MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This Management's Discussion and Analysis ("MD&A") contains important information about the results of operations of Founders Advantage Capital Corp. ("FAC", "we", "our", or "the Corporation") for the three months and year ended December 31, 2018 as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of April 23, 2019 in conjunction with the 2018 audited annual consolidated financial statements ("financial statements"). These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Unless otherwise indicated, all amounts are presented in Canadian dollars.

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

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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

- The 2019 outlook and strategic objectives;
- The Corporation's expectation that its collaborative approach with its investees will enhance and accelerate growth and performance;
- Our investee entities ability to distribute cash to the corporate head office;
- Revenue from investees in the future being greater than revenue from investees for the current period;
- Our business plan and investment strategy;
- General business strategies and objectives;
- Investee growth plans including: Club16 successfully opening additional clubs and continuing to offer personal training; DLC effectively maintaining its existing number of franchisees and adding additional franchisees; and Impact and AG growing organically;
- Our expectation not to declare a dividend in 2019;
- Our expectation not to acquire any common shares under our NCIB in 2019;
- FAC head office achieving a reduction in Corporate overhead expenses; and
- The successful performance of a large contract by Impact in 2019.

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

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

- Changes in taxes;
- Increased operating, general and administrative, and other costs;
- Changes in interest rates;
- General business, economic and market conditions;
- Our ability to obtain services and personnel in a timely manner and at an acceptable cost to carry out our activities;
- DLC's ability to maintain its existing number of franchisees and add additional franchisees;
- Changes in Canadian mortgage lending and mortgage brokerage laws;
- Material decreases in the aggregate Canadian mortgage lending business;
- Changes in the fees paid for mortgage brokerage services in Canada;
- Changes in the regulatory framework for the Canadian housing sector;
- Demand for DLC, Club16, Impact and AG's products remaining consistent with historical demand;
- Our ability to realize the expected benefits of our DLC, Club16, Impact and AG transactions;
- Our ability to generate sufficient cash flow from investees to 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 may affect our actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, us. Readers are cautioned that forward-looking statements are not guarantees of future performance. All forward-looking statements made in this MD&A are qualified by these cautionary statements. The foregoing list of risks is not exhaustive. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities laws, we undertake no obligation to update publicly or revise any forward-looking statements or information, whether because of new information, future events or otherwise.

USE OF NON-IFRS FINANCIAL PERFORMANCE MEASURES

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

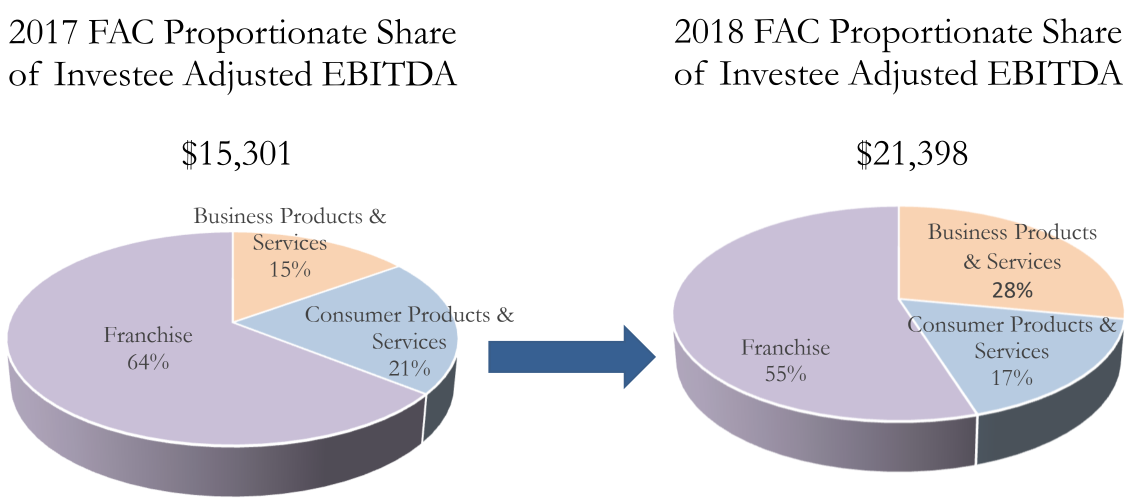
OVERVIEW

OUR BUSINESS

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

We currently operate a corporate head office and three business segments, being Franchise (DLC and its subsidiaries); Consumer Products and Services (Club16); and Business Products and Services (Impact, AG and their subsidiaries). We currently own a 60% interest in DLC, a 60% interest in Club16, a 52% interest in Impact and a 50% interest in AG.

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



(1) See the Consolidated Results section of this MD&A for further information on each of these business segments.

(2) Please see the Non-IFRS Measures section of this document for the definition of adjusted EBITDA. Annual adjusted EBITDA in the year of acquisition is from the acquisition date to December 31.

2018 OVERVIEW

We entered 2018 focused on pursuing controlling or majority interest acquisitions of premium owner- operated companies and maximizing value from our existing assets. Our investments performed in-line with expectations. However, in August 2018, we announced that our Board had initiated a formal strategic review process to explore alternatives for the enhancement of shareholder value. A special committee of independent members of our Board of Directors was formed to evaluate different alternatives.

As a result of a strategic review process, we entered into a letter of intent on September 25, 2018 and a definitive agreement on November 16, 2018 to acquire the remaining 40% interest (the "Proposed DLC Transaction") in DLC from companies controlled by Gary Mauris and Chris Kayat (the "DLC Principals") and certain minority holders of DLC for $75.772 million. On December 11th, 2018, through mutual consent, the Proposed DLC Transaction was terminated.

Following the strategic review process and the termination of the Proposed DLC Transaction, the company shifted its strategy from being an acquirer of private companies to optimizing operations and performance of its four portfolio companies. In 2019, we intend to continue focusing on maximizing shareholder value through portfolio growth, managing costs, and free cash flow growth.

As part of this strategy we reduced our corporate run-rate from over $4 million to less than $1.8 million, annually. We expect corporate overhead savings from headcount reductions (in corporate development and finance), tighter control on discretionary spending and a decrease in occupancy costs. The savings realized from these initiatives will be used to pay-down Corporate debt or will be reinvested into our portfolio companies to maximize portfolio growth. The Corporation recognized $2.7 million of restructuring, acquisition and integration costs during the year related to severance, legal costs, consulting fees, onerous lease accrual, and special committee fees. The restructuring fees were incurred to streamline the operations and reduce costs going forward.

Against the backdrop of the strategic review, our investee companies continue to organically grow their businesses. Notable growth initiatives at the investee level include:

- Club16 within the Consumer Products and Services segment opened locations in South Surrey in January 2018 and Tsawwassen in January 2019;
- The Franchise segment deployed $1.4 million in capital for franchise recruiting fees to secure 44 additional franchises in 2018; and
- Impact's sales strategy secured a large order near the end of 2018 for the Business Products and Services segment.

These growth initiatives have further supported our commitment to reinvesting capital in our existing portfolio to drive long-term free cash flow growth and long-term profitability of our portfolio companies.

In 2018, we have also integrated our newest acquisition, AG, which was acquired on October 31, 2017. The acquisition of AG has contributed $43.6 million of additional revenue, $1.6 million additional income from operations, and $7.0 million adjusted EBITDA growth to the Business Products and Services segment in the year ended December 31, 2018 compared to 2017. Despite the growth to the Business Products and Services segment from this acquisition, there has been a downward shift in AG's growth outlook considering softening market conditions in the construction and retail industries in Ontario. The downward shift in the growth outlook resulted in $6.2 million non-cash impairment recognized during the year.

In addition, FAC assessed the impact of the current strategic plan on our existing deferred tax asset. FAC recognized a non-cash deferred tax expense of $10.4 million during the year given the uncertainty on the timing and ability to use the non-capital losses.

2018 FINANCIAL HIGHLIGHTS

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

	Three months ended		Year ended	
(in thousands except per share amounts)	**Dec. 31, 2018**	Dec. 31, 2017	**Dec. 31, 2018**	Dec. 31, 2017
Revenues	$ **34,657**	$ 27,952	**133,541**	82,905
Income from operations	**3,993**	51	**13,774**	5,438
Adjusted EBITDA (1)	**8,019**	4,340	**34,536**	20,346
Adjusted EBITDA attributable to: (1)				
Shareholders	**4,331**	1,878	**18,190**	9,678
Non-controlling interests	**3,688**	2,462	**16,346**	10,668
Adjusted EBITDA margin (1)	**23%**	16%	**26%**	25%
Proportionate share of investee adjusted EBITDA (1)	**4,968**	3,227	**21,398**	15,301
Free cash flow (1)	**967**	(681)	**4,411**	1,952
Net loss for the period	**(8,792)**	(5,699)	**(20,377)**	(657)
Net (loss) income attributable to:				
Shareholders	**(6,715)**	(6,697)	**(21,062)**	(6,212)
Non-controlling interests	**(2,077)**	998	**685**	5,555
Adjusted net (loss) income (1)	**(524)**	208	**5,021**	2,514
Adjusted net (loss) income attributable to: (1)				
Shareholders	**(1,536)**	(836)	**(1,026)**	(2,087)
Non-controlling interests	**1,012**	1,044	**6,047**	4,601
Diluted loss per share	**(0.18)**	(0.18)	**(0.55)**	(0.17)
Adjusted loss per share (1)	**(0.04)**	(0.02)	**(0.03)**	(0.05)
Dividend declared per share	**0.0125**	0.0125	**0.05**	0.05

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

	Three months ended		Year ended	
(in thousands)	**Dec. 31, 2018**	Dec. 31, 2017	**Dec. 31, 2018**	Dec. 31, 2017
Adjusted EBITDA (1)				
Franchise	$ **4,648**	$ 4,012	$ **19,836**	$ 16,318
Consumer Products and Services	**944**	348	**6,089**	6,252
Business Products and Services	**3,064**	1,329	**11,819**	3,399
Corporate and consolidated	**(637)**	(1,349)	**(3,208)**	(5,623)
Total adjusted EBITDA (1)	**8,019**	4,340	**34,536**	20,346
Proportionate share of investee adjusted EBITDA (1)				
Franchise	**2,843**	2,338	**11,756**	9,794
Consumer Products and Services	**566**	209	**3,653**	3,751
Business Products and Services	**1,559**	680	**5,989**	1,756
Total Proportionate share of investee adjusted EBITDA (1)	**4,968**	3,227	**21,398**	15,301

(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 December 31, 2018 increased $3.9 million when compared to the three months ended December 31, 2017. The increase is primarily due higher income from operations within the Business Products and Services and Consumer Products and Services segments, combined with $1.9 million lower Corporate costs. Additional income was generated from the Business Products and Services and Consumer Products and Services segment income of $1.5 million and $0.6 million through higher revenues in each segment compared to the three months ended December 31, 2017. Franchise segment was consistent with prior year. The decrease in Corporate general and administrative expenses was primarily due to significant initiatives to reduce corporate general and administrative expenses. In addition, $0.8 million reversal of management severance initially recognized as part of our restructuring provision recorded in the three months ended September 30, 2018.

