**6,279**	5,933	**20,422**	19,210
Business Products and Services	**15,289**	2,931	**48,758**	6,708
Consolidated revenues	**33,117**	21,759	**98,884**	54,953
Operating expenses (1)				
Franchise	**6,337**	6,709	**19,276**	21,010
Consumer Products and Services	**5,860**	5,603	**17,852**	15,814
Business Products and Services	**15,070**	2,351	**46,179**	5,354
Corporate	**3,342**	2,559	**5,796**	7,388
Consolidated operating expenses	**30,609**	17,222	**89,103**	49,566
Income (loss) from operations				
Franchise	**5,212**	6,186	**10,428**	8,025
Consumer Products and Services	**419**	330	**2,570**	3,396
Business Products and Services	**219**	580	**2,579**	1,354
Corporate	**(3,342)**	(2,559)	**(5,796)**	(7,388)
Consolidated income from operations	**2,508**	4,537	**9,781**	5,387
Adjusted EBITDA (2)				
Franchise	**6,816**	7,626	**15,188**	12,306
Consumer Products and Services	**1,312**	1,493	**5,145**	5,904
Business Products and Services	**2,203**	878	**8,755**	2,070
Corporate	**(766)**	(1,735)	**(2,571)**	(4,274)
Consolidated Adjusted EBITDA (2)	**9,565**	8,262	**26,517**	16,006
Free Cash Flow (2)				
Franchise	**2,698**	3,574	**4,800**	5,201
Consumer Products and Services	**682**	758	**2,746**	3,157
Business Products and Services	**802**	279	**2,576**	728
Corporate	**(2,181)**	(3,196)	**(6,678)**	(6,453)
Consolidated Free Cash Flow (2)	$ **2,001**	$ 1,415	$ **3,444**	$ 2,633

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

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

Franchise segment

(in thousands, unless otherwise noted)	Three months ended				Nine months ended			
	Sept. 30, 2018		Sept. 30, 2017		**Sept. 30, 2018**		Sept. 30, 2017	
Revenues	**$**	**11,549**	$	12,895	**$**	**29,704**	$	29,035
Operating expenses (1)		**6,337**		6,709		**19,276**		21,010
Income from operations		**5,212**		6,186		**10,428**		8,025
Other (expense) income, net		**(175)**		1,474		**(1,917)**		2,786
Income before tax		**5,037**		7,660		**8,511**		10,811
Add back:								
Depreciation and amortization		**1,556**		1,394		**4,540**		4,097
Finance expense		**117**		148		**581**		493
Other adjusting items		**106**		(1,576)		**1,556**		(3,095)
Adjusted EBITDA	**$**	**6,816**	$	7,626	**$**	**15,188**	$	12,306
Adjusted EBITDA margin		**59%**		59%		**51%**		42%
Adjusted EBITDA attributable to:								
Shareholders	**$**	**3,967**	$	4,476	**$**	**8,913**	$	7,456
Non-controlling interests	**$**	**2,849**	$	3,150	**$**	**6,275**	$	4,850
Free Cash Flow	**$**	**2,698**	$	3,574	**$**	**4,800**	$	5,201
Key performance indicators:								
Funded mortgage volumes (2)	**$**	**11,204,710**	$	10,658,943	**$**	**27,418,601**	$	26,194,373
Number of franchises (3)		**512**		478		**512**		478
Number of brokers (3)		**5,347**		5,436		**5,347**		5,436

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

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

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

The Franchise segment includes the operating results of 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 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. DLC continues to expand its franchise presence and deliver on its recruiting efforts, resulting in an increase of 34 franchises compared to 2017. Broker count decreased compared to 2017 largely due to reporting refinement and reduction in inactive brokers.

Three-month highlights

Revenue decreased by $1.3 million during the three months ended September 30, 2018, when compared to the same three months in the prior year. The decrease in revenue can be largely attributable to decrease in connectivity fees primarily due to the timing of the execution of a large contract in the three months ended September 30, 2017 thereby increasing the prior period above normal trend levels. In the current year the contract was in place for the full year to date.

The segment's operating expenses for the three months ended September 30, 2018, decreased by $0.4 million over the same three months in the prior year. The decrease can be primarily attributed to $0.3 million from fewer advertising and promotion events, $0.1 million lower wages and salaries, and $0.1 million reduction in professional fees. The decrease was partly offset by higher IT related costs and additional amortization expense associated with the recent capital expenditures for franchise renewal intangibles.

Income from operations decreased $1.0 million, and adjusted EBITDA decreased by $0.8 million over the three months ended September 30, 2017. The decrease in both income from operations and adjusted EBITDA can be attributed to the above-mentioned decrease in connectivity revenues partly offset by lower operating expenses due to fewer advertising and promotion events.

Free cash flow decreased $0.9 million during the three months ended September 30, 2018, when compared to the prior period directly related to the above-mentioned decrease in adjusted EBITDA and the amount attributed to FAC shareholders combined with higher maintenance capital expenditures in the current period due to additional maintenance capital investment related to renewal cost.

Nine-month highlights

Revenues increased by $0.7 million during the nine months ended September 30, 2018, compared to the same nine months in the prior year. The increase in revenue can be largely attributed to an increase in funded mortgage volumes when compared to 2017. Franchise recruiting efforts continue to expand our franchise presence and have contributed additional volumes.

The segment's operating expenses for the nine months ended September 30, 2018, decreased by $1.7 million over the prior year. The decrease can be primarily attributed to $1.2 million decrease in advertising and promotion events due to the timing and nature of events in 2018, compared to 2017, $0.7 million decrease in wages and salaries primarily as a result of the NCS restructuring which occurred in the prior year, and $0.4 million decrease in professional fees largely due to lower audit costs in 2018. The decrease was partly offset by higher IT related costs and additional amortization expense associated with recent capital investment for franchise renewal intangibles.

