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, 2019 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, 2020, in conjunction with the 2019 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"), and Cape Communications International Inc. operating as Impact Radio Accessories ("Impact"). DLC's subsidiary Newton Connectivity Systems Inc. is referred to herein as "NCS".

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

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

Discontinued Operations – Sale of Interest in Astley Gilbert Limited ("AG")

On September 30, 2019, we sold our 50% interest in AG (the "AG Transaction"), as further discussed in the Overview section below. As a result of the AG Transaction, our results are presented with the financial results of AG segregated in the consolidated statements of loss as discontinued operations. This includes our impairment loss and net gain on disposition recognized on AG. In accordance with IFRS, our comparative results also reflect the segregation of AG as a discontinued operation. For the period ending December 31, 2019, the net assets of AG have been removed from the consolidated statement of financial position. The consolidated statement of financial position for December 31, 2018 is not restated.

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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," or similar words suggesting future outcomes or an outlook. Forward-looking information in this document includes, but is not limited to:

- The 2020 outlook and strategic objectives;
- The Corporation's expectation that its collaborative approach with its investees will enhance and accelerate growth and performance;
- Our investee entities ability to distribute cash to the corporate head office;
- Revenue from investees in the future being greater than revenue from investees for the current period;
- Our business plan and investment strategy;
- General business strategies and objectives;
- Investee growth plans including: Club16 growing membership numbers from new clubs opened in 2019 and expanding personal training; DLC adding additional franchises through targeted recruiting initiatives; and Impact focusing on securing large orders;
- The impact of the ongoing COVID-19 pandemic and its affect on the operations of the Corporation and its subsidiaries;
- Club16 seeking rent abatements and deferrals during the COVID-19 crisis; and
- The expected benefits of the AG Transaction including the reduction of annual interest expense, the decrease in the Corporation's leverage ratio and the reduction in the Corporation's proportionate share of investee EBITDA;

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

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

- Changes in taxes;
- Changes in foreign currency rates;
- Changes in U.S. tariffs;
- Increased operating, general and administrative, and other costs;
- Changes in interest rates;
- General business, economic and market conditions;
- Changes in health outbreaks and impacts on market conditions;
- The extent and duration of COVID-19;
- Our ability to obtain services and personnel in a timely manner and at an acceptable cost to carry out our activities;
- DLC's ability to maintain its existing number of franchisees and add additional franchisees;
- Changes in Canadian mortgage lending and mortgage brokerage laws;
- Material decreases in the aggregate Canadian mortgage lending business;
- Changes in the fees paid for mortgage brokerage services in Canada;
- Changes in the regulatory framework for the Canadian housing sector;
- Demand for DLC, Club16, and Impact's products remaining consistent with historical demand;
- Our ability to realize the expected benefits of our DLC, Club16 and Impact transactions;
- Our ability to generate sufficient cash flow from investees to meet current and future commitments and obligations; and
- The uncertainty of estimates and projections relating to future revenue, taxes, costs and expenses; changes in, or in the interpretation of, laws, regulations or policies; the outcome of existing and potential lawsuits, regulatory actions, audits and assessments; and other risks and uncertainties described elsewhere in this document and in our other filings with Canadian securities authorities.

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

Response to COVID-19

The Corporation expects that COVID-19 will have a material impact on our subsidiary partners, DLC, Club16 and Impact.

Management has undertaken a wide range of initiatives to improve the financial flexibility of the Corporation and its subsidiaries. To improve overall liquidity at head office, management has deferred compensation, unwound its foreign currency exchange forward agreement in exchange for net proceeds of CAD $1.5 million as well as extending payment terms with its various vendor partners. At the subsidiary level: principal payments on term debt have been postponed for three to six months for Club16 and DLC; non-essential expenditures have been deferred; staff have temporarily been reduced at Club16 and Impact; Club16 has increased its credit line by $1.5 million; and Club16 has entered into negotiations with landlords to arrange rent abatements or deferrals. In addition, management is working closely with its subsidiaries to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19. See the 2020 Outlook and Strategic Objective section and the Liquidity section of this document.

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 (loss), adjusted (loss) income per share, and free cash flow.

OVERVIEW

OUR BUSINESS

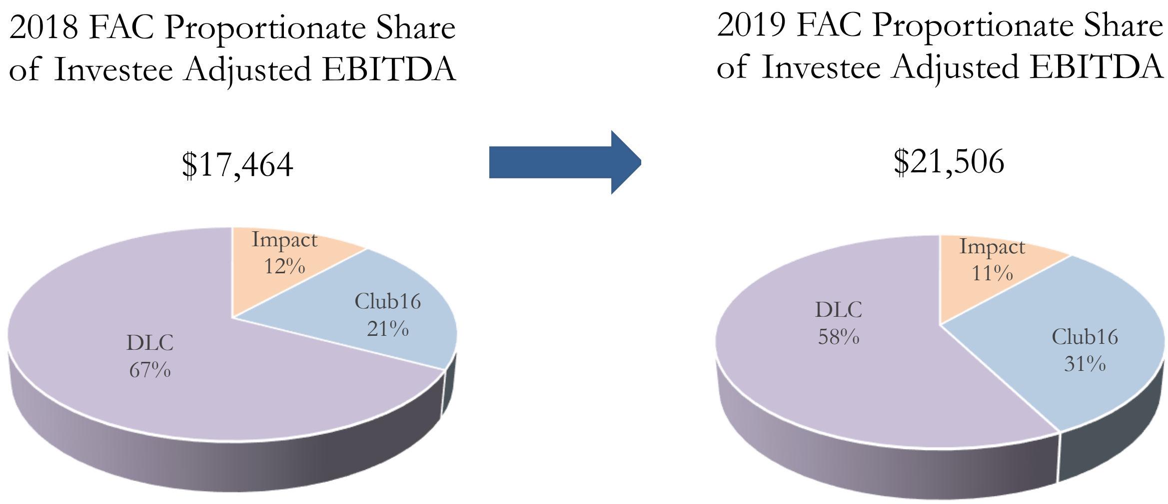
FAC is an investment corporation that holds controlling interests in three premium owner-operated companies. Our capital is permanent in nature and has no mandated liquidity time frame. Through our investment approach, our model enables owner-operators to remain actively involved in the business operations.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

We currently operate a corporate head office and three business segments, being DLC (DLC and its subsidiaries); Club16; and Impact. We currently own a 60% interest in DLC, a 60% interest in Club16 and a 52% interest in Impact.