Adjusted EBITDA increased $3.7 million compared to the three months ended December 31, 2017. These gains were primarily due to a $1.7 million increase in the Business Products and Services segment's adjusted EBITDA due to the timing of the AG acquisition on October 31, 2017 and an increase in Impact's adjusted EBITDA. Franchise segment adjusted EBITDA increased $0.6 million compared to the three months ended December 31, 2017 primarily due to higher revenue. The adjusted EBITDA of Consumer Products and Services segment increased $0.6 million primarily due to recent club openings and expansions.

Free cash flow increased $1.6 million compared to the three months ended December 31, 2017 with the increase in adjusted EBITDA attributable to shareholders 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 loss for the period increased $3.1 million compared to the three months ended December 31, 2017. Income from operations increase of $3.9 million was more than offset by an increase in other expenses. Key changes in other expenses when compared to three months ended December 31, 2017 were: $3.3 million decrease in fair value adjustment of NCI liability; $2.5 million decrease in loss from financial instrument; $6.2 million non-cash impairment of AG goodwill; $2.7 million movement in foreign exchange related to our USD debt and cash balances; and $0.4 million increase in finance expense.

Adjusted net income for the three months ended December 31, 2018 decreased $0.7 million compared to the same period in the previous year with increased income from operations offset by higher finance expense and deferred tax expense.

Annual highlights

Income from operations for the year ended December 31, 2018 increased $8.3 million when compared to the year ended December 31, 2017. This increase is driven by increased income from both the Franchise segment and Business Products and Services segment which increased by $2.4 million and $2.7 million, respectively. Further, Corporate expenses decreased $3.5 million from lower share-based payments and general and administrative expenses.

Adjusted EBITDA increased $14.2 million compared to the year ended December 31, 2017. This variance is primarily due to a $8.4 million increase in Business Products and Services segment's adjusted EBITDA due to the timing of the Impact and AG acquisitions. Franchise segment's adjusted EBITDA increased $3.5 million compared to prior year largely due to higher funded mortgage volumes and lower general and administrative expenses. In addition, there was an increase in Corporate adjusted EBITDA of $2.4 million due to lower general and administrative costs. Adjusted EBITDA of Consumer Products and Services segment was relatively flat compared to the year ended December 31, 2017.

Free cash flow increased $2.5 million compared to the year ended December 31, 2017 with the increase in adjusted EBITDA attributable to shareholders offset by higher corporate interest from an increase in the Corporation's total loans and borrowings and higher maintenance capital expenditures compared to prior year. The higher 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 $19.7 million compared to the year ended December 31, 2017. The increase in income from operations was offset by a $10.4 million non-cash write-off of the Corporation's deferred tax asset and an increase in other expenses. The increase in other expenses included: $3.7 million additional finance expense; $6.2 million non-cash impairment of AG goodwill; $6.1 million foreign exchange loss related to our USD debt and cash balances; $1.2 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 in 2018.

Adjusted net income for the year ended December 31, 2018 increased $2.5 million from the same period in the previous year. The increase in adjusted net income reflects the increase in income from operations 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—$57.3 million). See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities. The additional loans and borrowings were used to fund the acquisition of the 50% interest in AG.

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

	As at			
(in thousands, except shares outstanding)		**December 31, 2018**		December 31, 2017
Cash and cash equivalents	**$**	**5,492**	$	10,316
Working capital deficiency	**$**	**(11,053)**	$	(2,402)
Total assets	**$**	**346,621**	$	354,365
Total loans and borrowings (1)	**$**	**86,705**	$	77,700
Shareholders' equity	**$**	**79,956**	$	101,386
Common shares outstanding		**38,182,542**		38,128,606

(1) Net of debt issuance costs.

2018 Outlook review

Previously, FAC issued 2018 guidance for our expected proportionate share of investee adjusted EBITDA from our four investees of approximately $19.0 million to $20.0 million for the year ended December 31, 2018. Overall, the proportionate share of investee adjusted EBITDA of $21.4 million for 2018 was ahead of managements' expectations. Higher than anticipated Franchise segment adjusted EBITDA, due primarily to lower than anticipated advertising expenses, and higher than anticipated Consumer Products and Services segment adjusted EBITDA from higher membership revenues contributed to adjusted EBITDA ahead of managements' expectations.

REVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS

Below is selected financial information from our three months and year ending December 31, 2018 consolidated financial results. See the Significant Accounting Policies section of this MD&A and notes to our December 31, 2018 consolidated financial statements for accounting policies and estimates as they relate to the following discussion.

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

	Three months ended				**Year ended**			
(in thousands)		**Dec. 31, 2018**		Dec. 31, 2017		**Dec. 31, 2018**		Dec. 31, 2017
Revenues	**$**	**34,657**	$	27,952	**$**	**133,541**	$	82,905
Operating expenses (1)		**30,664**		27,901		**119,767**		77,467
Income from operations		**3,993**		51		**13,774**		5,438
Other (expense) income, net		**(11,131)**		(7,776)		**(22,120)**		(6,851)
Income (loss) before tax		**(7,138)**		(7,725)		**(8,346)**		(1,413)
Add back:								
Depreciation and amortization		**4,424**		3,583		**17,267**		10,882
Finance expense		**2,204**		1,808		**8,571**		4,917
Other adjusting items (2)		**8,529**		6,674		**17,044**		5,960
Adjusted EBITDA (2)	**$**	**8,019**	$	4,340	**$**	**34,536**	$	20,346

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

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

Revenues

Three-month highlights

Consolidated revenues for the three months ended December 31, 2018 increased $6.7 million over the three-month period ended December 31, 2017, from $28.0 million to $34.7 million. The results from the three months ended December 31, 2017 only included two months for AG. Business Products and Services revenue increased $3.9 million due to the AG acquisition and $1.3 million due to an increase in Impact revenue from several large orders received and delivered during the three months ended December 31, 2018. In addition, Franchise segment and Consumer Products and Services segment revenues increased by $0.7 million and $0.9 million, respectively, when compared to the three months ended December 31, 2017.

Annual highlights

Consolidated revenues for the year ended December 31, 2018 increased $50.6 million over the year ended December 31, 2017, from $82.9 million to $133.5 million. This increase reflects the timing of our acquisitions, as results from the year ended December 31, 2017 included a partial year for Impact and AG. Impact was acquired on March 1, 2017 and AG was acquired on October 31, 2017. Business Products and Services revenue increased $47.2 million due to the timing of acquisitions. Consumer Products and Services segment revenue increased $2.1 million through club expansions and new club openings which drove an increase in member numbers. Franchise segment revenues increased by $1.4 million over the comparative period, which can be largely attributed to an increase in funded mortgage volumes.

Operating expenses

	Three months ended		Year ended	
(in thousands)	**Dec. 31, 2018**	Dec. 31, 2017	**Dec. 31, 2018**	Dec. 31, 2017
Direct costs	**$ 11,309**	$ 8,637	**$ 41,819**	$ 17,295
General and administrative	**14,879**	15,325	**60,273**	46,224
Share-based payments	**52**	356	**408**	3,066
Depreciation and amortization	**4,424**	3,583	**17,267**	10,882
	$ 30,664	$ 27,901	**$ 119,767**	$ 77,467

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 increased by $2.7 million over the three months ended December 31, 2017, to $11.3 million from $8.6 million. This variance reflects the timing of the acquisition of AG, higher direct costs associated with an increase in Impact sales and higher personal training costs connected to higher personal training revenue within the Consumer Product and Services segment, partly offset by lower advertising fund expenditures within the Franchise segment.

Annual highlights

During the year ended December 31, 2018 direct costs increased $24.5 million over the year ended December 31, 2017, to $41.8 million from $17.3 million primarily due to the timing of the acquisition of Impact and AG.

General and administrative

Three-month highlights

Consolidated general and administrative expenses decreased by $0.4 million compared to the three months ended December 31, 2017, to $14.9 million. This variance is primarily due to a $1.6 million decrease in Corporate costs partly offset by an increase in Franchise segment with relatively consistent general and administrative expenses across the other business segments. The decrease in Corporate general and administrative expenses reflects an $0.8 million reversal of management severance upon the termination of the Proposed DLC Transaction. The restructuring provision initially recognized in the three months ended September 30, 2018 recognized certain costs for management severance, corporate lease contract, and transaction related expenses incurred to date associated with the strategic review process. In addition, we have undertaken a significant initiative to reduce corporate general and administrative expenses resulting in a decrease in salary, consulting, professional fees and other general and administrative costs.

Annual highlights

During the year ended December 31, 2018 general and administrative expenses increased $14.0 million. This variance is primarily due to the acquisitions of Impact and AG, which were acquired in March 2017 and October 2017, respectively, resulting in a $14.3 million increase in the Business Products and Services segment general and administrative expenses. Consumer Products and Services general and administrative expenses increased $1.8 million due to additional costs associated with club expansions and a new club opening, and additional corporate staff to prepare the segment for future growth. The increase was offset by a decrease in Franchise segment and Corporate general and administrative costs. The Franchise segment general and administrative expenses decreased $1.2 million primarily due to the timing of advertising and promotion expenses, lower NCS salary related costs from 2017 restructuring of the NCS operations, and lower professional fees. Corporate costs decreased $0.8 million primarily due to lower salary costs and lower acquisition related costs as there were no acquisitions in 2018, partly offset by higher rent costs for the corporate office onerous lease accrual.