Income from operations increased $2.4 million, and adjusted EBITDA increased by $2.9 million over the nine months ended September 30, 2017. The increase in both income from operations and adjusted EBITDA can be attributed to the above-mentioned increase in revenue on higher funded mortgage volumes compared to 2017 and lower operating expenses due to the timing of advertising and promotion events and NCS restructuring.

Free cash flow decreased $0.4 million during the nine months ended September 30, 2018, compared to the same period in the prior year. The decrease is from the above-mentioned increase in adjusted EBITDA resulting in a $1.5 million increase in adjusted EBITDA attributed to shareholders, offset by higher maintenance capital expenditures in the current year due to additional maintenance capital investment related to renewal costs and higher cash taxes.

Consumer Products and Services segment

	Three months ended		Nine months ended	
(in thousands, unless otherwise noted)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Revenues	**$ 6,279**	$ 5,933	**$ 20,422**	$ 19,210
Operating expenses (1)	**5,860**	5,603	**17,852**	15,814
Income from operations	**419**	330	**2,570**	3,396
Other expense, net	**(78)**	(79)	**(249)**	(211)
Income before tax	**341**	251	**2,321**	3,185
Add back:				
Depreciation and amortization	**893**	1,163	**2,575**	2,508
Finance expense	**79**	41	**223**	138
Other adjusting items	**(1)**	38	**26**	73
Adjusted EBITDA	**$ 1,312**	$ 1,493	**$ 5,145**	$ 5,904
Adjusted EBITDA margin	**21%**	25%	**25%**	26%
Adjusted EBITDA attributable to:				
Shareholders	**$ 787**	$ 895	**$ 3,087**	$ 3,542
Non-controlling interests	**$ 525**	$ 598	**$ 2,058**	$ 2,362
Free Cash Flow	**$ 682**	$ 758	**$ 2,746**	$ 3,157
Key performance indicators:				
Total fitness club members (2)	**83,849**	80,078	**83,849**	80,078

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

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

The Consumer Products and Services segment includes the operating results of the Club16 entity for all periods presented. The segment is executing its reinvestment plan which added costs during the first quarter 2018 and is expected to set up the segment for the next level of strategic growth.

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

Three-month highlights

Revenues increased by $0.3 million when compared to the three months ended September 30, 2017. Late 2017 and early 2018 new club openings and expansions drove an increase in the number of members enrolled and continues to be the primary source of increase in revenue in the quarter. The Club16 South Surrey location (previously She's Fit! White Rock club) opened in January 2018; this larger co-ed facility has allowed more members to join. The Club16 Coquitlam expansion and the purchase of a third-party members list in October 2017 also increased member numbers in the quarter. In addition, the Club16 Newton location entered its third year of operations and has achieved higher, more stable member numbers.

Operating expenses increased $0.3 million from the same period in the prior year due primarily to higher facility, personal training, and salary costs. The facility costs are due to additional rent and maintenance costs for the expanded space of the Coquitlam location and the relocated and expanded South Surrey location. In addition, normal annual increases in facilities costs were incurred. Increase in personal training direct costs were as a result of the increase in personal training revenue in the period. Increases in salary costs were primarily due to increased staff levels at corporate office and the relocated South Surrey location which required more staff due to increased members and a larger facility. The increase in head office staff was required to support the growth of the business, prepare for future investment activities, and enhance club membership retention rates.

Income from operations increased $0.1 million for the three months ended September 30, 2018, when compared to the same three months in the prior year. The segment contributed $1.3 million in adjusted EBITDA compared to $1.5 million in the three months ended September 30, 2017. The variance for both income from operations and adjusted EBITDA was

from an increase in revenues and lower depreciation expense was partly offset by additional operating expenses. Additional operating expenses were incurred in 2018 for growth associated with new club openings and additional staffing.

Free cash flow decreased slightly by $0.1 million for the three months ended September 30, 2018, when compared to the prior period as the above-mentioned decrease in adjusted EBITDA attributable to shareholders was partly offset by slightly lower maintenance capital expenditures in the quarter.

Nine-month highlights

Revenues increased by $1.2 million when compared to the nine months ended September 30, 2017. The new club openings and expansions drove an increase in number of members enrolled and was the primary source of increase in revenue in the year. The Club16 South Surrey location (previously She's Fit! White Rock club) opened January 2018. This larger co-ed facility has allowed more members to join. The Club16 Coquitlam expansion and the purchase of a third-party members list in October 2017 also increased member numbers in 2018 when compared to 2017. In addition, the Club16 Newton location entered its third year of operations and has achieved higher, more stable member numbers.

Operating expenses increased $2.0 million from the same period in the prior year due primarily to higher facility, personal training, and salary costs. As mentioned above, the facility costs are due to additional rent and maintenance costs for the expanded space of the Coquitlam location and the relocated and expanded South Surrey location. In addition, normal annual increases in facilities costs were incurred. Increases in personal training costs was as a result of the growth in personal training revenue. Increases in salary costs was primarily due to increased staff levels at corporate office and the relocated South Surrey location which required more staff due to the increased members and larger facility. The increase in head office staff was required to support the growth of the business, prepare for future investment activities, and enhance club membership retention rates.

Income from operations of $2.6 million for the nine months ended September 30, 2018, was $0.8 million lower when compared to the prior year. The segment contributed $5.1 million in adjusted EBITDA compared to $5.9 million for the previous year. The variance for both income from operations and adjusted EBITDA is due to an increase in operating expenses partly offset by an increase in revenues during the period. Additional expenses were incurred as the segment prepares for growth associated with new club openings and additional staffing, however, the revenue potential has not yet been fully realized for the new clubs, which is typical for new club openings as they build their momentum to reach anticipated member numbers.

Free cash flow decreased $0.4 million for the nine months ended September 30, 2018, when compared to the prior period primarily related to the above-mentioned decrease in adjusted EBITDA attributed to FAC shareholders.