For financial reporting purposes, FAC controls these portfolio companies, and as a result, this MD&A and the consolidated financial statements for the three months and year ended December 31, 2019 include 100% of the accounts of our subsidiaries. Following the sale of AG (refer to discussion below), each subsidiary of the Corporation is its own operating segment; as a result, the Corporation has renamed its operating segments. The operating segments consist of business operations conducted through DLC (previously "Franchise"), Club16 (previously "Consumer Products and Services"), and Impact (previously "Business Products and Services"). The Corporate and Consolidated segment contains corporate costs and consolidating accounting entries and maintains the same segment name as previously disclosed.

On September 30, 2019, we sold our 50% interest in AG for proceeds of $17.0 million comprised of: (i) a cash payment of $14.2 million; and (ii) the cancellation of the interest-bearing promissory note, which had a principal balance owing of $2.5 million and accrued interest of $0.3 million. The Corporation used $11.4 million of the cash proceeds from the AG Transaction to repay Corporate debt and $2.8 million of the cash proceeds were applied against certain make-whole payment obligations for the early debt repayment under the Corporation's credit agreement.

As a result of the AG Transaction, our results for the current and comparative period, are presented with the financial results of AG segregated in the statement of income as discontinued operations. This includes the $6.8 million impairment loss previously recognized and the $0.4 million gain on disposition. For the period ending December 31, 2019, the net assets of AG have been removed from the consolidated statement of financial position; however, the net assets of AG are still included within the comparative period ending December 31, 2018. As a result of the classification of AG as a discontinued operation, AG has been excluded from the operating segment "Impact".



(1) FAC proportionate share of investee adjusted EBITDA are from continuing operations. 2018 has been amended to exclude AG from the Impact segment.
(2) See the Consolidated Results section of this MD&A for further information on each of these business segments.
(3) Please see the Non-IFRS Financial Performance Measures section of this document for the definition of proportionate share of investee adjusted EBITDA.
(4) Pursuant to the adoption of the new accounting standard, IFRS 16 – Leases, $4.7 million of lease payments previously recognized as rent expense are now reflected as $4.0 million of depreciation expense and $2.3 million of interest expense in the year ended December 31, 2019. Please see the Accounting Policies section of this document for the impact of the adoption of IFRS 16 – Leases.

2019 OVERVIEW

We entered 2019 focused on continuing to grow and support our portfolio companies; managing costs; and reducing Corporate overhead expenses and debt.

As noted above, we completed the AG Transaction on September 30, 2019. AG was previously included in the Corporation's "Business Products and Services" operating segment, which for the year ended December 31, 2019, has been renamed to the "Impact" operating segment. The Corporation's proportionate share of investee adjusted EBITDA is reduced by AG's contribution. The Corporation's annual interest expense on our credit facility is expected to reduce by approximately $1.0 million from principal debt repayment from the AG Transaction, resulting in a corresponding increase in free cash flow for the Corporate and Consolidation segment. Further, after the year ended December 31, 2019 the Corporate and Consolidation segment's free cash flow, and foreign exchange and USD LIBOR rates may be significantly affected by COVID-19, depending on the scale and duration of the pandemic. See the 2020 Outlook and Strategic Objective section of this document for further COVID-19 discussion.

Following the AG Transaction, our strategic objective is to continue to optimize operations and performance of our three portfolio companies while continuing to manage and reduce our corporate debt and Corporate overhead expenses. In 2019, we continued to focus on maximizing shareholder value through managing costs and free cash flow growth.

Our investee companies continue to organically grow their businesses. Notable growth initiatives at the investee level included:

- DLC increased funded mortgage volumes by 10% when comparing the year ended December 31, 2019 and the year ended December 31, 2018 and increased revenues by $4.7 million or 12% from higher funded mortgage volumes, higher network fees and growth in connectivity revenue;
- DLC increased funded mortgage volumes by 28% when comparing the three months ended December 31, 2019 and the three months ended December 31, 2018;
- DLC grew its number of brokers from 5,373 at December 31, 2018 to 5,627 brokers at December 31, 2019;

- Club16 increased member numbers by 10,849 or 13% at existing locations and through new club locations in Tsawwassen, which opened in January 2019 and Langley (previously She's Fit! Langley club) which opened in November 2019;
- Club16 expanded its personal training offering from 7 locations at December 31, 2018 to 10 locations at December 31, 2019; and
- Impact secured a large order near the end of 2018 which was fulfilled in the first half of 2019.

In 2019, we continued to reduce Corporate overhead expenses and debt. A decrease of $1.3 million in general and administrative expenses (net of restructuring costs) from $3.4 million for the year ended December 31, 2018 to $2.1 million for the year ended December 31, 2019, were primarily from headcount reductions (in corporate development and finance), decrease in occupancy costs through subleasing office space, and transitioning board compensation from cash-based compensation to restricted share units ("RSUs").

On March 12, 2019, the Corporation amended its corporate credit facility, which allowed for repayments of debt from free cash flow without penalty. We were able to reduce our corporate credit facility from $57.3 million at December 31, 2018 to $42.4 million at December 31, 2019, through $1.0 million of repayments from free cash flow and a $11.4 million repayment from proceeds received from the sale of AG; as the corporate credit facility is revalued at the December 31, 2019 USD rate, our December 31, 2019 balance includes $2.5 million of foreign exchange translation. In addition, the Corporation entered into a USD $15.0 million (CAD $19.9 million) foreign exchange hedge facility to mitigate our foreign exchange exposure on our USD loan, refer to the Market Risk section of this document for additional information.

Implementation of IFRS 16 – Leases ("IFRS 16")

On January 1, 2019, we adopted the new IFRS 16 accounting standard. The new standard is 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 are now captured as depreciation and interest expense under the new standard, which increases adjusted EBITDA. While the standard increases adjusted EBITDA, it does not change the cash flows associated with the lease.

The new standard has been adopted applying the modified retrospective approach, which resulted in a catch-up adjustment recognized in opening retained earnings and the prior year comparatives are not restated under the new standard. Refer to Accounting Policies section for additional information.

2019 FINANCIAL HIGHLIGHTS

Below are the financial highlights of our results for the three months and year ended December 31, 2019. The results for the three months and year ended December 31, 2019 reflect the segregation of AG as discontinued operations. The prior year comparatives have been amended to conform with current period presentation. The discontinued operations are only included in net loss and net loss per common share.