Share-based payments

When compared to the three months and year ended December 31, 2017, share-based payments decreased by $0.3 million and $2.7 million, respectively. This was primarily due to higher costs in the three months and year ended December 31, 2017 because of the graded expense vesting of the 2016 and 2017 option issuances which have higher expense in the first year of vesting, and because of the vesting expense in 2017 for the certain common shares held in escrow, which were fully vested in 2017. There were no options granted in the year ended December 31, 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 of our subsidiaries and capital asset amortization for assets held at the subsidiary level. The intangible assets acquired as part of our acquisitions are being amortized into consolidated income include DLC's and NCS's software; DLC's renewable franchise rights and intellectual property rights; the brand name license and customer relationships of Club16, Impact and AG; AG and Impact's non-compete covenants, and Impact's supplier relationships. Depreciation and amortization increased $0.8 million and $6.4 million when compared to the three months and year ended December 31, 2017. This variance reflects the timing of our acquisitions of new subsidiaries and additional amortization expense associated with recent capital expenditures for franchise renewal intangibles.

Other expenses

	Three months ended		Year ended	
(in thousands)	**Dec. 31, 2018**	Dec. 31, 2017	**Dec. 31, 2018**	Dec. 31, 2017
Other (expenses) income, net	**$ (11,131)**	$ (7,776)	**$ (22,120)**	$ (6,851)

Three-month highlights

Other expenses increased by $3.4 million for the three months ended December 31, 2018 compared to the three months ended December 31, 2017. The increase in other expenses is driven by several factors including: $6.2 million non-cash impairment of AG goodwill (see Business Products and Services segment for additional information); $2.7 million movement in foreign exchange related to our USD debt and cash balances; and $0.4 million increase in finance expense. The increase in other expenses was partly offset by $3.3 million decrease in fair value adjustment of NCI liability and $2.5 million decrease in loss on financial instrument. 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 December 31, 2018 was 0.7330 CAD to USD (December 31, 2017 – 0.7971 CAD to USD). For information on foreign exchange risk refer to the Market Risk section of this MD&A.

The increase in financing costs over the prior quarter primarily relates to an increase in USD LIBOR rate during the three months ended December 31, 2018 when compared to the three months ended December 31, 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.

Fair value adjustment on NCI in the three months ended December 31, 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. Loss on derivative in the three months ended December 31, 2017 was due to an impairment loss incurred on our non-core asset, Vital Alert.

Annual highlights

Other expenses increased by $15.3 million for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase in other expenses is driven by several factors including: $6.2 million non-cash impairment of AG goodwill (see Business Products and Services segment for additional information); $3.7 million increase in finance expense; and a $6.1 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. For information on foreign exchange risk refer to the Market Risk section of this MD&A.

The increase in financing expense 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—$57.3 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.

Other expenses were also impacted by, $1.5 million of dividend payments to AG's NCI was recognized as other expense during the year ended December 31, 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 year ended December 31, 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 other expenses was partly offset by $3.3 million decrease in fair value adjustment of NCI liability and $2.5 million decrease from impairment of our non-core asset, Vital Alert, recognized in 2017. Fair value adjustment on NCI in the three months ended December 31, 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.

SEGMENTED RESULTS

We discuss the results of the corporate head office and three reportable segments as presented in our December 31, 2018 annual 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.

(in thousands)	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Revenues				
Franchise	**$ 10,419**	$ 9,737	**$ 40,123**	$ 38,772
Consumer Products and Services	**6,121**	5,258	**26,543**	24,468
Business Products and Services	**18,117**	12,957	**66,875**	19,665
Consolidated revenues	**34,657**	27,952	**133,541**	82,905
Operating expenses (1)				
Franchise	**7,960**	7,252	**27,236**	28,262
Consumer Products and Services	**6,076**	5,807	**23,928**	21,621
Business Products and Services	**16,617**	12,919	**62,796**	18,273
Corporate	**11**	1,923	**5,807**	9,311
Consolidated operating expenses	**30,664**	27,901	**119,767**	77,467
Income (loss) from operations				
Franchise	**2,459**	2,485	**12,887**	10,510
Consumer Products and Services	**45**	(549)	**2,615**	2,847
Business Products and Services	**1,500**	38	**4,079**	1,392
Corporate	**(11)**	(1,923)	**(5,807)**	(9,311)
Consolidated income from operations	**3,993**	51	**13,774**	5,438
Adjusted EBITDA (2)				
Franchise	**4,648**	4,012	**19,836**	16,318
Consumer Products and Services	**944**	348	**6,089**	6,252
Business Products and Services	**3,064**	1,329	**11,819**	3,399
Corporate	**(637)**	(1,349)	**(3,208)**	(5,623)
Consolidated Adjusted EBITDA (2)	**8,019**	4,340	**34,536**	20,346
Free Cash Flow (2)				
Franchise	**1,950**	1,588	**6,750**	6,789
Consumer Products and Services	**411**	153	**3,157**	3,310
Business Products and Services	**716**	179	**3,292**	907
Corporate	**(2,110)**	(2,601)	**(8,788)**	(9,054)
Consolidated Free Cash Flow (2)	**$ 967**	$ (681)	**$ 4,411**	$ 1,952

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

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

Franchise segment

(in thousands, unless otherwise noted)	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Revenues	**$ 10,419**	$ 9,737	**$ 40,123**	$ 38,772
Operating expenses (1)	**7,960**	7,252	**27,236**	28,262
Income from operations	**2,459**	2,485	**12,887**	10,510
Other (expense) income, net	**79**	(11)	**(1,838)**	2,775
Income before tax	**2,538**	2,474	**11,049**	13,285
Add back:				
Depreciation and amortization	**1,570**	1,404	**6,110**	5,501
Finance expense	**133**	134	**714**	627
Acquisition, integration and restructuring costs	**518**	-	**551**	240
Other adjusting items	**(111)**	-	**1,412**	(3,335)
Adjusted EBITDA (2)	**$ 4,648**	$ 4,012	**$ 19,836**	$ 16,318
Adjusted EBITDA margin	**45%**	41%	**49%**	42%
Adjusted EBITDA attributable to:				
Shareholders	**$ 2,843**	$ 2,338	**$ 11,756**	$ 9,794
Non-controlling interests	**$ 1,805**	$ 1,674	**$ 8,080**	$ 6,524
Free Cash Flow (2)	**$ 1,950**	$ 1,588	**$ 6,750**	$ 6,789
Key performance indicators:				
Funded mortgage volumes (3)	**$ 9,028,796**	$ 9,169,282	**$ 36,447,396**	$ 35,365,909
Number of franchises (4)	**527**	483	**527**	483
Number of brokers (5)	**5,373**	5,401	**5,373**	5,401

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

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

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

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

The 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 44 franchises compared to 2017 and funded volume growth. Broker count decreased compared to 2017 largely due to reduction in inactive brokers.

Three-month highlights

Revenue increased by $0.7 million during the three months ended December 31, 2018 when compared to the same three months in the prior year. The increase in revenue can be largely attributable to an increase in network fee revenue and connectivity revenue. During the three months ended December 31, 2018 funded mortgage volumes decreased slightly when compared to prior quarter. With mortgage qualification rule changes announced in late 2017 (and taking effect January 2018) there was a push to close housing deals prior to the implementation of the new rules. As such, funded volumes in the three months ended December 31, 2017 were particularly strong and a pull-back in the comparable current period was not unexpected.

The segment's operating expenses for the three months ended December 31, 2018 increased by $0.7 million over the same three months in the prior year. The increase can be primarily attributed to higher restructuring costs associated with the recent strategic review combined with higher IT related costs and additional amortization expense associated with the recent capital expenditures for franchise renewal intangibles.

Income from operations was relatively consistent and adjusted EBITDA increased by $0.6 million over the three months ended December 31, 2017. The increase in both income from operations and adjusted EBITDA can be attributed to the increase in revenues partly offset by higher operating expenses.

Free cash flow increased $0.4 million during the three months ended December 31, 2018 when compared to the prior period directly related to the increase in adjusted EBITDA and the amount attributed to FAC shareholders combined with higher maintenance capital expenditures in the current period due to additional investments related to renewal costs.

Annual highlights

Revenues increased by $1.4 million during the year ended December 31, 2018 compared to prior year. The increase in revenue can be largely attributed to an increase in funded mortgage volumes when compared to 2017. The Franchise segment continues to focus on market penetration growth through expanding the network of mortgage brokers and franchisees with targeted recruiting and retention initiatives. Because of these initiatives, and despite the current regulatory changes to the Canadian mortgage industry, funded volumes increased in 2018. Franchise recruiting efforts continue to expand our franchise presence and have contributed additional volumes.

The segment's operating expenses for the year ended December 31, 2018 decreased by $1.0 million over the prior year. The decrease can be primarily attributed to a decrease in advertising and promotion expenses due to the timing and nature of events in 2018 compared to 2017 and decrease in wages and salaries primarily as a result of the NCS restructuring which occurred in the prior year. 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 $3.5 million over the year ended December 31, 2017 on higher funded mortgage volumes compared to 2017 and lower operating expenses.

Free cash flow during the year ended December 31, 2018 was consistent when compared to the same period in the prior year with gains in adjusted EBITDA attributed to shareholders offset by higher maintenance capital expenditures in the current period due to additional investments related to renewal costs and higher cash taxes.

Consumer Products and Services segment

(in thousands, unless otherwise noted)	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Revenues	**$ 6,121**	$ 5,258	**$ 26,543**	$ 24,468
Operating expenses (1)	**6,076**	5,807	**23,928**	21,621
Income from operations	**45**	(549)	**2,615**	2,847
Other expense, net	**(87)**	(80)	**(336)**	(291)
Income before tax	**(42)**	(629)	**2,279**	2,556
Add back:				
Depreciation and amortization	**899**	897	**3,474**	3,405
Finance expense	**83**	44	**306**	182
Other adjusting items	**4**	36	**30**	109
Adjusted EBITDA (2)	**$ 944**	$ 348	**$ 6,089**	$ 6,252
Adjusted EBITDA margin	**15%**	7%	**23%**	26%
Adjusted EBITDA attributable to:				
Shareholders	**$ 566**	$ 209	**$ 3,653**	$ 3,751
Non-controlling interests	**$ 378**	$ 139	**$ 2,436**	$ 2,501
Free Cash Flow (2)	**$ 411**	$ 153	**$ 3,157**	$ 3,310
Key performance indicators:				
Total fitness club members (3)	**84,370**	81,019	**84,370**	81,019

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

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

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

The Consumer Products and Services segment includes the operating results of the Club16 entity for all periods presented.