Business Products and Services segment

	Three months ended			Nine months ended	
(in thousands) (1)	**Sept. 30, 2018**	June 30, 2018	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Revenues	**$ 15,289**	$ 17,345	$ 2,931	**$ 48,758**	$ 6,708
Operating expenses (2)	**15,070**	15,656	2,351	**46,179**	5,354
Income from operations	**219**	1,689	580	**2,579**	1,354
Other (expense), net	**(836)**	(636)	19	**(2,076)**	37
Income before tax	**(617)**	1,053	599	**503**	1,391
Add back:					
Depreciation and amortization	**2,164**	1,690	288	**5,705**	671
Finance expense	**115**	114	-	**326**	-
Other adjusting items (3)	**541**	904	(9)	**2,221**	8
Adjusted EBITDA	**$ 2,203**	$ 3,761	$ 878	**$ 8,755**	$ 2,070
Adjusted EBITDA margin	**14%**	22%	30%	**18%**	31%
Adjusted EBITDA attributable to:					
Shareholders	**$ 1,231**	$ 1,840	$ 456	**$ 4,430**	$ 1,076
Non-controlling interests	**$ 972**	$ 1,921	$ 422	**$ 4,325**	$ 994
Free Cash Flow	**$ 802**	$ 1,134	$ 279	**$ 2,576**	$ 728

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

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

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

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

Three-month highlights

Business Products and Services revenue decreased by $2.1 million compared to the three months ended June 30, 2018. The decrease in segment revenues was attributable to a $1.7 million decrease in revenue from AG combined with a $0.4 million decrease in Impact. The decrease in AG revenues was primarily due to seasonality, a decrease in AG's revenue due to anticipated Canadian postal strike and contraction of the construction market within Ontario. Due to customer purchasing patterns and the cyclical nature of advertising campaigns, AG revenues tend to be somewhat higher in Q2 and Q4 than in the remainder of the year. Impact's decrease in revenues was primarily due to a hurricane near Impacts US warehouse distribution center which delayed the shipment of orders in the later part of September and several large orders during the second quarter which were not recurring.

Operating expenses for the three months ended September 30, 2018, decreased $0.6 million compared to the three months ended June 30, 2018. The slight decrease in operating expenses is primarily due to a decrease in direct costs associated with the revenue movement during the period, a decrease in AG's general and administrative costs, partly offset by an increase in AG's depreciation expense associated with recent capital additions.

The segment contributed $0.2 million of income from operations and $2.2 million in adjusted EBITDA to our quarterly consolidated results. This is a decrease of $1.5 million and $1.3 million, respectively, over the previous quarter. The decrease in both income from operations and EBITDA was due to decreased revenue in Impact and AG partly offset by a decrease in expenses.

Free cash flow decreased $0.3 million for the three months ended September 30, 2018, when compared to the prior quarter due to the above-mentioned decrease in adjusted EBITDA attributable to shareholders combined with slight increase in AG maintenance capital expenditures incurred in the quarter.

Nine-month highlights

Business Products and Services segment contributed $2.6 million of income from operations and $8.8 million in adjusted EBITDA to the year to date consolidated results. This is an increase of $1.2 million and $6.7 million, respectively, due to the timing of acquisitions within this segment. The 2017 results do not include AG as it was acquired in October 2017 and only include a partial period for Impact from the acquisition on March 1, 2017.

Corporate and Consolidated Segment

	Three months ended		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Revenues	$ **-**	$ -	**$ -**	$ -
Operating expenses [1]	**3,342**	2,559	**5,796**	7,388
Loss from operations	**(3,342)**	(2,559)	**(5,796)**	(7,388)
Other expense, net	**(849)**	(1,024)	**(6,747)**	(1,687)
Loss before tax	**(4,191)**	(3,583)	**(12,543)**	(9,075)
Add back:				
Depreciation and amortization	**6**	9	**23**	23
Finance expense	**1,859**	1,503	**5,237**	2,478
Share-based payments	**14**	730	**302**	2,669
Foreign exchange loss (gain)	**(938)**	(1,096)	**1,678**	(1,656)
Other adjusting items [2]	**2,484**	702	**2,732**	1,287
Adjusted EBITDA	$ **(766)**	$ (1,735)	**$ (2,571)**	$ (4,274)
Adjusted EBITDA attributable to:				
Shareholders	$ **(766)**	$ (1,735)	**$ (2,571)**	$ (4,274)
Non-controlling interests	$ **-**	$ -	**$ -**	$ -
Free Cash Flow	$ **(2,181)**	$ (3,196)	$ **(6,678)**	$ (6,453)

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

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

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

	Three months ended		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
General and administrative	$ **3,322**	$ 1,820	$ **5,471**	$ 4,696
Share-based compensation	**14**	730	**302**	2,669
Depreciation and amortization	**6**	9	**23**	23
Corporate operating expenses	$ **3,342**	$ 2,559	**$ 5,796**	$ 7,388

Other expense, net includes the following:

	Three months ended		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Finance expense	$ **1,859**	$ 1,503	**$ 5,237**	$ 2,478
Fair value adjustment on NCI	**(70)**	666	**-**	971
Foreign exchange loss (gain)	**(938)**	(1,096)	**1,678**	(1,656)
Other	**(2)**	(49)	**(168)**	(106)
Other expense, net	$ **849**	$ 1,024	**$ 6,747**	$ 1,687

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

Three-month highlights

Operating expenses increased by $0.8 million for the three months ended September 30, 2018, compared to the prior year's quarter. The increase in expenses is due to a $1.5 million increase in general and administrative expenses partly offset by a $0.7 million decrease in share-based payments expense. The increase in general and administrative expenses was primarily due to $2.6 million restructuring provision recorded in the three months ended September 30, 2018, offset by $1.1 million decrease in salary, acquisition costs and travel related expenses. The restructuring provision accrual recognized certain costs for management severance, corporate lease contract, and transaction related expenses incurred to date associated with the above-mentioned strategic review process. A decrease in share-based compensation expense was due to higher costs in the three months ended September 30, 2017 due to graded expense vesting of the 2016 and 2017 option issuances which have higher expense in the first year of vesting, and because of the vesting expense for shares held in escrow in 2017, which were fully vested in 2017. There were no options issued in the nine months ended September 30, 2018.