	Three months ended		Year ended	
(in thousands except per share amounts)	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Revenues	**$ 22,895**	$ 20,614	**$ 90,322**	$ 79,816
Income from operations	**4,957**	3,548	**19,181**	12,551
Adjusted EBITDA (1)	**8,315**	6,288	**34,660**	26,668
Adjusted EBITDA attributable to: (1)				
Shareholders	**4,604**	3,466	**19,273**	14,256
Non-controlling interests	**3,711**	2,822	**15,387**	12,412
Adjusted EBITDA margin (1)	**36%**	31%	**38%**	33%
Proportionate share of investee adjusted EBITDA (1)	**5,247**	4,103	**21,506**	17,464
Free cash flow (1)	**1,167**	864	**4,214**	2,833
Net income (loss)	**1,321**	(8,792)	**(4,411)**	(20,377)
Net income (loss) from continuing operations	**1,321**	(2,687)	**2,468**	(13,120)
Net loss from discontinued operations	**-**	(6,105)	**(6,879)**	(7,257)
Net income (loss) attributable to:				
Shareholders	**170**	(6,715)	**(6,747)**	(21,062)
Non-controlling interests	**1,151**	(2,077)	**2,336**	685
Adjusted net income (loss) (1)	**1,193**	(297)	**4,805**	4,739
Adjusted net (loss) income attributable to: (1)				
Shareholders	**(60)**	(1,401)	**(1,470)**	(1,080)
Non-controlling interests	**1,253**	1,104	**6,275**	5,819
Diluted loss per share	**-**	(0.18)	**(0.18)**	(0.55)
Adjusted loss per share (1)	**-**	(0.04)	**(0.04)**	(0.03)
Dividend declared per share	**-**	0.0125	**-**	0.0375

(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, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Adjusted EBITDA (1)				
DLC	**$ 6,602**	$ 4,648	**$ 21,089**	$ 19,836
Club16	**1,973**	944	**11,049**	6,089
Impact	**383**	1,333	**4,755**	3,951
Corporate and consolidated	**(643)**	(637)	**(2,233)**	(3,208)
Total adjusted EBITDA (1)	**8,315**	6,288	**34,660**	26,668
Proportionate share of investee adjusted EBITDA (1)				
DLC	**3,865**	2,843	**12,404**	11,756
Club16	**1,183**	566	**6,629**	3,653
Impact	**199**	694	**2,473**	2,055
Total Proportionate share of investee adjusted EBITDA (1)	**$ 5,247**	4,103	**$ 21,506**	$ 17,464

(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, 2019 increased $1.4 million when compared to the three months ended December 31, 2018. The increase is primarily due to higher income from operations within the DLC segment of $3.0 million, partly offset by $0.9 million lower income from Impact, $0.6 million higher Corporate general and administrative expenses, and $0.1 million lower income from Club16. The DLC segment income increased through higher revenues from a 28% increase in funded mortgage volumes compared to the three months ended December 31, 2018. The decrease in the Impact segment income is due to lower revenues from the timing of several large orders. The increase in Corporate general and administrative expenses was primarily due to a $0.7 million reversal of management severance initially recognized as part of the restructuring provision recorded in the three months ended December 31, 2018 which did not occur in the current year, partly offset by initiatives to reduce corporate general and administrative expenses in 2019. The decrease in Club16's segment income is from increased operating expenses partly offset by increased revenues. The full revenue potential from new clubs have not been fully realized, which is typical for new club openings as they build their momentum to reach anticipated member numbers.

Adjusted EBITDA increased $2.0 million compared to the three months ended December 31, 2018. Adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $1.2 million of lease payments previously recognized as rent expense are now reflected as $1.1 million of depreciation expense and $0.8 million of interest expense in the three months ended December 31, 2019. In addition, DLC's adjusted EBITDA increased $1.9 million due to an increase of revenue in the segment. This is partly offset by a decrease in Impact's adjusted EBITDA of $1.0 million due to decreased revenues and a decrease in Club16's adjusted EBITDA of $0.1 million due to higher general and administrative expenses.

Free cash flow increased $0.3 million or 35% compared to the three months ended December 31, 2018 with the increase in adjusted EBITDA attributable to shareholders excluding lease payments partly offset by higher maintenance capital expenditures compared to prior year. The high level of maintenance capital investment is primarily related to renewal costs for DLC franchises.

Net income for the period increased $10.1 million compared to the three months ended December 31, 2018, from income of $1.3 million in 2019 compared to a loss of $8.8 million in 2018. Net income from continuing operations for the period increased $4.0 million and net income from discontinued operations increased $6.1 million compared to the three months December 31, 2018. The increase in net income from continuing operations was primarily due to an increase in operating income from continuing operations of $1.4 million, lower other expenses of $2.3 million, and lower taxes. Key changes in other expenses when compared to the three months ended December 31, 2018 were: $3.7 million positive movement in foreign exchange related to our USD debt and cash balances, partly offset by a $0.4 million negative movement in the fair value of our foreign currency exchange forward contract, $0.4 million increase in finance expense, and a $0.3 million loss on disposal of capital assets within the Club16 segment. Club16's loss on disposal of capital assets is primarily due to disposal of equipment from She's Fit! Langley, which was transitioned to the new Club16 Langley Club in November 2019. The increase in financing costs over prior year primarily related to $0.8 million additional interest from the adoption of IFRS 16, partly offset by a decrease in interest expense of $0.4 million primarily from reduced Corporate borrowings from principal repayments from proceeds from the AG Transaction and free cash flow repayments, and slightly lower USD LIBOR rates during the three months ended December 31, 2019 when compared to the three months ended December 31, 2018. The corporate head office's USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

The Corporation's discontinued operations were sold on September 30, 2019 and therefore had no operating activities during the three months ended December 31, 2019 compared to a net loss of $6.1 million in the three months ended December 31, 2018.

Adjusted net income for the three months ended December 31, 2019 increased $1.5 million compared to the same period in the previous year with increased income from operations.

Annual highlights

Income from operations for the year ended December 31, 2019 increased $6.6 million when compared to the year ended December 31, 2018. This increase is driven by increased income from operations across all segments of $2.8 million, $0.9 million and $0.7 million from the DLC, Impact and Club16 segments, respectively, from higher revenues in all three segments. Further, Corporate operating expenses decreased $2.3 million primarily from a decrease in restructuring costs of $2.0 million recognized in 2018 compared to $0.9 million recognized in 2019 for management severance and staff retention payments, combined with lower expenses from our ongoing initiative to reduce corporate general and administrative expenses.

Adjusted EBITDA increased $8.0 million or 30% compared to the year ended December 31, 2018. Adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $4.7 million of lease payments previously recognized as rent expense are now reflected as $4.0 million of depreciation expense and $2.3 million of interest expense in the year ended December 31, 2019. In addition, DLC's adjusted EBITDA increased $1.1 million largely due to higher funded mortgage volumes, Club16 increased $0.7 million due to higher Club16 revenue from recent club openings and expansions, and Impact's adjusted EBITDA increased $0.7 million primarily due to higher revenues. In addition, there was an increase in Corporate adjusted EBITDA of $0.8 million due to lower general and administrative costs.