Three-month highlights

Revenues increased by $0.9 million when compared to the three months ended December 31, 2017. Club16's member number growth continues to be the primary source of increased 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 Newton location opened January 2016 and continues to grow its member numbers during 2018. In addition, personal training was introduced at three additional locations and contributed to increase revenue in the quarter.

Operating expenses increased $0.3 million from the same period in the prior year due primarily to higher personal training, and salary costs. Increase in personal training costs corresponds as a direct result of the increase in personal training revenue in the period.

Income from operations increased $0.6 million for the three months ended December 31, 2018 when compared to the same three months in the prior year. The segment contributed $0.9 million in adjusted EBITDA compared to $0.3 million in the three months ended December 31, 2017. The increase in both income from operations and adjusted EBITDA was from an increase in membership and personal training revenues partly offset by additional operating expenses.

Free cash flow increased by $0.3 million for the three months ended December 31, 2018 when compared to the prior period as the increase in adjusted EBITDA attributable to shareholders was partly offset by slightly higher maintenance capital expenditures in the quarter.

Annual highlights

Revenues increased by $2.1 million when compared to the year ended December 31, 2017. New club openings and expansions grew member numbers and drove increase revenue in the year. 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 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. Further, personal training was introduced at three additional locations in 2018 contributing to revenue growth in 2018.

Operating expenses increased $2.3 million compared to the year ended December 31, 2017 primarily due to higher facility, personal training, and salary costs. The increase in facility costs are due to additional rent and maintenance costs for the relocated and expanded South Surrey location and expanded space of the Coquitlam location. In addition, normal annual increases in facilities costs were incurred. Personal training costs increased from the growth in personal training revenue. Increases in salary costs were primarily due to: increased staff levels at corporate office; the expansion of South Surrey location; and the new Club16 Tsawwassen location which opened January 2019 (but pre-registration and hiring began in 2018). 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 and adjusted EBITDA of $6.1 million for the year ended December 31, 2018 was relatively consistent with prior year as an increase in revenue during the year was offset by increases in operating expenses. The full revenue potential from new clubs and expansions have not been fully realized, which is typical for new club openings as they build their momentum to reach anticipated member numbers.

Free cash flow decreased $0.2 million for the year ended December 31, 2018 when compared to the prior period primarily related to the decrease in adjusted EBITDA attributed to FAC shareholders.

Business Products and Services segment

	Three months ended			Year ended	
(in thousands) (1)	**Dec. 31, 2018**	Sept. 30, 2018	Dec. 31, 2017	**Dec. 31, 2018**	Dec. 31, 2017
Revenues	**$ 18,117**	$ 15,289	$ 12,957	**$ 66,875**	$ 19,665
Operating expenses (2)	**16,617**	15,070	12,919	**62,796**	18,273
Income from operations	**1,500**	219	38	**4,079**	1,392
Other (expense), net	**(6,301)**	(836)	(138)	**(8,377)**	(101)
Income before tax	**(4,801)**	(617)	(100)	**(4,298)**	1,291
Add back:					
Depreciation and amortization	**1,946**	2,164	1,271	**7,651**	1,942
Finance expense	**121**	115	52	**447**	52
Other adjusting items (3)	**5,798**	541	106	**8,019**	114
Adjusted EBITDA (3)	**$ 3,064**	$ 2,203	$ 1,329	**$ 11,819**	$ 3,399
Adjusted EBITDA margin	**17%**	14%	10%	**18%**	17%
Adjusted EBITDA attributable to:					
Shareholders	**$ 1,559**	$ 1,231	$ 680	**$ 5,989**	$ 1,756
Non-controlling interests	**$ 1,505**	$ 972	$ 649	**$ 5,830**	$ 1,643
Free Cash Flow (3)	**$ 716**	$ 802	$ 179	**$ 3,292**	$ 907

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

(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 2017 results include the operating results of Impact from March 1, 2017 and AG from October 31, 2017. Due to the acquisitions completed in the segment in 2017, the quarterly results may not be directly comparable to prior period results. For this reason, we have provided an analysis of results for the current quarter in relation to results from the immediately preceding quarter.

Three-month highlights

Business Products and Services revenue increased by $2.8 million compared to the three months ended September 30, 2018. The increase in segment revenues was attributable to a $1.8 million increase in revenue from AG and a $1.1 million increase in Impact. The increase in AG revenues was primarily due to seasonality. Due to customer purchasing patterns and the cyclical nature of advertising campaigns, AG revenues tend to be somewhat higher in Q2 and Q4. Impact's revenue increase was primarily due to a large order combined with a hurricane near Impact's US warehouse distribution center which delayed the shipment of orders in the later part of September shifting revenue into the fourth quarter. Large orders can occur at various times throughout the year, causing irregular increases in revenue when product is delivered. Impact received a large order which was partially fulfilled by December 31, 2018, the remainder will be delivered and recognized in revenue in 2019.

Operating expenses for the three months ended December 31, 2018 increased $1.5 million compared to the three months ended September 30, 2018. The increase in operating expenses is largely due to a $1.0 million increase in direct costs associated with revenue growth and an increase in both AG and Impact's general and administrative costs primarily from higher salary and overtime wage costs.

Other expenses for the three months ended December 31, 2018 includes an impairment loss on AG goodwill of $6.2 million ($3.1 million is attributable to shareholders of FAC). At the time of acquisition, the AG forecast used for the purchase price allocation anticipated significant revenue growth. Since acquisition, there has been a downward shift in the AG growth outlook considering softening market conditions in the construction and retail sectors. The downward shift in the growth outlook resulted in non-cash impairment recognized during the year.

The segment contributed $1.5 million of income from operations and $3.1 million in adjusted EBITDA to our quarterly consolidated results. This is an increase of $1.3 million and $0.9 million, respectively, over the previous quarter. The increase in both income from operations and adjusted EBITDA was achieved on higher revenue in both Impact and AG partly offset by an increase in expenses.

Free cash flow was flat compared to the three months ended December 31, 2017 due to the increase in adjusted EBITDA attributable to shareholders was offset by an increase in AG maintenance capital expenditures incurred in the quarter.

Annual highlights

Business Products and Services segment contributed $4.1 million of income from operations and $11.8 million in adjusted EBITDA to the year to date consolidated results. This is an increase of $2.7 million and $8.4 million, respectively, due to the timing of acquisitions within this segment. The 2017 results only include a partial period for AG as it was acquired in October 2017 and a partial period for Impact from the acquisition on March 1, 2017.

Corporate and Consolidated Segment

(in thousands)	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Revenues	$ **-**	$ -	**$ -**	$ -
Operating expenses (1)	**11**	1,923	**5,807**	9,311
Loss from operations	**(11)**	(1,923)	**(5,807)**	(9,311)
Other expense, net	**(4,822)**	(7,547)	**(11,569)**	(9,234)
Loss before tax	**(4,833)**	(9,470)	**(17,376)**	(18,545)
Add back:				
Depreciation and amortization	**9**	11	**32**	34
Finance expense	**1,867**	1,578	**7,104**	4,056
Share-based payments	**51**	337	**353**	3,006
Foreign exchange loss (gain)	**2,909**	213	**4,587**	(1,443)
Acquisition, integration and restructuring costs	**(687)**	116	**2,045**	489
Other adjusting items (2)	**47**	5,866	**47**	6,780
Adjusted EBITDA (2)	$ **(637)**	$ (1,349)	**$ (3,208)**	$ (5,623)
Adjusted EBITDA attributable to:				
Shareholders	$ **(637)**	$ (1,349)	**$ (3,208)**	$ (5,623)
Non-controlling interests	$ **-**	$ -	**$ -**	$ -
Free Cash Flow (2)	$ **(2,110)**	$ (2,601)	$ **(8,788)**	$ (9,054)

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

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

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

(in thousands)	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
General and administrative	$ **(49)**	$ 1,575	$ **5,422**	$ 6,271
Share-based compensation	**51**	337	**353**	3,006
Depreciation and amortization	**9**	11	**32**	34
Corporate operating expenses	$ **11**	$ 1,923	**$ 5,807**	$ 9,311

Other expense, net includes the following:

(in thousands)	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Finance expense	$ **1,867**	$ 1,578	**$ 7,104**	$ 4,056
Non-cash write down of investment	**-**	2,546	**-**	2,487
Fair value adjustment on NCI	**-**	3,314	**-**	4,285
Foreign exchange loss (gain)	**2,909**	213	**4,587**	(1,443)
Other	**46**	(104)	**(122)**	(151)
Other expense, net	$ **4,822**	$ 7,547	**$ 11,569**	$ 9,234

Corporate head office uses the cash dividends and distributions received from our operating subsidiaries to fund its operating expenses and financing costs. In conjunction with the strategic review process, Corporate head office has undertaken a significant initiative to reduce its general and administrative expenses, including: eliminating five positions at staff and managerial levels; reducing consulting expenses; restricting travel; subletting a portion of Corporate office space; and overall reducing general and administrative costs. The steps to execute this plan were taken during the 2018 third and fourth quarters and the full impact of the cost savings has not yet been fully realized.

Three-month highlights

Operating expenses decreased by $1.9 million for the three months ended December 31, 2018 compared to the prior year's quarter. The decrease in general and administrative expenses was primarily due to $0.8 million reversal of management severance initially recognized as part of the restructuring provision recorded in the three months ended September 30, 2018. The restructuring provision accrual recognized certain costs for management severance, corporate lease contract and transaction related expenses associated with the strategic review process and the Proposed DLC Transaction (which was later terminated). Further, we have undertaken a significant initiative to reduce corporate general and administrative expenses resulting in a decrease in salary, consulting, professional fees and other general and administrative costs.

Other expense for the three months ended December 31, 2018 decreased by $2.7 million primarily due to: $3.3 million decrease in fair value adjustment on NCI liability; $2.5 million decrease in loss on financial instrument; and a $2.9 million foreign exchange loss compared to $0.2 million loss in 2017 related to our USD debt and cash balances. Fair value adjustment on NCI in the three months ended December 31, 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. Loss on derivative in the three months ended December 31, 2017 was due to an impairment loss incurred on our non-core asset, Vital Alert. The increase in financing costs over the prior quarter primarily relates to an increase in the LIBOR rate. 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.