Other expense for the three months ended September 30, 2018, decreased by $0.2 million primarily due to $0.7 million decrease in fair value adjustment on NCI liability partly offset by $0.4 million increase in finance expense and a $0.9 million foreign exchange gain compared to $1.1 million gain in 2017 related to our USD debt and cash balances. Fair value adjustment on NCI in the three months ended September 30, 2017, related to Impact's non-controlling interest previously classified as a liability due to liquidation rights that were assigned to the non-controlling interest. As of December 1, 2017, the rights were amended, and the non-controlling interest was reclassified from liability to equity.

Free cash flow increased $1.0 million for the three months ended September 30, 2018, when compared to the prior year quarter due to lower general and administration expenses offset partially by the higher finance costs offset partially.

Nine-month highlights

Operating expenses decreased by $1.6 million for the nine months ended September 30, 2018, compared to the prior year. The decrease in expenses is primarily due to the above-mentioned decrease in share-based payments expense of $2.4 million, offset by $0.8 million increase in general and administrative expenses. A decrease in share-based compensation expense was due to higher costs in the nine months ended September 30, 2017 due to graded expense vesting of the 2016 and 2017 option issuances which have higher expense in the first year of vesting, and because of the vesting expense for shares held in escrow in 2017, which were fully vested in 2017. There were no options issued in the nine months ended September 30, 2018. The increase in general and administrative expenses was primarily due to restructuring provision recorded in the three months ended September 30, 2018, offset by lower professional fees, salary and travel related expenses. The restructuring provision accrual recognized certain costs for management severance, corporate lease contract, and transaction related expenses incurred to date associated with the above-mentioned strategic review process.

Other expense for the nine months ended September 30, 2018, compared to the same period in the prior year, increased by $5.1 million primarily due to $2.8 million increase in finance expense and a $1.7 million foreign exchange loss related to our USD debt and cash balances compared to a $1.7 million gain in the prior year. The increase in financing costs over the prior quarter relates to an increase in the corporate head office's total loans and borrowings from $26.6 million to $42.0 million USD (CAD—$54.2 million). See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities. The additional loans and borrowings were used to fund the acquisition of the 50% interest in AG.

Free cash flow decreased $0.2 million for the nine months ended September 30, 2018, when compared to the prior year period due to the higher finance costs offset partially by lower general and administration expenses.

HISTORICAL QUARTERLY RESULTS

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

(in thousands except per share amounts)	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017	Dec. 31, 2016
Revenues	**33,117**	35,626	30,141	27,952	21,759	19,500	13,694	9,277
Income (loss) from operations	**2,508**	5,831	1,442	51	4,537	2,640	(1,790)	(1,606)
Adjusted EBITDA	**9,565**	10,709	6,243	4,340	8,262	5,787	1,957	1,726
Net income (loss)	**(10,209)**	663	(2,039)	(5,699)	3,611	3,091	(1,660)	(1,916)
Adjusted net income (loss)	**1,871**	3,604	70	208	1,959	1,594	(1,247)	(1,721)
Net income (loss) attributable to:								
Shareholders	**(11,080)**	(976)	(2,291)	(6,697)	1,140	975	(1,630)	(2,410)
Non-controlling interests	**871**	1,639	252	998	2,471	2,116	(30)	494
Adjusted net income (loss) attributable to:								
Shareholders	**403**	886	(779)	(836)	46	(14)	(1,283)	(2,215)
Non-controlling interests	**1,468**	2,718	849	1,044	1,913	1,608	36	494
Net income (loss) per common share:								
Basic	**(0.29)**	(0.03)	(0.06)	(0.18)	0.03	0.03	(0.04)	(0.07)
Diluted	**(0.29)**	(0.03)	(0.06)	(0.18)	0.03	0.03	(0.04)	(0.07)
Adjusted net income (loss) per common share:								
Diluted	**0.01**	0.02	(0.02)	(0.02)	-	-	(0.03)	(0.06)

Quarterly trends and seasonality

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

Consolidated revenues for the current quarter decreased by $2.5 million over the three months ended June 30, 2018, mainly attributed to seasonal fluctuations; decreases in the Consumer Products and Services segment and the Business Products and Services segment were offset by an increase in the Franchise segment. The Consumer Products and Services segment decreased $2.0 million compared to June 30, 2018, linked to seasonality associated with the annual club enhancement fee earned in the second quarter each year. The Business Products and Services revenue decreased 2.1 million due to a $1.7 million revenue decrease in AG combined with a $0.4 million decrease in Impact. The decrease in AG revenues was primarily due to seasonality, and a decrease in revenue due to anticipated Canadian postal strike and softening of the construction market in the quarter. The Franchise segment revenue increased $1.5 million compared to June 30, 2018. DLC's operations are subject to seasonal variances that move in line with the normal home buying season, with funded mortgage volumes peaking in the months of June through September.

Income from operations for the three months ended September 30, 2018, decreased to $2.5 million from $5.8 million during the three months ended June 30, 2018. The decrease is primarily due to the above-mentioned decrease in revenue combined with higher operating expenses. The increase in operating expenses is as a result of an increase in Corporate general and administrative expenses due to the $2.6 million restructuring provision recorded in the three months ended September 30, 2018, partly offset by a decrease in operating expenses across all other segments. The restructuring provision accrual recognized certain costs for management severance, corporate lease contract, and transaction related expenses associated with the above-mentioned strategic review process.