Free cash flow increased $1.4 million or 49% compared to the year ended December 31, 2018 with the increase in adjusted EBITDA attributable to shareholders excluding lease payments offset by higher cash taxes paid.

Net loss for the period decreased $16.0 million compared to the year ended December 31, 2018. The decrease in net loss was primarily due to an increase in net income from continuing operations for the year of $15.6 million and a $0.4 million decrease in net loss from discontinued operations compared to the year ended December 31, 2018. Continuing operations increase in net income is due to lower taxes, an increase in operating income from continuing operations, and lower other expenses when compared to the year ended December 31, 2018. The decrease in taxes is primarily due to a $10.4 million non-cash write-off of a portion of the Corporation's deferred tax asset during the year ended December 31, 2018, which did not occur in 2019. Other expenses decreased by $1.7 million for the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily due to a $7.1 million foreign exchange movement related to our USD debt and cash balances, partly offset by a $5.6 million increase in finance expense. The increase in financing costs over prior year primarily related to the $2.8 million make-whole interest payment made to the Corporation's lender, $0.4 million increase in the amortization of debt issuance costs, and $2.3 million additional interest from the adoption of IFRS 16.

AG was sold on September 30, 2019; therefore, net loss from discontinued operations for the year ended December 31, 2019 is reported up to the date of disposal. Net loss from discontinued operations decreased $0.4 million compared to the year ended December 31, 2018. The decrease in net loss is primarily due to a $1.5 million dividend paid to non-controlling interest shareholders in the year ended December 31, 2018, which did not occur in 2019, partly offset by a $0.7 million higher impairment loss recognized in the year ended December 31, 2019 compared to the prior year to reflect the fair value of AG based on the proceeds from the AG Transaction, and $1.2 million of lease payments previously recognized as rent expense, now reflected as $1.4 million of depreciation expense and $0.3 million of interest expense from the adoption of IFRS 16.

Adjusted net income for the year ended December 31, 2019 remained relatively consistent to the same period in the previous year. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

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

(in thousands, except shares outstanding)	As at December 31, 2019		December 31, 2018	
Cash and cash equivalents	**$**	**5,458**	$	5,492
Working capital deficiency	**$**	**(14,637)**	$	(11,053)
Total loans and borrowings (1)	**$**	**61,173**	$	86,705
Shareholders' equity	**$**	**73,711**	$	79,956
Common shares outstanding		**38,182,513**		38,182,542

(1) Net of debt issuance costs.

REVIEW OF FINANCIAL RESULTS

CONSOLIDATED RESULTS

Below is selected financial information from our three months and year ended December 31, 2019 consolidated financial results from continuing operations. See the Accounting Policies section of this MD&A and notes to our December 31, 2019 financial statements for accounting policies and estimates as they relate to the following discussion. A reconciliation of our reportable segments to our consolidated results presented in this table can be found in the Segmented Results from Continuing Operations section.

(in thousands)	Three months ended Dec. 31, 2019		Dec. 31, 2018		Year ended Dec. 31, 2019		Dec. 31, 2018	
Continuing Operations								
Revenues	**$**	**22,895**	$	20,614	**$**	**90,322**	$	79,816
Operating expenses (1)		**17,938**		17,066		**71,141**		67,265
Income from operations		**4,957**		3,548		**19,181**		12,551
Other expense, net		**(2,555)**		(4,855)		**(12,189)**		(13,871)
Income (loss) before tax		**2,402**		(1,307)		**6,992**		(1,320)
Add back:								
Depreciation and amortization		**3,541**		2,763		**13,933**		10,762
Finance expense		**2,490**		2,083		**13,690**		8,124
Other adjusting items (2)		**(118)**		2,749		**45**		9,102
Adjusted EBITDA (2)	**$**	**8,315**	$	6,288	**$**	**34,660**	$	26,668

(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 from continuing operations for the three months ended December 31, 2019 increased $2.3 million over the three-month period ended December 31, 2018, from $20.6 million to $22.9 million. DLC segment revenues increased $2.7 million from a 28% increase in funded mortgage volumes when compared to the three months ended December 31, 2018. Club16 segment revenues increased by $1.0 million driven by Club16's membership growth from recent club openings and additional revenue from personal training. Impact segment revenues decreased $1.5 million due to lower revenues as the prior period included a large order.

Annual highlights

Consolidated revenues from continuing operations for the year ended December 31, 2019 increased $10.5 million over the year ended December 31, 2018, from $79.8 million to $90.3 million. DLC segment revenues increased $4.7 million from an increase in funded mortgage volumes and an increase in connectivity revenue. Club16 segment revenues increased by $3.7 million achieved on membership growth from recent club openings and additional revenue from personal training. Impact segment revenues increased $2.1 million primarily due to the completion of a large sales order.

Operating expenses

(in thousands)	Three months ended Dec. 31, 2019	Three months ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
Direct costs	**$ 3,439**	$ 3,979	**$ 16,376**	$ 14,056
General and administrative	**10,883**	10,272	**40,457**	42,039
Share-based payments	**75**	52	**375**	408
Depreciation and amortization	**3,541**	2,763	**13,933**	10,762
	$ 17,938	$ 17,066	**$ 71,141**	$ 67,265

Direct costs

Three-month highlights

Consolidated direct costs from continuing operations relate to the operations of each of the three business segments for the quarter. DLC's direct costs comprise of recruiting and support costs, and advertising fund expenditures. Club16's direct costs relate primarily to costs of personal training, and Impact's direct costs relate to the cost of product sales. Consolidated direct costs decreased by $0.5 million over the three months ended December 31, 2018, to $3.4 million from $4.0 million. This variance reflects lower Impact direct costs associated with a decrease in Impact revenues and reduced DLC advertising fund expenses, partly offset by higher personal training costs connected to higher personal training revenue within the Club16 segment.

Annual highlights

During the year ended December 31, 2019 direct costs increased $2.3 million over the year ended December 31, 2018, to $16.4 million from $14.1 million. The increase is primarily from higher personal training costs within the Club16 segment, higher direct costs associated with an increase in Impact sales, and an increase in advertising expenses within the DLC segment.