Free cash flow increased $0.5 million for the three months ended December 31, 2018 when compared to the prior year quarter due to lower general and administration expenses offset partially by higher finance costs.

Annual highlights

Operating expenses decreased by $3.5 million for the year ended December 31, 2018 compared to the prior year. The decrease in expenses is primarily due to $2.7 million decrease in share-based payments expense combined with $0.8 million decrease in general and administrative expenses. The decrease in share-based compensation expense was due to higher costs in the year ended December 31, 2017 due to graded expense vesting of the 2016 and 2017 option issuances which have higher expense in the first year of vesting, and because of the vesting expense for shares held in escrow in 2017, which were fully vested in 2017. There were no options issued in the year ended December 31, 2018. The decrease in general and administrative expenses was primarily due to lower salary costs and lower acquisition related costs as there were no acquisitions in 2018, partly offset by higher rent costs for the corporate office onerous lease accrual.

Other expense for the year ended December 31, 2018 compared to the same period in the prior year, increased by $2.3 million primarily due to: $3.0 million increase in finance expense; and a $4.6 million foreign exchange loss related to our USD debt and cash balances (compared to a $1.4 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—$57.3 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. 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 December 31, 2018 was 0.7330 CAD to USD (December 31, 2017 – 0.7971 CAD to USD).

Free cash flow increased $0.3 million for the year ended December 31, 2018 when compared to the prior year period, due to 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)	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	Jun. 30, 2017	Mar. 31, 2017
Revenues	**34,657**	33,117	35,626	30,141	27,952	21,759	19,500	13,694
Income (loss) from operations	**3,993**	2,508	5,831	1,442	51	4,537	2,640	(1,790)
Adjusted EBITDA (1)	**8,019**	9,565	10,709	6,243	4,340	8,262	5,787	1,957
Net (loss) income	**(8,792)**	(10,209)	663	(2,039)	(5,699)	3,611	3,091	(1,660)
Adjusted net (loss) income (1)	**(524)**	1,871	3,604	70	208	1,959	1,594	(1,247)
Net (loss) income attributable to:								
Shareholders	**(6,715)**	(11,080)	(976)	(2,291)	(6,697)	1,140	975	(1,630)
Non-controlling interests	**(2,077)**	871	1,639	252	998	2,471	2,116	(30)
Adjusted net (loss) income attributable to: (1)								
Shareholders	**(1,536)**	403	886	(779)	(836)	46	(14)	(1,283)
Non-controlling interests	**1,012**	1,468	2,718	849	1,044	1,913	1,608	36
Net (loss) income per common share:								
Basic	**(0.18)**	(0.29)	(0.03)	(0.06)	(0.18)	0.03	0.03	(0.04)
Diluted	**(0.18)**	(0.29)	(0.03)	(0.06)	(0.18)	0.03	0.03	(0.04)
Adjusted net (loss) income per common share: (1)								
Diluted	**(0.04)**	0.01	0.02	(0.02)	(0.02)	-	-	(0.03)

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

Quarterly trends and seasonality

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

Consolidated revenues for the current quarter increased by $1.5 million over the three months ended September 30, 2018 attributed to Business Products and Services segment revenue increasing $2.8 million from Impact receiving several large orders and AG seasonal fluctuations. Due to customer purchasing patterns and the cyclical nature of advertising campaigns, AG revenues tend to be somewhat higher in Q2 and Q4. Consumer Products and Services segment and the Franchise segment decreased $0.2 million and $1.1 million, respectively, due to seasonal fluctuations. 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 December 31, 2018 increased to $4.0 million from $2.5 million during the three months ended September 30, 2018. The increase is primarily due to the increase in revenue combined with lower operating expenses. The decrease in operating expenses is as a result of a decrease in Corporate general and administrative expenses, Q3 2018 general & administrative expenses included $2.6 million restructuring provision, a portion of which was recovered in the fourth quarter. The decrease in Corporate costs was partly offset by an increase in operating expenses across all other segments.

Adjusted net income for the three months ended December 31, 2018 decreased by $2.4 million compared to the preceding three months. The decrease in adjusted net income was primarily due to $2.8 million decrease in income from operations within the Franchise segment due to seasonality associated with the normal home buying season. An increase in income from the Business Products and Services segment due to seasonality and large orders was partly offset by lower income from the Consumer Products and Services segment.

2019 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. Our focus for 2019 is to optimize operations and performance of our four portfolio companies while continuing to manage and reduce our corporate overhead expenses. We will no longer be issuing guidance as to our anticipated proportionate share of investee adjusted EBITDA.

Franchise segment

This segment consists primarily of mortgage brokerage operations. The mortgage industry is currently being impacted by the introduction of changes to mortgage rules by the Canadian federal government. The new rules and guidelines were effective January 1, 2018. The guidelines focus on the minimum qualifying rate for uninsured mortgages and require lenders to enhance their loan-to-value measurements and limits that are responsive to risk.

While the mortgage regulations were in place throughout 2018, we anticipate that the mortgage industry may continue to see headwinds from these regulations. To date, DLC has been successful in its growth initiatives and added franchises and brokers. DLC will continue to focus on market penetration growth through expanding the network of mortgage brokers and franchisees with targeted recruiting initiatives throughout 2019. Through these initiatives, we expect funded volume from these expansion activities to mitigate the impact of the regulatory changes for the Canadian mortgage industry.

Consumer Products and Services segment

Consumer Products and Services has many organic growth initiatives planned for 2019 for its Club16 fitness clubs to expand member numbers, focus on member attrition rates, develop new clubs and rollout personal training to more Club16 locations. These initiatives include the opening of a new Club16 in Tsawwassen in January 2019, and another in Langley in late 2019 (transitioning from the She's Fit! Langley). These clubs are expected to add 10,000 members and contribute to adjusted EBITDA growth for the segment.

Business Products and Services segment

The Business Products and Services segment includes the operations of Impact and AG. Impact expects to organically grow its operations by growing its operations and sales teams, focus on securing large contracts, adding new distributors for its products and working with existing key distributors. In late 2018, Impact received several large orders with a key customer, a portion of which was fulfilled in 2018, which is anticipated to contribute to adjusted EBITDA growth for the segment. Key initiatives for AG in 2019 include sourcing and securing organic revenue growth through market share gains to offset the impact of softening market conditions in the construction and retail industries. Further, AG will continue focusing on cross-selling their products to its existing customer base while controlling expenses and capital expenditures.

Corporate and Consolidated segment

Our 2019 key priorities will be to maximize shareholder value through on-going monitoring of our operating subsidiaries and continually assessing our expenditures and reducing costs where possible.

As part of our corporate reorganization initiatives, we expect a significant reduction in corporate overhead expenses in 2019. The savings are expected to be realized through late-2018 and the first half of 2019, with headcount reductions in corporate development and finance, a decrease in occupancy costs through a sublet of office space in 2019, and overall tighter control of discretionary spending.

Implementation of IFRS 16 – Leases

On January 1, 2019, we adopted the new IFRS 16 - Leases accounting standard. The new standard will be a significant change for the way we account for our buildings, gym locations, office spaces and vehicles. Rental costs previously captured under General and Administrative expense will shift to depreciation and interest expense under the new standard, which will increase adjusted EBITDA. While the standard increases adjusted EBITDA, it does not change the cash flows associated with the lease.

The new standard will be adopted applying the modified retrospective approach, which will result in a catch-up adjustment recognized in opening retained earnings and the prior year comparatives will not be restated under the new standard. We currently anticipate that $6.0 million to $6.4 million of lease costs previously expensed will become depreciation and interest under the new standard. Refer to Future Accounting Standards section for additional information.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

	As at	
(in thousands)	**December 31, 2018**	December 31, 2017
Cash and cash equivalents	**$ 5,492**	$ 10,316
Trade and other receivables	**27,627**	22,442
Prepaid expenses and deposits	**2,758**	2,410
Notes receivable	**299**	342
Inventories	**5,847**	4,834
Bank indebtedness	**(397)**	(766)
Accounts payable and accrued liabilities	**(22,970)**	(21,032)
Current portion of loans and borrowing	**(25,698)**	(16,370)
Deferred contract liability	**(650)**	(1,382)
Other current liabilities	**(788)**	(869)
Current portion capital lease obligation	**(573)**	(327)
Current portion non-controlling interest liability	**(2,000)**	(2,000)
Net working capital deficit	**$ (11,053)**	$ (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 follow-on acquisition opportunities and drive organic revenue growth in each of our subsidiaries to increase growth in free cash flows.

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

As at December 31, 2018 we had a consolidated cash position of $5.5 million and a net working capital deficit of $11.1 million, compared to $10.3 million and $2.4 million, respectively, as at December 31, 2017. The increase in working capital deficit from the comparative period is primarily the result of the decrease in our consolidated cash balance due primarily to the cash used in investing activities for capital expenditures and purchase of intangible assets. Our sources and uses of cash are described below. Our credit facilities are discussed in greater detail in the Capital Resources section.

At December 31, 2018 we have several financial commitments (see Commitments under the Commitments and Contingencies section of this MD&A for further information), which will require that we have various sources of capital to meet the obligations associated with these commitments.

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

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

SOURCES AND USES OF CASH

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

	Year ended			
(in thousands)		**Dec. 31, 2018**		Dec. 31, 2017
Cash provided by operating activities	**$**	**14,648**	$	8,689
Cash used in investing activities		**(21,512)**		(44,416)
Cash (used in)/provided by financing activities		**2,355**		37,552
(Decrease) increase in net cash		**(4,509)**		1,825
Impact of foreign exchange on net cash and cash equivalents		**54**		(99)
Net cash and cash equivalents, beginning of period		**9,550**		7,824
Net cash and cash equivalents, end of period	**$**	**5,095**	$	9,550

Operating activities

The net cash provided by operating activities for the year ended December 31, 2018 increase was primarily related to cash flows generated by the Business Products and Services segment of $7.6 million (compared to $0.4 million cash used in the prior year), the Franchise segment operations of $12.3 million (compared to $14.2 million in the prior year), and the Consumer Products and Services segment of $4.5 million (compared to $3.9 million in the prior year). The cash provided was partially offset by corporate head office requirements of $9.8 million, which are primarily related to finance expense, general and administration costs, and acquisition, restructuring, and due diligence costs.