Adjusted net income for the three months ended September 30, 2018, decreased by $2.7 million compared to the preceding three months. The decrease in adjusted net income was due to the increase in income from operations discussed above net of tax impacts compared to the previous three months.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

	As at			
(in thousands)	**September 30, 2018**		December 31, 2017	
Cash and cash equivalents	**$**	**6,257**	$	10,316
Trade and other receivables		**22,281**		22,442
Prepaid expenses and deposits		**2,953**		2,410
Notes receivable		**301**		342
Inventories		**5,150**		4,834
Bank indebtedness		**-**		(766)
Accounts payable and accrued liabilities		**(22,101)**		(21,032)
Current portion of loans and borrowing		**(19,558)**		(16,370)
Deferred revenue		**(1,672)**		(1,838)
Other current liabilities		**(413)**		(413)
Current portion capital lease obligation		**(478)**		(327)
Current portion non-controlling interest liability		**(2,000)**		(2,000)
Net working capital deficit	**$**	**(9,280)**	$	(2,402)

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

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

As at September 30, 2018, we had a consolidated cash position of $6.3 million and a net working capital deficit of $9.3 million, compared to $10.3 million and $2.4 million, respectively, as at December 31, 2017. The increase in working capital deficit from the comparative period is primarily the result of the decrease in our consolidated cash balance due primarily to the cash used in investing activities for capital expenditures and purchase of intangible assets. Our sources and uses of cash are described below. Our credit facilities are discussed in greater detail in the Capital Resources section below.

At September 30, 2018, we have several financial commitments (see Commitments under the Commitments and Contingencies section of this MD&A for further information), which will require that we have various sources of capital to meet the obligations associated with these commitments.

Working capital within the investee operations may fluctuate from time to time based on seasonality or timing based on the use of cash and cash resources to fund operations. Our subsidiaries have credit facilities to support their operations and working capital needs and fluctuations. These credit facilities reside in the individual subsidiaries; see the Capital Resources section below. The Corporation's ability to maintain sufficient liquidity is driven by the operations of our subsidiaries and allocation of resources. Management continually evaluates potential acquisitions, and such acquisitions will be completed utilizing undrawn balances on existing capital resources, debt, or equity financing as it is available. At this time, management is unaware of any factors that would affect its short- and long-term objectives of meeting the Corporation's obligations as they come due.

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

SOURCES AND USES OF CASH

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

	Nine months ended			
(in thousands)		**Sept. 30, 2018**		Sept. 30, 2017
Cash provided by operating activities	**$**	**13,638**	$	6,993
Cash used in investing activities		**(16,599)**		(18,000)
Cash (used in)/provided by financing activities		**(343)**		33,918
(Decrease) increase in net cash		**(3,304)**		22,911
Impact of foreign exchange on net cash and cash equivalents		**11**		(1,487)
Net cash and cash equivalents, beginning of period		**9,550**		7,824
Net cash and cash equivalents, end of period	**$**	**6,257**	$	29,248

Operating activities

The net cash provided by operating activities for the nine months ended September 30, 2018, was primarily related to cash flows generated by the Franchise segment operations of $9.7 million (compared to $6.3 million in the prior year), the Business Products and Services segment of $7.2 million (compared to $2.1 million in the prior year), the Consumer Products and Services segment of $4.6 million (compared to $6.4 million in the prior year). The decrease in Consumer Products and Services segment cash inflow from operating activities primarily relates to working capital movement associated with the payment of accounts payable invoices in 2018 associated with the recent club expansions. The cash provided was partially offset by corporate head office requirements of $7.9 million, which are primarily related to finance expense, general and administration costs, and acquisition and due diligence costs.

Investing activities

The net cash used in investing activities for the nine months ended September 30, 2018, consisted primarily of DLC's investments in intangible assets of $4.5 million, Club16 and AG's investment in capital assets of $4.7 million and $7.7 million in distributions paid to non-controlling interest unitholders.

The net cash used in investing activities for the nine months ended September 30, 2017 was comprised of: the corporate head office acquisition of Impact for $12.0 million (net of cash received), $1.5 million post-closing adjustment paid to the vendors of Club16, DLC's investments in intangible assets of $2.5 million, Club 16's investment in capital assets of $1.4 million and $5.2 million in distributions paid to non-controlling interest unitholders. Cash used in investing activities is partially offset by cash received from DLC's disposal of intangible assets and a non-core asset for total gross proceeds of $4.0 million.

Financing activities

Cash used in financing activities for the nine months ended September 30, 2018, consisted primarily of proceeds from debt financing of $2.8 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 $1.8 million. Offsetting the increase in cash from financing activities was the $3.9 million repayment on DLC, Club16 and AG's term loan facilities, $1.4 million dividends paid to common shareholders, costs for debt amendments, and net payments for capital lease commitments.

Cash provided by financing activities increased for the nine months ended September 30, 2017 as a result of the corporate head office entering into the $42.0 million USD credit facility with Sagard, the increase in the ATB corporate senior credit facilities to $28.0 million (see the "Capital Resource" section of this MD&A), and the increase in the amount drawn on DLC's operating facility of $1.1 million. Offsetting the increase in cash from financing activities was the $27.0 million repayment of the ATB corporate facility, the $5.2 million repayments of DLC's term loan facilities, and $0.4 million principal payments on the Club16's term loan facilities.

Distribution from investees

Corporate head office uses the cash received from the operating subsidiaries to fund its operating expenses, financing costs and dividends paid to shareholders. During the nine months ended September 30, 2018, corporate head office received dividends and distributions from its subsidiaries of $9.2 million (September 30, 2017—$7.6 million). During the nine months ended September 30, 2018, total distributions paid to NCI holders were $7.7 million (September 30, 2017—$4.5 million).

CAPITAL RESOURCES

Our capital structure is composed of total shareholders' equity, and loans and borrowings, less cash and cash equivalents. The following table summarizes our capital structure at September 30, 2018, and December 31, 2017.

	As at	
(in thousands)	**September 30, 2018**	December 31, 2017
Loans and borrowings	**$ 80,750**	$ 77,700
Less: net cash and cash equivalents	**(6,257)**	(9,550)
Net loans and borrowings	**$ 74,493**	$ 68,150
Shareholders' equity	**$ 86,475**	$ 101,386

Loans and borrowings

Our available credit facilities consist of a term facility at the corporate head office level, as well as acquisition and operating credit facilities within DLC, Club16 and AG.