General and administrative

Three-month highlights

Consolidated general and administrative expenses from continuing operations increased by $0.6 million compared to the three months ended December 31, 2018 to $10.9 million. This variance is primarily due to a $0.6 million increase in Corporate general and administrative expenses, $0.2 million increase in DLC, $0.1 million increase in Impact, partly offset by a $0.3 million decrease in general and administrative expense in the Club16 segment. Club16's decrease includes $1.1 million of lease payments previously recognized as rent expense now reflected as $1.0 million of depreciation expense and $0.8 million of interest expense upon the adoption of IFRS 16, partly offset by an increase of $0.4 million in wages and salaries from additional positions from new club openings and a $0.2 million increase in advertising costs associated with the opening of Club16 Langley (previously She's Fit! Langley). Corporate general and administrative expenses increased due to a $0.7 million reversal of restructuring provisions recorded in the three months ended December 31, 2018, partly offset by expense reductions achieved from our ongoing initiative to reduce corporate general and administrative expenses.

Annual highlights

During the year ended December 31, 2019 general and administrative expenses from continuing operations decreased $1.6 million. This variance is primarily due to a $2.4 million decrease in Corporate general administrative expenses and a $2.4 million decrease in the Club16 segment. Club16's decrease includes $4.3 million of lease payments previously recognized as rent expense now reflected as $3.8 million of depreciation expense and $2.2 million of interest expense upon the adoption of IFRS 16, which is partly offset by an increase of $1.1 million in wages and salaries from additional positions from new club openings and a $0.3 million increase in advertising costs associated with the opening of Club16 Langley (previously She's Fit! Langley) and Club16 Tsawwassen. DLC and Impact segment expenses increased $2.7 million and $0.4 million, respectively. The decrease in Corporate general and administrative expenses is due to $2.0 million restructuring provision recorded in 2018 compared to $0.9 million in 2019, combined with expense reductions achieved from our ongoing initiative to reduce corporate general and administrative expenses. The increase in DLC is primarily due to a $0.5 million loss on settlement of a contract dispute with a third party, higher advertising expenses due to the timing of marketing events, and higher personnel related costs. Impact's increase in general and administrative expenses is primarily due to higher wages and salaries from additional positions.

Share-based payments

When compared to the three months and year ended December 31, 2018, share-based payments were relatively consistent. The amounts include vesting expense associated with the Corporation's share options, RSUs, and Impact's share appreciation rights. There were no share options granted in the year ended December 31, 2019 or year ended December 31, 2018.

Depreciation and amortization

Depreciation and amortization primarily relate to the acquisition of, and subsequent additions to, finite life intangible assets acquired as part of the Corporation's acquisition of our subsidiaries 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 loss 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 and Impact; Impact's non-compete covenants and supplier relationships.

Depreciation and amortization increased $0.8 million and $3.2 million when compared to the three months and year ended December 31, 2018. This variance reflects right-of-use asset amortization of $1.1 million and $4.0 million for the three months and year ended December 31, 2019 upon the adoption of IFRS 16. In addition, additional amortization expense associated with recent capital expenditures for new club expansions and was partly offset by a change in how we classify depreciation and amortization of certain Franchise non-competition agreements and relationships. The change recognizes depreciation of certain Franchise non-competition agreements to be classified as a charge against revenue, decreasing revenue, instead of being recognized as depreciation and amortization expense. The total depreciation charged against revenue for the three months and year ended December 31, 2019 was $0.4 million and $1.5 million, respectively. Refer to Note 3 of the financial statements for additional detail regarding classification.

Other expenses

	Three months ended		Year ended	
(in thousands)	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Finance expense	**$ 2,490**	$ 2,083	**$ 13,690**	$ 8,124
Foreign exchange (gain) loss	**(806)**	2,929	**(2,449)**	4,647
Change in fair value of foreign exchange forward contract	**365**	-	**365**	-
Net loss (gain) on disposal of capital and intangible assets	**272**	(13)	**301**	51
Loss (gain) on settlement of contract	**51**	(50)	**404**	1,463
Income on equity accounted investment	**(9)**	-	**(104)**	-
Other expense (income)	**192**	(94)	**(18)**	(414)
	$ 2,555	$ 4,855	**$ 12,189**	$ 13,871

Three-month highlights

Other expenses from continuing operations decreased $2.3 million for the three months ended December 31, 2019 compared to the three months ended December 31, 2018. The decrease in other expenses is primarily driven by a $3.7 million positive movement in foreign exchange related to our USD debt and cash balances. The decrease in other expenses was partly offset by a $0.4 million negative change in fair value of our foreign exchange forward contract, $0.4 million increase in finance expense, and $0.3 million increase in loss on disposal of capital and intangible assets. The positive foreign exchange movement is primarily related to the revaluation of our USD debt. The exchange rate at December 31, 2019 was 0.7699 CAD to USD (December 31, 2018—0.7330 CAD to USD). On December 6, 2019, the Corporation entered into a USD $15.0 million (CAD $19.9 million) foreign exchange forward contract to mitigate the risk of negative changes in the CAD to USD foreign exchange rate, at a forward rate of 1.3629. For information on foreign exchange risk refer to the Market Risk section of this MD&A for additional discussion.

The increase in financing costs over the prior three months ended 2018 primarily relates to $0.8 million from the adoption of IFRS 16, partly offset by lower Corporate borrowings and a slight decrease in USD LIBOR rate during the three months ended December 31, 2019 when compared to the three months ended December 31, 2018. The corporate head office's USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

The loss on the disposal of capital and intangible assets primarily relates to disposed fitness equipment from the conversion of She's Fit! Langley to Club16 Langley.

Annual highlights

Other expenses from continuing operations decreased $1.7 million for the year ended December 31, 2019 compared to the year ended December 31, 2018. The decrease in other expenses is driven primarily by $7.1 million positive foreign exchange movement related to our USD debt and cash balances, partly offset by an increase in finance expense of $5.6 million. The positive foreign exchange movement is primarily related to the revaluation of our USD debt. The exchange rate at December 31, 2019 was 0.7699 CAD to USD (December 31, 2018—0.7330 CAD to USD).

The increase in financing expense over the prior year primarily relates to the $2.8 million make-whole interest payment made to our lender concurrent with the principal repayment of $11.4 million from proceeds on disposal of our 50% interest in AG, combined with non-cash accelerated amortization of debt issuance costs of $0.6 million recognized following the debt repayment, which primarily resulted in the increase of $0.4 million of debt issuance costs recognized in the year ended December 31, 2019 compared to the year ended December 31, 2018. In addition, finance expense increased $2.3 million from the adoption of IFRS 16, partly offset by lower Corporate borrowings and a decrease in USD LIBOR rate during the year ended December 31, 2019 when compared to the year ended December 31, 2018. The corporate head office's USD loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. See the Consolidated Liquidity and Capital Resources section of this MD&A for additional discussion of our credit facilities.