Investing activities

The net cash used in investing activities for the year ended December 31, 2018 consisted primarily of DLC's investments in intangible assets of $5.4 million, Club16 and AG's investment in capital assets of $7.5 million and $9.2 million in distributions and dividends paid to non-controlling interest unitholders.

The net cash used in investing activities for the year ended December 31, 2017 consisted primarily of the acquisition of AG for $22.1 million (net of cash received), Impact for $11.5 million (net of cash received), $1.5 million post-closing adjustment paid to the vendors of Club16, DLC's investments in intangible assets of $3.6 million, Club 16's investment in capital assets of $3.9 million and $5.3 million in distributions paid to non-controlling interest unitholders. Cash used in investing activities was partially offset by cash received from DLC's disposal of intangible assets and sale of its investment in Canadiana for total gross proceeds of $3.6 million.

Financing activities

Cash used in financing activities for the year ended December 31, 2018 consisted primarily of proceeds from debt financing of $4.1 million on Club16 facilities for additional draws related to financing capital expenditures for the recent club expansions, and additional proceeds from DLC of $2.3 million and AG facilities of $2.2 million. Offsetting the increase in cash from financing activities was the $5.0 million repayment on DLC, Club16 and AG's term loan facilities, $1.9 million dividends paid to common shareholders, costs for debt amendments, and net payments for capital lease commitments.

Cash provided by financing activities for the year ended December 31, 2017, driven by the corporate head office entering into the $42.0 million USD credit facility with Sagard and an increase in the amount drawn on DLC's, AG's and Club16's operating facilities of $5.9 million. Offsetting the increase in cash from financing activities was $6.3 million repayments on DLC, Club16 and AG's term loan facilities, and $1.4 million dividends paid.

Distribution from investees

Corporate head office uses the cash received from the operating subsidiaries to fund its operating expenses and financing costs. During the year ended December 31, 2018, corporate head office received dividends and distributions from its subsidiaries of $12.4 million (December 31, 2017—$10.4 million). During the year ended December 31, 2018 total distributions paid to NCI holders were $9.2 million (December 31, 2017—$7.1 million).

CAPITAL RESOURCES

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

	As at			
(in thousands)		**December 31, 2018**		December 31, 2017
Loans and borrowings	**$**	**86,705**	$	77,700
Less: net cash and cash equivalents		**(5,095)**		(9,550)
Net loans and borrowings	**$**	**81,610**	$	68,150
Shareholders' equity	**$**	**79,956**	$	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 Corporate Credit Facility has a five-year term and bears interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. The term facility is secured by a general security agreement with first charge over the assets of the Corporation, subject to customary terms, conditions, covenants and other provisions. Effective March 12, 2019 the Corporation amended its Corporate Credit Facility. The Amending Agreement provides the Corporation with the ability to repay debt at par with all excess free cashflow. In consideration for the amendments, the Corporation has agreed to pay a cash fee of 1.5% of the principal loan balance and reprice its existing 2,078,568 lender warrants to $1.4375 per share (half of which were previously exercisable at $3.508 per share and half were exercisable at $3.965 per share). Financial covenants include the requirement to maintain a fixed charge coverage ratio of not less than 1.00:1.00 and a total leverage ratio of:

- 4.00:1.00 for the fiscal quarter ending December 31, 2018;
- 4.25:1.00 for all fiscal quarters in 2019;
- 4.00:1.00 for the first two fiscal quarters in 2020; and
- 3.75:1.00 for the fiscal quarters ending thereafter.

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

Corporate—Promissory note

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

DLC

On November 20, 2015 DLC established a $10.3 million term loan facility that matures on December 30, 2021. This facility is held at the DLC subsidiary level and has $5.1 million drawn as of December 31, 2018 (December 31, 2017—$7.0 million).

On June 12, 2013 DLC established a revolving credit facility as an operating demand loan to finance working capital requirements and fund acquisitions. On September 28, 2018 the DLC Operating Facility was increased to $9.5 million from $6.5 million. This facility is held at the DLC subsidiary level and has $7.3 million drawn as of December 31, 2018 (December 31, 2017—$5.1 million).

Borrowings under the term loan facility and operating facility bear interest at a rate equal to prime rate plus 1.0% per annum. The loan facility is secured by a general security agreement with first charge over the assets of DLC. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at December 31, 2018, DLC was in compliance with all such covenants.

Club16

On March 16, 2018 Club16 amended its existing credit facilities. The amendment increased the credit available on term loans from $7.0 million to $9.0 million, of which $6.1 million was drawn at December 31, 2018 (December 31, 2017—$4.2 million). The facility matures on the earlier of (i) demand by the lender, or (ii) 60 months from the date of each drawdown; and is secured by a general security agreement with first charge over the assets of Club16.

On March 21, 2017 Club16 entered a $1.5 million revolving operating facility to finance its working capital requirements. The facility is held at the Club16 level and has $1.0 million drawn as at December 31, 2018 (December 31, 2017—$0.3 million).

Borrowings under the term loans and operating facility bear interest at prime rate plus 1.25% per annum and are secured by a general security agreement with first charge over the assets of Club16. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00, a debt service charge ratio greater than or equal to 1.50:1:00 excluding distributions, and a maximum debt-to-EBITDA ratio of less than or equal to 2.25:1.00. As at March 31, 2018 Club16 was notified by its lender that the lender believed it had breached the debt service coverage ratio. A breach constitutes an event of default under the agreement. The lender has taken no action to date and has notified that no further action is required. As at December 31, 2018, Club16 was in compliance with all such covenants.

AG

AG has two term loan facilities ("AG Term Loan 1" and "AG Term Loan 2"). AG Term Loan 1 matures in July 2020, and bear interest at a fixed rate of 3.48% per annum. AG Term Loan 2 matures in October 2022 and bear interest based on prime plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The facilities are held at the AG level and have $3.7 million drawn as at December 31, 2018 (December 31, 2017—$5.0 million).

On March 22, 2019 AG entered a $1.4 million term loan facility to finance equipment purchases. The term loan matures in April 2024 and bears interest at a fixed rate of 4.61% per annum. The committed term debt is secured by the specific financed equipment assets.

AG has an operating facility available for the lesser of $6.0 million or 75% of accounts receivable, net of over 90 days and related company accounts. The loan bears interest at prime rate plus varying rates from 0.45% to 1.25% calculated quarterly based on the total debt-to-adjusted-EBITDA ratio. The facility is held at the AG level and has $5.5 million drawn as at December 31, 2018 (December 31, 2017—$3.5 million).

The committed term debts and operating facility are secured by a general security agreement with first charge over the assets of AG, subject to customary terms, conditions, covenants and other provisions. Financial covenants include the requirement to maintain a maximum-debt-to-adjusted-EBITDA ratio of less than or equal to 2.25:1:00 and maintain a fixed charge coverage ratio of not less than 1.20:1.00. As at December 31, 2018, AG was in compliance with all such covenants.

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

During the year ended December 31, 2018, the Corporation declared quarterly dividends of $0.0125 per share and total dividends paid during the year ended December 31, 2018 was $1.9 million (December 31, 2017 - $1.9 million). On March 12, 2019 the Board of Directors resolved to suspend the dividend policy. As such, we do not anticipate declaring any dividends in 2019.

	Year ended	
(in thousands)	**Dec. 31, 2018**	Dec. 31, 2017
$0.05 per share	**$ 1,908**	$ 1,904

SHARE CAPITAL

As of April 23, 2019, and December 31, 2018 the Corporation had 38,182,542 common shares outstanding (December 31, 2017—38,128,606). During the year ended December 31, 2018 53,936 of broker warrants (December 31, 2017—25,675) were exercised for total proceeds of $0.1 million (2017—$0.1 million).

As at April 23, 2019, there were outstanding stock options to purchase 2,418,911 common shares with exercise prices ranging from $2.40 to $4.40, and 2,078,568 lender warrants with an exercise price of $1.4375. There were no options issued in the year ended December 31, 2018.

Normal course issuer bid

FAC implemented a normal course issuer bid in June 2018 (the "NCIB"). The NCIB will terminate on the earlier of: (i) June 26, 2019; and (ii) the date on which the maximum number of common shares that can be acquired pursuant to the NCIB are purchased. Purchases of common shares under the NCIB will be effected through the facilities of the Exchange 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 Exchange by contacting the Corporate Secretary of the Corporation at 403-455-2218. To date, FAC has not purchased any Common Shares under the NCIB and does not anticipate purchasing any Common Shares in 2019 as excess cash flow is anticipated to be used to repay corporate debt.

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 notes 23 and 24 of the consolidated financial statements for more information.

(in thousands)	Less than 1 year	1–3 years	4–5 years	After 5 years	Total
Bank indebtedness	$ 397	$ -	$ -	$ -	**$ 397**
Accounts payable and accrued liabilities	22,970	-	-	-	**22,970**
Loans and borrowings	25,698	4,969	58,097	311	**89,075**
Long-term accrued liabilities	-	847	39	-	**886**
Capital leases	573	792	381	-	**1,746**
Operating leases	6,408	12,968	8,613	12,847	**40,836**
Non-controlling interest liability	2,000	11,621	-	-	**13,621**
	$ 58,046	$ 31,197	$ 67,130	$ 13,158	**$ 169,531**

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 was renewed in January 2019 for an annual amount of $0.1 million and expires in January 2020.

Service agreement

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

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

DLC has contracts with external dealers to recruit franchises. DLC has a commitment to pay these dealers a commission for the franchise royalties earned by such franchises. Commissions are earned based on a percentage of franchise revenue earned and are accrued at the date it is earned. During the year ended December 31, 2018, a contract with a dealer was terminated, resulting an expense on contract settlement of $1.5 million.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at December 31, 2018 or April 23, 2019 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 December 31, 2018 is as follows.