Corporate USD Sagard facility

On May 31, 2017, the Corporation entered into a $42.0 million USD term credit facility ("Corporate Credit Facility") to refinance our prior credit facility, finance future acquisitions and fund general corporate purposes. The Sagard Facility has a five-year term and bears interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. The term facility is secured by a general security agreement with first charge over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a fixed charge coverage ratio of not less than 1.00:1.00 and a total leverage ratio of:

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

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

As at September 30, 2018, the Corporation was in compliance with all such covenants.

The following credit facilities are held at the subsidiary level.

Corporate—Promissory note

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

DLC term loan facility

DLC has term loans under which it has borrowed an aggregate of $5.5 million at September 30, 2018 (December 31, 2017—$7.0 million). The facility is held at the DLC subsidiary level. Borrowings under the facility bear interest at a rate equal to the prime rate plus 1.0% per annum. The loan facility is secured by a general security agreement with first charge over the assets of DLC, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at September 30, 2018, DLC was in compliance with all covenants.

On April 30, 2018, DLC amended its existing term loan facility. The amendment decreased the financial covenant for the debt service charge ratio to 1.05:1.00 (lowered from 1.20:1.00) and decreased the interest to Prime + 1.00% per annum (previously prime plus 1.50% per annum).

DLC operating facility

DLC has a $6.5 million operating facility, under which it has borrowed an aggregate of $5.4 million at September 30, 2018, (December 31, 2017—$5.1 million). On September 28, 2018, the DLC operating facility was increased to $9.5 million. Borrowings under the DLC Operating Facility are due with a first charge over the assets of DLC, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at September 30, 2018, DLC was in compliance with all such covenants.

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

Club16 demand credit facility

Club16 has a $9.0 million available credit facility, of which $6.1 million was drawn at September 30, 2018, (December 31, 2017—$4.2 million). The available credit remaining will be used to finance equipment purchases and leasehold improvements at future locations. The facility matures on the earlier of (i) demand by the lender, or (ii) 60 months from the date of each drawdown, and is secured by a general security agreement with first charge over the assets of Club16. Included in the amendment was a modification in the financial covenant which established a lower requirement for debt service coverage ratio to be greater than 1.05:1:00 and greater than or equal to 1.50:1:00 excluding distributions. Financial covenants also include the requirement to maintain a maximum debt-to-EBITDA ratio of less than or equal to 2.25:1.00. Borrowings under the facility bear interest at the prime rate plus 1.25%. This facility is held at the Club16 subsidiary level. As at September 30, 2018, Club16 was in compliance with all such covenants.

Club16 revolving facility

On March 21, 2017, Club16 entered a $1.5 million revolving operating facility to finance its working capital requirements. Borrowings under the revolving facility are due on demand and bear interest at the bank's prime rate plus 1.25% per annum, and are secured by a general security agreement with first charge over the assets of Club16. Financial covenants include the requirement for debt service coverage ratio to be greater than 1.05:1:00 and greater than or equal to 1.50:1:00 excluding distributions. Financial covenants also include the requirement to maintain a maximum debt-to-EBITDA ratio of less than or equal to 2.25:1.00. The facility is held at the Club16 level and has $nil million drawn as at September 30, 2018 (December 31,2017—$0.3 million). As at September 30, 2018, Club16 was in compliance with all such covenants.

AG term loan facilities

AG has two term loan facilities ("AG Term Loan 1" and "AG Term Loan 2"). AG Term Loan 1 matures in July 2020, is repayable in monthly installments of $82 thousand a month and incurs interest at a fixed rate of 3.48% per annum. AG Term Loan 2 matures in October 2022, is repayable in monthly installments of $30 thousand a month and incurs interest based on a floating rate of prime plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The committed term debts are secured by a general security agreement with first charge over the assets of AG, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a maximum debt-to-adjusted-EBITDA ratio of less than 2.25:1.00, and maintain a fixed charge coverage ratio of not less than 1.20:1.00. As at September 30, 2018, AG was in compliance with all such covenants. The facilities are held at the AG level and have $4.0 million drawn as at September 30, 2018 (December 31, 2017—$5.0 million).

AG operating facility

AG has an operating facility available for the lesser of $6.0 million or 75% of accounts receivable, net of over 90 days and related party accounts. The loan bears interest at the bank's prime rate plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The AG Operating Facility is secured by a general security

agreement with first charge over the assets of AG, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a maximum debt-to-adjusted-EBITDA ratio of less than 2.25:1.00, and maintain a fixed charge coverage ratio of not less than 1.20:1.00. As at September 30, 2018, AG was in compliance with all such covenants. The facility is held at the AG level and has $4.9 million drawn as at September 30, 2018 (December 31,2017—$3.5 million).

AG vehicle and equipment loans

AG has four equipment and automobile financing loans bearing interest between 1.99% and 5.99% per annum repayable in monthly installments and secured by the respective equipment and automobile.

Dividends to FAC shareholders

On November 4, 2016, our Board of Directors approved the implementation of a dividend policy for our common shares. The dividend policy provides that we will pay an annual dividend of $0.05 per common share (payable quarterly). During the nine months ended September 30, 2018, the Corporation declared quarterly dividends of $0.0125 per share total dividends paid during the nine months ended September 30, 2018 was $1.4 million (September 30, 2017 - $1.0 million).

	Nine months ending	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017
$0.0375 per share	**$ 1,431**	$ 1,427

SHARE CAPITAL

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

As of November 21, 2018, and September 30, 2018 the Corporation had 38,182,542 common shares outstanding (December 31, 2017—38,128,606). During the nine months ended September 30, 2018, 53,936 of broker warrants (September 30, 2017—25,675) were exercised for total proceeds of $0.1 million (2017—$0.1 million).

As at November 21, 2018, there were outstanding stock options to purchase 2,568,911 common shares with exercise prices ranging from $2.40 to $4.40, and 2,078,568 lender warrants with exercise prices ranging from $3.508 to $3.965. There were no options issued in the nine months ended September 30, 2018.