DISCONTINUED OPERATIONS

On September 30, 2019 we sold our 50% interest in AG for proceeds of $17.0 million comprised of: (i) a cash payment of $14.2 million; and (ii) the cancellation of the interest-bearing promissory note, which had a principal balance owing of $2.5 million and accrued interest of $0.3 million. The Corporation used $11.4 million of the cash proceeds from the AG Transaction to repay Corporate debt and $2.8 million of the cash proceeds where applied against certain make-whole payment obligations for the early debt repayment under the Corporation's credit agreement.

The Corporation recognized a non-cash impairment loss of $6.8 million to reflect the fair value of AG based on the purchase price (year ended December 31, 2018—$6.2 million). A net gain on the sale of AG included within income from discontinued operations of $0.4 million was recognized when the Corporation completed the sale of its 50% interest in AG.

The sale of AG is considered a disposition of a core asset, as AG represented greater than 10% of the Corporation's total revenues and total assets at September 30, 2019. AG was previously reported within the Impact segment (previously "Business Products and Services" segment) and was significant to the segment's financial results and operational performance. AG had seen decreasing revenues due to softened market conditions in the Ontario print industry in 2019. Further, the Corporation and management of AG did not share the same long-term vision for AG going forward. As such we believe the sale of AG was in the shareholders' best interest.

With the sale of AG, the Corporation presents discontinued operations in the statement of income for both current and comparative periods. The following summarizes the results of discontinued operations. Current year results include all periods up to the date of disposal, September 30, 2019 and prior year results include all periods up to the year ended December 31, 2018.

(in thousands)		Nine Months Ended September 30, 2019		Year ended December 31, 2018
Revenues	**$**	**38,224**	$	53,725
Operating expenses (1)		**38,075**		52,502
Income from operations		**149**		1,223
Other expenses (2)		**(7,485)**		(8,249)
Loss before tax from discontinued operations		**(7,336)**		(7,026)
Current tax expense		**(706)**		(1,057)
Deferred tax recovery		**723**		826
		17		(231)
Gain on sale of discontinued operations		**440**		-
Net loss from discontinued operations	**$**	**(6,879)**	$	(7,257)

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

(2) Other expenses exclude the gain on sale of discontinued operations.

SEGMENTED RESULTS FROM CONTINUING OPERATIONS

We discuss the results of the corporate head office and three reportable segments as presented in our December 31, 2019 annual financial statements: DLC, Club16, and Impact. Prior to December 31, 2019, the three reportable segments were referred to as: Franchise, Consumer Products and Services and Business Products and Services, respectively. 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; however, is presented to reconcile to our consolidated operating results. Our reportable segment results reconciled to our consolidated results are presented in the table below. The segmented information for the three months and year ended December 31, 2019 exclude discontinued operations results from AG. The prior year comparatives have been amended to exclude discontinued operations results from AG to conform with current period presentation.

(in thousands)	Three months ended Dec. 31, 2019	Three months ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
Revenues				
DLC (1)	**$ 13,138**	$ 10,419	**$ 44,843**	$ 40,123
Club16	**7,137**	6,121	**30,260**	26,543
Impact	**2,620**	4,074	**15,219**	13,150
Consolidated revenues	**22,895**	20,614	**90,322**	79,816
Operating expenses (2)				
DLC	**7,706**	7,960	**29,178**	27,236
Club16	**7,213**	6,076	**26,934**	23,928
Impact	**2,444**	3,019	**11,505**	10,294
Corporate	**575**	11	**3,524**	5,807
Consolidated operating expenses	**17,938**	17,066	**71,141**	67,265
Income (loss) from operations				
DLC	**5,432**	2,459	**15,665**	12,887
Club16	**(76)**	45	**3,326**	2,615
Impact	**176**	1,055	**3,714**	2,856
Corporate	**(575)**	(11)	**(3,524)**	(5,807)
Consolidated income from operations	**4,957**	3,548	**19,181**	12,551
Adjusted EBITDA (3)				
DLC (1)	**6,602**	4,648	**21,089**	19,836
Club16	**1,973**	944	**11,049**	6,089
Impact	**383**	1,333	**4,755**	3,951
Corporate	**(643)**	(637)	**(2,233)**	(3,208)
Consolidated Adjusted EBITDA (3)	**8,315**	6,288	**34,660**	26,668
Free Cash Flow (3)				
DLC	**2,538**	1,950	**7,248**	6,750
Club16	**352**	411	**3,084**	3,157
Impact	**93**	613	**1,798**	1,714
Corporate	**(1,816)**	(2,110)	**(7,916)**	(8,788)
Consolidated Free Cash Flow (3)	**$ 1,167**	$ 864	**$ 4,214**	$ 2,833

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

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

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

DLC

	Three months ended		Year ended	
(in thousands, unless otherwise noted)	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Revenues	**$ 13,138**	$ 10,419	**$ 44,843**	$ 40,123
Operating expenses [1]	**7,706**	7,960	**29,178**	27,236
Income from operations	**5,432**	2,459	**15,665**	12,887
Other (expense) income, net	**(145)**	79	**(775)**	(1,838)
Income before tax	**5,287**	2,538	**14,890**	11,049
Add back:				
Depreciation and amortization	**1,195**	1,570	**5,002**	6,110
Finance expense	**142**	133	**667**	714
Other adjusting items	**(22)**	407	**530**	1,963
Adjusted EBITDA [2]	**$ 6,602**	$ 4,648	**$ 21,089**	$ 19,836
Adjusted EBITDA margin	**50%**	45%	**47%**	49%
Adjusted EBITDA attributable to:				
Shareholders	**$ 3,865**	$ 2,843	**$ 12,404**	$ 11,756
Non-controlling interests	**$ 2,737**	$ 1,805	**$ 8,685**	$ 8,080
Free Cash Flow [2]	**$ 2,538**	$ 1,950	**$ 7,248**	$ 6,750
Key performance indicators:				
Funded mortgage volumes [3]	**$ 11,556,471**	$ 9,028,796	**$ 40,125,651**	$ 36,447,396
Number of franchises [4]	**515**	527	**515**	527
Number of brokers [4]	**5,627**	5,373	**5,627**	5,373

(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 period end date (not in thousands).

The DLC segment includes the operating results of the DLC consolidated group for all periods presented. The quarterly results may vary from quarter to quarter because of seasonal fluctuations. DLC 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. In addition, for 2019, we changed how we classify depreciation and amortization of certain franchise non-competition agreements and relationships to be classified as a charge against revenue, decreasing revenue, instead of being recognized as depreciation and amortization expense (refer to Note 3 of the consolidated financial statements for additional detail). During the three months and year ended December 31, 2019 the reduction of revenue from this change was $0.4 million and $1.5 million, respectively. Broker count increased by 254 brokers, compared to 2018, largely due to DLC's continued efforts to deliver on its recruiting efforts.