(in thousands)	Carrying value	Fair value	Classification
Financial assets			
Cash and cash equivalents	$ **5,492**	$ **5,492**	Fair value through profit or loss
Trade and other receivables	**28,226**	**28,226**	Amortized cost
Notes receivable	**299**	**299**	Amortized cost
Investments	**557**	**557**	Fair value through profit or loss
Financial liabilities			
Bank indebtedness	**(397)**	**(397)**	Fair value through profit or loss
Accounts payable and accrued liabilities	**(22,970)**	**(22,970)**	Amortized cost
Loans and borrowings	**(86,705)**	**(86,705)**	Amortized cost
Other current liabilities	**(788)**	**(788)**	Amortized cost
Other long-term liabilities	**(3,293)**	**(3,293)**	Amortized cost
Capital lease obligation	**(1,746)**	**(1,746)**	Amortized cost
Non-controlling interest liability	**(13,621)**	**(13,621)**	Amortized cost

MARKET RISK

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

Foreign exchange risk

The Corporation's exposure to foreign exchange fluctuations is limited to: the balances in its USD bank accounts; USD loans and borrowings; USD interest expense, and Impacts operations, as a significant portion of its business is conducted in USD. At December 31, 2018 the USD cash balance is USD $0.2 million (CAD $0.3 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 $57.3 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 $5.9 million increase in net loss before tax for the year ended December 31, 2018 (December 31, 2017—$5.3 million increase).

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk on our variable rate loans and borrowings. A 1% change in the interest rates on the loans and borrowings would have a $0.8 million impact on net loss for the year ended December 31, 2018 (December 31, 2017—$0.6 million).

CREDIT RISK

As at December 31, 2018 $2.1 million (December 31, 2017—$1.0 million) of our trade receivables are greater than 90 days' outstanding and total expected credit losses as at December 31, 2018 is $19 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.

(in thousands)		**As at December 31, 2018**		December 31, 2017
Cash and cash equivalents	**$**	**5,492**	$	10,316
Trade and other receivables		**28,226**		23,498
Notes receivable		**299**		342
	$	**34,017**	$	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 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 following is a brief discussion of the factors which may have a material impact on our future business or financial performance. We are subject to a number of risks and uncertainties and those described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known or are currently deemed immaterial may also adversely impact future business or financial performance, and such impact may be material.

Given the nature of our investment activities, the results of operations and our financial condition are dependent upon the financial condition and performance of the businesses comprising our investments. The performance of these businesses can be affected by the general market conditions that affect a segment and by specific factors that impact the underlying businesses.

Interest Rate Risk

The Corporation is exposed to changes in interest rates on its Corporate Credit Facility and certain subsidiary term debt which bear interest at variable rates. The cash flows required to service these financial liabilities will fluctuate as a result of changes in market interest rates.

Foreign Currency Exchange Rates

The Corporation is exposed to changes in foreign currency exchange rates. The majority of Impact's revenue and direct cost of sales is earned and incurred in U.S dollars. In addition, the Corporation is also exposed to foreign currency exchange movement on its U.S dominated Corporate Credit Facility and U.S dominated finance expense. Fluctuations in the currency exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the business, financial position, and operating results.

Common shares sensitive to market fluctuations

Our common shares are relatively illiquid due to low trading volumes and, as such, the market price of the common shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in our results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the common shares, even if we are successful in maintaining revenues, cash flows or earnings.

Trading price of the common shares relative to net asset value ("NAV")

FAC is neither a mutual fund nor an investment fund, and due to the nature of our business and investment strategy and the composition of our investment portfolio, the market price of the common shares, at any time, may vary significantly from the NAV of the common shares. This risk is separate and distinct from the risk that the market price of the common shares may decrease. The extent to which common shares trade at a value different from the NAV of the common shares may adversely affect our ability to raise additional funds through the issuance of common shares.

Customer relationships

There is a risk that one or more customers of a subsidiary may, without notice or penalty, terminate their relationship. There can be no guarantee that customers will purchase the same volume as in the past. A change in consumption habits or loss of a major customer in a subsidiary, a failure to develop new customer relationships, a decrease in the ability to add and maintain DLC franchises and mortgage brokers, a change in Club16's ability to attract and retain members, or a change in Impact or AG's ability to attract customers could have an adverse impact on the Corporation's financial performance.

Competition risk

Competition is based on price, quality of products and services, lead times and the range of services offered. Some of the industries that the subsidiaries operate are highly competitive; we may not be able to compete effectively in the markets in which we operate in the future. Existing and/or new competitors may announce new products or enhancements that better meet the needs of customers or changing industry standards or deeply discount the price of its products. Emerging online product competition and ease of access to foreign competition in the Canadian market could draw consumers away. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the financial position.

Brand Reputation

Corporation or subsidiary brand value can be severely damaged even by isolated incidents, particularly if the incidents receive considerable negative publicity or result in litigation. Incidents that could be damaging to the brand may arise from events that are or may be beyond management's ability to control. If any such incidents or other matters erode consumer confidence could in turn materially and adversely affect results of operations and financial condition.

DLC Franchisees are independent business operators and their mortgage brokers are independent contractors, and, as such, neither are DLC's employees, and DLC does not exercise control over their day-to-day operations. If the Franchisees or their mortgage brokers were to provide diminished quality of service to customers, DLC's image and reputation may suffer materially and adversely affect DLC's results of operations.

Dependence on management and directors

The Corporation and subsidiary success may depend upon the efforts, skill and business contacts of key members of management and the Board. The loss of the services of any of these individuals could have a material and adverse effect on our revenues, net income and cash flows.

From time to time, we will also need to identify and retain additional skilled management to efficiently operate our business. Recruiting and retaining qualified personnel is critical to our success, and there can be no assurance of our ability to attract or retain such personnel.

If we are not successful in attracting and training qualified personnel, our ability to execute our business strategy could be affected, which could have a material and adverse impact on our profitability, results of operations and financial condition.

Potential conflicts of interest

Certain of our directors and officers are or may, from time to time, be involved in other financial investments and professional activities that may on occasion cause a conflict of interest with their duties to FAC. These include serving as directors, officers, advisors or agents of other public and private companies, including companies involved in similar businesses to FAC or companies in which we may invest; management of investment funds; purchases and sales of securities; and investment and management counselling for other clients. Such conflicts may result in a material and adverse effect on our results of operations and financial condition.

Private issuers and illiquid securities

We invest in securities of private issuers. The value of these investments may be affected by factors such as investor demand, resale restrictions, general market trends and regulatory restrictions. Our investments are not currently structured to secure a guaranteed return, or any return in the short- or long-term. Fluctuation in the market value of such investments may occur for many reasons beyond our control, and there is no assurance that an adequate market will exist for the investments we have made. Many of our investments will be relatively illiquid and may decline in price if a significant number of such investments are offered for sale by FAC or other investors.

Cyber Security

Our operations increasingly depend upon the use of sophisticated information technologies and systems for internal processes. The operation of these technologies and systems is dependent, in part, upon third-party technologies, systems and services, for which there are no assurances of continued or uninterrupted availability and support by the applicable third-party vendors on commercially reasonable terms. If the Corporation's information technology systems were to fail and the Corporation was unable to recover in a timely way, the Corporation might be unable to fulfill critical business functions, which could have a material adverse effect on its business, financial condition, and results of operations.

The Corporation and its subsidiaries may be threatened by cyber-attacks, breaches of network, computer viruses or other security breaches, human errors, sabotage or other similar events, it could have an adverse impact on its activities, including system disruptions or breakdowns, loss of data, or intellectual property theft. This could also have an adverse impact on financial performance and cause considerable damage to reputation and could potentially result in legal actions.

Changes in Laws and Regulations

The Corporation and its subsidiaries are subject to a variety of laws and regulations. Future changes in federal, provincial, and municipal laws or regulations could potentially significantly escalate the cost of complying which could a negative impact the Corporation's financial results. There can be no assurance that the legal, tax, regulatory changes or other laws will not be changed in a manner which adversely impacts the Corporation.

Seasonality and Variable Cycles in Results

The Corporation's quarterly operating results generally vary from quarter to quarter because of seasonal fluctuations in our subsidiaries and this seasonality is expected to continue. In particular, Impact's revenues are difficult to forecast, are likely to fluctuate significantly throughout the year because of large purchase orders and may not be indicative of future performance from quarter to quarter. There is no guarantee that operating results will follow past trends.

Transaction and legal risks

We may be exposed to transaction and legal risks, including potential liability under securities laws or other laws and disputes over the terms and conditions of investment arrangements. We may face legal claims and litigation. These risks are often difficult to assess or quantify, and their existence and magnitude often remain unknown for substantial periods of time. We may incur significant legal and other expenses in defending against litigation involved with any of these risks and may be required to pay substantial damages for settlements and/or adverse judgments. Substantial legal liability or significant regulatory action against us could have a material and adverse effect on our results of operations and financial condition.

Breach of Privacy Laws / Release of Confidential Information

The Corporation and its subsidiaries maintain significant private and confidential information regarding their customers in the ordinary course of business and depends on the operations and systems to keep all such information confidential. The intentional or unintentional release of customers' confidential private information could materially and adversely affect their respective financial condition and results of operations.

Economic and Political Conditions

The Corporation and its subsidiaries are sensitive to general market and economic conditions in Canada and worldwide. These conditions include, among others, short-term and long-term interest rates, new regulations, inflation, fluctuations in debt and equity capital markets, levels of unemployment, consumer confidence and the general condition of the Canadian, North American and world economies. Lack of available credit or lack of confidence in the financial sector could materially and adversely affect the Corporation's financial position. There can be no assurance that a change in economic conditions will not negatively affect the Corporation's financial position.

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 year ended December 31, 2018 the total costs incurred under these leases was $1.2 million, respectively (December 31, 2017—$0.5 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 year ended December 31, 2018, was $0.4 million, respectively (December 31, 2017—$0.4 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 December 31, 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 December 31, 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

Club16 has loans and advances due from companies that are controlled by key management personnel of Club16 in the amount of $2.2 million as at December 31, 2018 (December 31, 2017—$1.8 million). The balance is included in accounts receivable in the Corporation's consolidated financial statements. The advancement is unsecured, due on demand and non-interest bearing.

Administrative services

Club16 has entered into an agreement to provide administrative services to a company controlled by key management personnel of Club16. Total fees charged for services under this agreement for the year ended December 31, 2018 was $0.1 million (December 31, 2017—$0.1 million). The agreement can be terminated by either party with six months' prior written notice.

DLC has entered into an agreement with a software development company to develop and support a customized mortgage app controlled by key management. Total fees charged for services under this agreement for the year ended December 31, 2018 was $0.3 million (December 31, 2017—$nil).