Normal course issuer bid

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

COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The following table summarizes the payments due in the next five years and thereafter in respect to our contractual obligations. See note 16 of the interim consolidated financial statements for more information.

(in thousands)	Less than 1 year	1–3 years	4–5 years	After 5 years	Total
Accounts payable and accrued liabilities	$ 22,101	$ -	$ -	$ -	$ **22,101**
Loans and borrowings	19,558	7,785	55,589	402	**83,334**
Long-term accrued liabilities	-	1,881	297	-	**2,178**
Capital leases	478	682	217	-	**1,377**
Operating leases	6,598	12,683	8,406	10,290	**37,977**
Non-controlling interest liability	2,000	11,580	-	-	**13,580**
	$ 50,735	**$** 34,611	**$** 64,509	**$** 10,692	**$ 160,547**

Consulting agreement

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

Service agreement

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

In March 2018, DLC entered into an agreement with a software development company to develop and support a customized mortgage application ("app") for an annual amount of $0.7 million. The agreement is a related party transaction due to common management between DLC and the service provider. The service agreement expires in March 2023.

DLC has contracts with external dealers to recruit franchises. DLC has a commitment to pay these dealers a commission for the franchise royalties earned by such franchises. Commissions are earned based on a percentage of franchise revenue earned and are accrued at the date it is earned. During the nine months ended September 30, 2018, a contract with a dealer was terminated, resulting an expense on contract settlement of $1.5 million.

Put agreement

AG entered into a put agreement which is exercisable at any time after October 27, 2020, and if exercised would require AG to purchase the non-controlling interest's ownership for consideration of $1.5 million.

OFF-BALANCE SHEET ARRANGEMENTS

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

CONTINGENCIES

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FINANCIAL INSTRUMENTS

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

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

Our financial instrument classifications as at September 30, 2018, is as follows.

(in thousands)	Carrying value	Fair value	Classification
Financial assets			
Cash and cash equivalents	**$ 6,257**	**$ 6,257**	Fair value through profit or loss
Trade and other receivables	**22,880**		Amortized cost
Notes receivable	**301**	**301**	Amortized cost
Investments	**557**	**557**	Fair value through profit or loss
Financial liabilities			
Bank indebtedness	**-**	**-**	Fair value through profit or loss
Accounts payable and accrued liabilities	**22,101**	**22,101**	Amortized cost
Loans and borrowings	**80,750**	**80,750**	Amortized cost
Other current liabilities	**413**	**413**	Amortized cost
Other long-term liabilities	**4,258**	**4,258**	Amortized cost
Capital lease obligation	**1,377**	**1,377**	Amortized cost
Non-controlling interest liability	**13,580**	**13,580**	Fair value through profit or loss

MARKET RISK

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

Foreign exchange risk

The Corporation's exposure to foreign exchange fluctuations is limited to the balances in its USD bank accounts, USD loans and borrowings, and Impact operations, as a significant portion of its business is conducted in USD. At September 30, 2018, the USD cash balance is USD $0.7 million (CAD $0.9 million), compared to USD $1.6 million (CAD $2.0 million) at December 31, 2017. The USD loans and borrowing balance is USD $42.0 million (CAD $54.4 million); at December 31, 2017, it was USD $42.0 million (CAD $52.7 million). A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a $0.1 million increase and $5.2 million decrease in net income before tax for the three and nine months ended September 30, 2018 (September 30, 2017—$28 thousand and $2.6 million decrease).

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 $0.6 million impact on net income for the nine months ended September 30, 2018 (September 30, 2017—$0.5 million).

CREDIT RISK

As at September 30, 2018, $1.4 million (December 31, 2017—$1.0 million) of our trade receivables are greater than 90 days' outstanding and total expected credit losses as at September 30, 2018 is $61 thousand (December 31, 2017—$56 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)		**September 30, 2018**		December 31, 2017
Cash and cash equivalents	**$**	**6,257**	$	10,316
Trade and other receivables		**22,880**		23,498
Notes receivable		**301**		342
	$	**29,438**	$	34,156

LIQUIDITY RISK

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

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

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

BUSINESS RISKS AND UNCERTAINTIES

The corporate head office and our subsidiaries are subject to a number of business risks. These risks relate to the structure of the corporate head office and the operations at the subsidiary entity. There were no changes to our principal risks and uncertainties from those reported in our 2017 MD&A and the Annual Information Form for the year ended December 31, 2017.

RELATED PARTY TRANSACTIONS

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

Property leases

DLC, Impact and AG lease and rent office space from companies that are controlled by minority partners within the subsidiaries. During the three and nine months ended September 30, 2018, the total costs incurred under these leases was $0.3 million and $0.9 million, respectively (September 30, 2017—$0.1 million and $0.3 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 nine months ended September 30, 2018, was $0.1 million and $0.3 million, respectively (September 30, 2017—$0.1 million and $0.3 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 September 30, 2018, 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, 2017—$0.8 million). This receivable has been recorded in trade and other receivables in the Corporation's consolidated statement of financial position.

Corporate tax and U.S. state tax receivable

On acquisition of Impact, the Corporation was indemnified against any U.S. state sales tax and corporate tax amounts assessed based on Impact's past results. As at September 30, 2018, the Corporation has recorded a receivable due from the Impact founders in an amount of $0.1 million (December 31, 2017—$0.2 million) for the U.S. state tax and corporate tax amounts payable recorded by Impact. This receivable has been recorded in trade and other receivables in the Corporation's consolidated financial statements.

Loans and advances

DLC has amounts due to/from companies that are controlled by key management personnel and both significant and minority shareholders of DLC. Due to amounts of $11 thousand (December 31, 2017—$10 thousand) have been included in accounts payable and accrued liabilities in the Corporation's financial statements as at September 30, 2018. Due from amounts of $54 thousand (December 31, 2017—$21 thousand) have been included in trade and other receivables in the Corporation's financial statements as at September 30, 2018.