Three-month highlights

Revenue increased by $2.7 million during the three months ended December 31, 2019 when compared to the same three months in the prior year. The increase in revenue can be largely attributable to a 28% increase in funded mortgage volumes. Further, an increase in connectivity and network revenue was partly offset by a $0.4 million charge against revenue for depreciation of franchise non-competition agreements and relationships.

The segment's operating expenses for the three months ended December 31, 2019 decreased by $0.3 million over the same three months in the prior year. The decrease can be primarily attributed to higher expenses related to the strategic review that occurred in 2018.

Income from operations and adjusted EBITDA increased by $3.0 million and $2.0 million, respectively over the three months ended December 31, 2018. The increase in both income from operations and adjusted EBITDA can be attributed to the increase in revenues on higher funded mortgage volumes and decrease in operating expenses.

Free cash flow increased $0.6 million during the three months ended December 31, 2019 when compared to the prior period, the increase is directly related to the increase in adjusted EBITDA and the amount attributed to FAC shareholders partly offset by additional maintenance capital expenditures in the current period due to additional investments related to renewal costs and higher cash taxes paid.

Annual highlights

Revenues increased by $4.7 million during the year ended December 31, 2019 compared to prior year. The increase in revenue can be largely attributed to an increase in funded mortgage volumes of 10% when compared to 2018. Additional increases in revenue include an increase in network and connectivity revenue which was partly offset by a $1.5 million charge against revenue for the depreciation of franchise non-competition agreements and relationships.

The segment's operating expenses for the year ended December 31, 2019 increased by $1.9 million over the prior year. The increase can be primarily attributed to: $0.9 million higher advertising expenses due to the timing and nature of marketing events in 2019 compared to 2018 and additional advertising initiatives in 2019; $0.5 million loss on settlement of a contract dispute with a third party provider; an increase in personnel costs; higher IT related costs; partly offset by lower amortization expense due to reclassification of depreciation to revenue for certain franchise non-competition agreements and relationships.

Income from operations and adjusted EBITDA increased by $2.8 million and $1.3 million, respectively over the year ended December 31, 2018. The increase in both income from operations and adjusted EBITDA is primarily attributed to higher funded mortgage volumes and increased network and connectivity revenue partly offset by higher operating expenses primarily from higher advertising expenses due to the timing of marketing events.

Free cash flow during the year ended December 31, 2019 increased $0.5 million when compared to the same period in the prior year, the increase is directly related to the increase in adjusted EBITDA, lower maintenance capital expenditures in the current period, partly offset by higher cash taxes paid.

Club16

	Three months ended		Year ended	
(in thousands, unless otherwise noted)	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
Revenues	**$ 7,137**	$ 6,121	**$ 30,260**	$ 26,543
Operating expenses (1)	**7,213**	6,076	**26,934**	23,928
(Loss) Income from operations	**(76)**	45	**3,326**	2,615
Other expense, net	**(1,168)**	(87)	**(2,896)**	(336)
(Loss) Income before tax	**(1,244)**	(42)	**430**	2,279
Add back:				
Depreciation and amortization	**2,049**	899	**7,723**	3,474
Finance expense	**899**	83	**2,598**	306
Other adjusting items	**269**	4	**298**	30
Adjusted EBITDA (2)	**$ 1,973**	$ 944	**$ 11,049**	$ 6,089
Adjusted EBITDA margin	**28%**	15%	**37%**	23%
Adjusted EBITDA attributable to:				
Shareholders	**$ 1,183**	$ 566	**$ 6,629**	$ 3,653
Non-controlling interests	**$ 790**	$ 378	**$ 4,420**	$ 2,436
Free Cash Flow (2)	**$ 352**	$ 411	**$ 3,084**	$ 3,157
Key performance indicators:				
Total fitness club members (3)	**95,219**	84,370	**95,219**	84,370

(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 period end date (not in thousands).

Club16 is subject to seasonality associated with the annual club enhancement fee earned in the second quarter of each year.

Three-month highlights

Revenues increased by $1.0 million when compared to the three months ended December 31, 2018. Club16's member number growth and increase in personal training revenue drove increased revenue in the quarter. Club16's Langley location (previously She's Fit! Langley club) opened in November 2019 and Club16's Tsawwassen location opened in January 2019, both contributed to the membership growth in the quarter. In addition, personal training was introduced at three additional locations and contributed to increase revenue in the quarter.

Operating expenses increased $1.1 million from the same period in the prior year due primarily to higher personal training costs, and higher salary expense associated with additional staff for new clubs. Increase in personal training costs corresponds as a direct result of the increase in personal training revenue in the period.

Income from operations decreased $0.1 million for the three months ended December 31, 2019 when compared to the same three months in the prior year. The segment contributed $2.0 million in adjusted EBITDA compared to $0.9 million in the three months ended December 31, 2018. The decrease in income from operations was due to an increase in revenue offset by increased operating expenses in the current year. The full revenue potential from new clubs have not been fully realized, which is typical for new club openings as they build their momentum to reach anticipated member numbers. The increase in adjusted EBITDA was from an increase in membership and personal training revenues partly offset by additional operating expenses. In addition, adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $1.1 million of lease payments previously recognized as rent expense are now reflected as $1.0 million depreciation expense and $0.8 million of interest expense in the three months ended December 31, 2019.

Free cash flow decreased by $0.1 million for the three months ended December 31, 2019 when compared to the prior period due to higher maintenance capital expenditures in the quarter, partly offset by the increase in adjusted EBITDA attributable to shareholders.

Annual highlights

Revenues increased by $3.7 million when compared to the year ended December 31, 2018. New club openings and expansions grew member numbers and drove increased revenues in the year. Club16 Langley (previously She's Fit! Langley) opened in November 2019. Club16's Tsawwassen location opened in January 2019 and continues to add members, as does Club16's South Surrey location (previously She's Fit! White Rock club) which opened in January 2018. Further, personal training was introduced at three additional locations in 2019 contributing to revenue growth when compared to the prior year.

Operating expenses increased $3.0 million compared to the year ended December 31, 2018 primarily due to higher personal training costs, salary expenses associated with additional staff, and normal annual increases in facilities costs were incurred. Personal training costs increased from the growth in personal training revenue.