Key management compensation

Key management personnel comprise members of the Board of Directors and key management of the Corporation. Their compensation is as follows.

	Year ended			
(in thousands)		**December 31, 2018**		December 31, 2017
Director fees	**$**	**352**	$	213
Salaries and benefits		**1,621**		2,933
Share-based payments		**407**		2,873
	$	**2,380**	$	6,019

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 December 31, 2018 a liability has been recognized for the current fair value of the liability of $0.8 million (December 31, 2017—$0.6 million).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Areas that require management to make significant estimates, judgments and assumptions are as follows.

Control assessment and classification of non-controlling interest

The Corporation acquires controlling or majority interests in private companies. This requires management to apply significant judgement to assess whether the investment structure results in the Corporation having control, joint control or significant influence over the investee, and to determine the classification of non-controlling interest. The assessment of whether the Corporation has control, joint control or significant influence over the investee and the classification of non-controlling interest is dependent on such factors as distribution, voting and liquidity rights. Management's assessment of these factors and others will determine the accounting treatment for the investment and may have a significant impact on the Corporation's consolidated financial statements.

Intangible assets

Management has concluded that the DLC brand name has an indefinite useful life. This conclusion was based on many factors, including the Corporation's ability to continue to use the brand and the indefinite period over which the brand name is expected to generate cash flow. The determination that the brand has an indefinite useful life involves judgement, which could have an impact on the amortization charge recorded in the consolidated statement of income.

For each class of intangible assets with finite lives, management must decide the period over which it will consume the assets' future economic benefits. The determination of a useful life period involves judgement, which could have an impact on the amortization charge recorded in the consolidated statement of income.

Impairment of goodwill and intangible assets

Goodwill and indefinite life intangible assets are not amortized. Goodwill and indefinite life intangible assets are assessed for impairment on an annual basis, or when indicators of impairment are identified, by comparing the carrying amount of the asset to its recoverable amount, which is calculated as the higher of the asset's fair value less cost of disposal or its value in use. The value in use is calculated using a discounted cash flow analysis, which requires management to make many significant assumptions, including those related to future operating plans, discount rates and future growth rates.

Finite life intangible assets are assessed for indicators of impairment at the end of each reporting period. If indicators of impairment exist, the Corporation assesses whether the carrying amount of the asset is considered recoverable. An impairment loss is recorded when the carrying value exceeds its recoverable amount, which is calculated as the higher of the asset's fair value less cost of disposal or its value in use. See Note 10 of the Financial Statements.

Cash-generating unit ("CGU") determination

The determination of CGUs for impairment testing requires judgment when determining the lowest level for which there are separately identifiable cash inflows generated by a group of assets. In identifying assets to group into CGUs, the Corporation considers how the operations of each of its subsidiaries generate cash flows and how management monitors the entity's operations. The determination of CGUs could affect the results of impairment tests and the amount of the impairment charge, if any, recorded in the consolidated financial statements.

Deferred taxes

The determination of the Corporation's income and other tax liabilities requires the interpretation of complex tax regulations. Judgment is required in determining whether deferred tax assets should be recognized on the consolidated statement of financial position. Deferred tax assets require management to assess the likelihood that the Corporation will generate taxable income in future periods in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each applicable jurisdiction. These estimates and assumptions are subject to uncertainty and, if changed, could materially affect the assessment of the Corporation's ability to fully realize the benefit of the deferred tax asset. See Note 20 of the Financial Statements.

Liquidity

As part of its capital management process, the Corporation prepares and uses budgets and forecasts to direct and monitor the strategy, ongoing operations and liquidity of the Corporation and its subsidiaries. This includes ongoing and forecasted compliance with the covenants as set out within the Corporation's lending agreements and the Corporation's ability to meet its commitments and obligations as they become due. Budgets and forecasts are subject to significant judgment and estimates relating to future activity levels, future cash flows and the timing thereof, availability of acceptable financing arrangements and other factors which may or may not be within the control of the Corporation (customer demand, growth rates, access to capital, etc.).

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 eliminates lessee's classification of leases as either operating leases or finance 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 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

The Corporation will recognize right-of-use assets and lease liabilities for its operating leases of buildings, office space, and vehicle leases. The nature of expenses related to those leases will change because the Corporation will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Corporation recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized. IFRS 16 does not cause a difference in the actual cash flows but will change the presentation of cash flows relating to leases in the Corporation's consolidated statements of cash flows, as cash flows relating to leases will be presented as cash flows from financing activities.

Based on the information currently available, the Corporation estimates that the additional lease liabilities and right-to-use asset recognized as of January 1, 2019 will be material.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table summarizes selected annual information for 2018, 2017 and 2016.

		Period ended (1)				
(in thousands, except per share amounts)		**2018**		2017		2016
Consolidated Income Statement Data:						
Revenues	$	**133,541**	$	82,905	$	22,938
(Loss) income attributable to shareholders		**(21,062)**		(6,212)		(9,794)
(Loss) income per share:						
Basic	$	**(0.55)**	$	(0.17)	$	(0.42)
Diluted	$	**(0.55)**	$	(0.17)	$	(0.42)
Consolidated Statement of Financial Position Data:						
Total assets		**346,621**		354,365		258,171
Total long-term financial liabilities		**67,549**		64,352		7,662

(1) For the 12 months ended December 31, 2018, December 31, 2017, and for the 15 months ended December 31, 2016.

Revenues increased in the current year over the comparative periods due to the acquisitions of DLC in June 2016, Club16 in December 2016, Impact in March 2017, and AG in October 2017. There was a change in our management team and business strategy in February 2016.

Total assets increased over the three-year period primarily due to the above noted acquisitions. Total long-term financial liabilities increased in the current period over the comparative periods due to the above noted acquisitions. With the change in our business, we have been focused on sourcing and completing acquisitions consistent with the Corporation's investment model, which has resulted in an increase in loans and borrowings.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

ADJUSTED EBITDA AND FREE CASH FLOW

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

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

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

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

The following table reconciles 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			Year ended		
(in thousands)		**Dec. 31, 2018**		Dec. 31, 2017		**Dec. 31, 2018**	Dec. 31, 2017
LOSS BEFORE INCOME TAX	$	**(7,138)**	$	(7,725)	**$**	**(8,346)**	$ (1,413)
Add back:							
Depreciation and amortization		**4,424**		3,583		**17,267**	10,882
Finance expense		**2,204**		1,808		**8,571**	4,917
		(510)		(2,334)		**17,492**	14,386
Adjustments to remove:							
Share-based payments		**52**		356		**408**	3,066
Net loss (gain) on sale of capital and intangible assets		**(49)**		440		**12**	(1,244)
Gain on sale of investment		**-**		-		**-**	(1,902)
Foreign exchange loss (gain)		**2,916**		221		**4,645**	(1,468)
Dividends paid to non-controlling interest shareholders		**-**		-		**1,500**	-
Loss on contract settlement		**(50)**		-		**1,463**	-
Change in fair value of non-controlling interest liability		**41**		3,314		**180**	4,285
Gain on financial instrument		**-**		2,546		**-**	-
Non-cash write down/impairment		**6,163**		79		**6,163**	2,892
Special NCI bonus		**(375)**		-		**-**	-
Other income		**-**		(398)		**(63)**	(398)
Acquisition, integration and restructuring costs		**(169)**		116		**2,736**	729
Adjusted EBITDA		**8,019**		4,340		**34,536**	20,346
Adjustments:							
NCI portion of adjusted EBITDA		**(3,688)**		(2,462)		**(16,346)**	(10,668)
Cash interest expense (1)		**(1,678)**		(1,341)		**(6,422)**	(3,780)
Cash income tax expense (1)		**(684)**		(824)		**(2,928)**	(2,670)
Maintenance capex (1)		**(1,002)**		(394)		**(4,429)**	(1,276)
Free Cash Flow attributable to FAC shareholders		**967**		(681)		**4,411**	1,952

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

ADJUSTED EBITDA MARGIN

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

ADJUSTED EBITDA ATTRIBUTED TO SHAREHOLDERS AND NCI

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

PROPORTIONATE SHARE OF INVESTEE ADJUSTED EBITDA

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

	Three months ended		Year ended	
(in thousands)	**Dec. 31, 2018**	Dec. 31, 2017	**Dec. 31, 2018**	Dec. 31, 2017
Adjusted EBITDA	**8,019**	4,340	**34,536**	20,346
Add back:				
Corporate and consolidated	**637**	1,349	**3,208**	5,623
NCI portion of adjusted EBITDA	**(3,688)**	(2,462)	**(16,346)**	(10,668)
Total Proportionate share of investee adjusted EBITDA	**4,968**	3,227	**21,398**	15,301

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

	Three months ended		Year ended	
(in thousands)	**Dec. 31, 2018**	Dec. 31, 2017	**Dec. 31, 2018**	Dec. 31, 2017
Net loss	**$ (8,792)**	$ (5,699)	**$ (20,377)**	$ (657)
Add back:				
Foreign exchange loss (gain)	**2,916**	221	**4,645**	(1,468)
Net loss (gain) on sale of capital and intangible assets	**(49)**	440	**12**	(1,244)
Gain on sale of investment	**-**	-		(1,902)
Non-cash write down/impairment	**6,163**	79	**6,163**	2,892
Dividend paid to non-controlling interest shareholders	**-**	-	**1,500**	-
Change in fair value of non-controlling interest liability	**41**	3,314	**180**	4,285
Loss on contract settlement	**(50)**	-	**1,463**	-
Gain on financial instrument	**-**	2,546		-
Non-cash write-off of deferred tax asset	**-**	-	**10,439**	-
Special NCI bonus	**(375)**	-		-
Other income	**-**	(398)	**(63)**	(398)
Acquisition, integration and restructuring costs	**(169)**	116	**2,736**	729
Income tax effects of adjusting items	**(209)**	(411)	**(1,677)**	277
Adjusted (loss) net income	**$ (524)**	$ 208	**$ 5,021**	$ 2,514
Adjusted net (loss) income attributable to shareholders	**(1,536)**	(836)	**(1,026)**	(2,087)
Adjusted net income attributable to non-controlling interest	**1,012**	1,044	**6,047**	4,601
Diluted adjusted (loss) income per share	**(0.04)**	(0.02)	**(0.03)**	(0.05)