Club16 has loans and advances due from companies that are controlled by key management personnel of Club16 in the amount of 1.7 million as at September 30, 2018, (December 31, 2017—$1.8 million). The balance is included in accounts receivable in the Corporation's consolidated financial statements.

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

Promissory notes

On October 31, 2017, as part of the purchase of AG, FAC entered a two-year promissory note payable totaling $2.5 million due to vendors of AG. During the three and nine months ended September 30, 2018, interest of $38 thousand and $113 thousand, respectively (September 30, 2017—$nil and $nil) was accrued and recorded as an accounts payable and accrued liability.

Administrative services

Club16 has entered into an agreement to provide administrative services to a company controlled by key management personnel of Club16. Total fees charged for services under this agreement for the three and nine months ended September 30, 2018, was $25 thousand and $74 thousand (September 30, 2017—$25 thousand and $74 thousand). The agreement can be terminated by either party with six months' prior written notice.

AG has entered into a consulting agreement with a company controlled by key management personnel for consulting services. Total fees charged under this agreement was $96 thousand and $150 thousand for the three and nine months ended September 30, 2018 (September 30, 2017—$nil and $nil).

Other

The Corporation has entered into an agreement with the non-controlling shareholders of Impact. The agreement is related to liquidation rights, and if a liquidation event occurs, the Corporation has a possible commitment to pay $1.0 million to these shareholders. As at September 30, 2018, a liability has been recognized for the current fair value of the liability of $0.7 million (December 31, 2017—$0.6 million).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Further information on our critical accounting estimates can be found in the notes to the audited consolidated financial statements for the year ended December 31, 2017 as filed on SEDAR at www.sedar.com. In preparing these unaudited interim consolidated financial statements, the significant judgements made by management in applying the Corporation's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017 except for those changes described within Accounting Policy section herein.

ACCOUNTING POLICIES

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

FUTURE ACCOUNTING STANDARDS

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

IFRS 16 Leases

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

NON-IFRS FINANCIAL PERFORMANCE MEASURES

EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

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

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

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

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

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

	Three months ended		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
INCOME (LOSS) BEFORE INCOME TAX	$ **570**	$ 4,927	**$ (1,208)**	$ 6,312
Add back:				
Depreciation and amortization	**4,619**	2,854	**12,843**	7,299
Finance expense	**2,170**	1,692	**6,367**	3,109
EBITDA	**7,359**	9,473	**18,002**	16,720
Adjustments to remove:				
Share-based payments	**31**	738	**356**	2,710
Gain on sale of asset	**(2)**	38	**61**	(1,684)
Gain on sale of investments	**-**	(1,902)	**-**	(1,902)
Foreign exchange loss (gain)	**(917)**	(1,113)	**1,729**	(1,689)
Dividends paid to non-controlling interest shareholders	**500**	-	**1,500**	-
Loss on settlement of contract	**96**	-	1,513	-
Change in fair value of non-controlling interest	**69**	666	**139**	971
Gain on financial instrument	**-**	(2,487)	**-**	(2,546)
Non-cash write down and impairment	**-**	2,813	**-**	2,813
Special NCI bonuses	**(125)**	-	**375**	-
Other income	**(63)**	-	**(63)**	-
Acquisition, integration and restructuring costs	**2,617**	36	**2,905**	613
Adjusted EBITDA	**9,565**	8,262	**26,517**	16,006
Adjustments:				
NCI portion of adjusted EBITDA	**(4,346)**	(4,170)	**(12,658)**	(8,206)
Cash interest expense [(1)]	**(1,586)**	(1,545)	**(4,744)**	(2,439)
Cash income tax expense [(1)]	**(614)**	(702)	**(2,244)**	(1,846)
Maintenance capex [(1)]	**(1,018)**	(430)	**(3,427)**	(882)
Free Cash Flow attributable to FAC shareholders	**2,001**	1,415	**3,444**	2,633

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

ADJUSTED EBITDA MARGIN

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

ADJUSTED EBITDA ATTRIBUTED TO SHAREHOLDERS AND NCI

Adjusted EBITDA attributed to shareholders and adjusted EBITDA attributed to NCI is allocated based on share ownership interests. Management believes that it is a useful supplemental measure as it provides management and investors

with an insightful indication of the performance of the corporate office and our investees, and the proportion attributable to shareholders of FAC and the non-controlling interest.

PROPORTIONATE SHARE OF INVESTEE EBITDA

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

ADJUSTED NET INCOME AND ADJUSTED EPS

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

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

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

	Three months ended		Nine months ended	
(in thousands)	**Sept. 30, 2018**	Sept. 30, 2017	**Sept. 30, 2018**	Sept. 30, 2017
Net income (loss)	**$ (10,209)**	$ 3,611	**$ (11,585)**	$ 5,042
Add back:				
Foreign exchange loss (gain)	**(917)**	(1,113)	**1,729**	(1,689)
Gain on sale of asset	**(2)**	38	**61**	(1,684)
Gain on sale of investments	**-**	(1,902)	**-**	(1,902)
Non-cash write down and impairment	**-**	2,813	**-**	2,813
Dividend paid to non-controlling interest	**500**	-	**1,500**	-
Change in fair value of non-controlling interest	**69**	666	**139**	971
Loss on settlement of contract	**96**	-	**1,513**	-
Gain on financial instrument	**-**	(2,487)	**-**	(2,546)
Non-cash write-off of deferred tax asset	**10,439**	-	**10,439**	-
Special NCI bonuses	**(125)**	-	**375**	-
Other income	**(63)**	-	**(63)**	-
Acquisition, integration and restructuring costs	**2,617**	36	**2,905**	613
Income tax effects of adjusting items	**(534)**	297	**(1,468)**	688
Adjusted net income	**$ 1,871**	$ 1,959	**$ 5,545**	$ 2,306
Adjusted net income (loss) attributable to shareholders	**403**	46	**509**	(1,252)
Adjusted net income attributable to non-controlling interest	**1,468**	1,913	**5,036**	3,558
Diluted adjusted income (loss) per share	**0.01**	-	**0.01**	(0.03)