Income from operations increased $0.7 million for the year ended December 31, 2019 when compared to the same period in the prior year. The segment contributed adjusted EBITDA of $11.0 million for the year ended December 31, 2019 compared to $6.1 million in the year ended December 31, 2018. The increase in both income from operations and adjusted EBITDA was from an increase in membership revenues partly offset by higher operating expenses. In addition, adjusted EBITDA increased on the adoption of IFRS 16. Pursuant to the new accounting standard, $4.3 million of lease payments previously recognized as rent expense are now reflected as $3.8 million depreciation expense and $2.2 million of interest expense in the year ended December 31, 2019.

Free cash flow decreased $0.1 million for the year ended December 31, 2019 when compared to the prior period primarily related to higher capital expenditures during the current year, partly offset by the increase in adjusted EBITDA attributed to FAC shareholders.

Impact

		Three months ended				Year ended		
(in thousands)		**Dec. 31, 2019**		Dec. 31, 2018		**Dec. 31, 2019**		Dec. 31, 2018
Revenues	**$**	**2,620**	$	4,074	**$**	**15,219**	$	13,150
Operating expenses (1)		**2,444**		3,019		**11,505**		10,294
Income from operations		**176**		1,055		**3,714**		2,856
Other expense, net		**(111)**		(25)		**(97)**		(128)
Income before tax		**65**		1,030		**3,617**		2,728
Add back:								
Depreciation and amortization		**292**		285		**1,175**		1,146
Finance expense		**5**		-		**18**		-
Other adjusting items		**21**		18		**(55)**		77
Adjusted EBITDA (2)	**$**	**383**	$	1,333	**$**	**4,755**	$	3,951
Adjusted EBITDA margin		**15%**		33%		**31%**		30%
Adjusted EBITDA attributable to:								
Shareholders	**$**	**199**	$	694	**$**	**2,473**	$	2,055
Non-controlling interests	**$**	**184**	$	639	**$**	**2,282**	$	1,896
Free Cash Flow (2)	**$**	**93**	$	613	**$**	**1,798**	$	1,714

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

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

The segment results for the three months and year ended December 31, 2019 exclude discontinued operations results from AG. The prior year comparatives have been amended to exclude discontinued operations results from AG to conform with current period presentation. Refer to Discontinued Operations section for additional detail regarding discontinued operations and sale of the Corporation's interest in AG.

Impact's revenues can fluctuate due to large one-time orders that may occur at various times throughout the year, causing irregular increases in revenues in some quarters.

Three-month highlights

Revenues decreased by $1.5 million compared to the three months ended December 31, 2018. The decrease in Impact revenues was primarily due to timing of orders compared to prior year. Large orders can occur at various times throughout the year, causing irregular increases in revenue when product is delivered. Impact received several large orders in late 2018 which were partially fulfilled during the three months ended December 31, 2018 and the first half of 2019.

Operating expenses for the three months ended December 31, 2019 decreased $0.6 million compared to the three months ended December 31, 2018. The decrease in operating expenses is primarily due to a decrease in Impact's direct costs, associated with decreased revenues.

The segment contributed $0.2 million of income from operations and $0.4 million in adjusted EBITDA to our quarterly consolidated results. This is a decrease of $0.9 million and $1.0 million, respectively, over the previous quarter. The decrease in both income from operations and adjusted EBITDA was due to lower revenue.

Free cash flow decreased $0.5 million compared to the three months ended December 31, 2018 due to the decrease in adjusted EBITDA attributable to shareholders.

Annual highlights

Revenues increased by $2.1 million compared to the year ended December 31, 2018. The increase in revenues was attributable to several large orders received in 2018, a portion of which was fulfilled in late 2018 and the remainder fulfilled during the first half of 2019.

Operating expenses for the year ended December 31, 2019 increased $1.2 million compared to the year ended December 31, 2018. The increase in operating expenses is largely due to an increase in direct costs associated with revenue increase.

Impact contributed $3.7 million of income from operations and $4.8 million in adjusted EBITDA to our consolidated results. This is an increase of $0.9 million and $0.8 million, respectively, over the prior year. The increase in both income from operations and adjusted EBITDA was achieved on higher Impact revenue partly offset by an increase in expenses.

Free cash flow increased $0.1 million compared to the year ended December 31, 2018 due to the increase in adjusted EBITDA attributable to shareholders partly offset by higher cash taxes paid.

Corporate and Consolidated

(in thousands)	Three months ended Dec. 31, 2019	Three months ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
Revenues	**$ -**	$ -	**$ -**	$ -
Operating expenses (1)	**575**	11	**3,524**	5,807
Loss from operations	**(575)**	(11)	**(3,524)**	(5,807)
Other expense, net	**(1,131)**	(4,822)	**(8,421)**	(11,569)
Loss before tax	**(1,706)**	(4,833)	**(11,945)**	(17,376)
Add back:				
Depreciation and amortization	**5**	9	**33**	32
Finance expense	**1,444**	1,867	**10,407**	7,104
Share-based payments	**57**	51	**439**	353
Foreign exchange (gain) loss	**(808)**	2,909	**(2,466)**	4,587
Change in fair value of foreign exchange forward contract	**365**	-	**365**	-
Acquisition, integration and restructuring costs	**-**	(687)	**934**	2,045
Other adjusting items (2)	**-**	47	**-**	47
Adjusted EBITDA (2)	**$ (643)**	$ (637)	**$ (2,233)**	$ (3,208)
Adjusted EBITDA attributable to:				
Shareholders	**$ (643)**	$ (637)	**$ (2,233)**	$ (3,208)
Non-controlling interests	**$ -**	$ -	**$ -**	$ -
Free Cash Flow (2)	**$ (1,816)**	$ (2,110)	**$ (7,916)**	$ (8,788)

(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, 2019	Three months ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
General and administrative	**$ 513**	$ (49)	**$ 3,052**	$ 5,422
Share-based payments	**57**	51	**439**	353
Depreciation and amortization	**5**	9	**33**	32
Corporate operating expenses	**$ 575**	$ 11	**$ 3,524**	$ 5,807

Other expense, net includes the following:

(in thousands)	Three months ended Dec. 31, 2019	Three months ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
Finance expense	**$ 1,444**	$ 1,867	**$ 10,407**	$ 7,104
Foreign exchange (gain) loss	**(808)**	2,909	**(2,466)**	4,587
Change in fair value of foreign exchange forward contract	**365**	-	**365**	-
Other	**130**	46	**115**	(122)
Other expense, net	**$ 1,131**	$ 4,822	**$ 8,421**	$ 11,569

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

Three-month highlights

Operating expenses increased by $0.6 million for the three months ended December 31, 2019 compared to the prior year's quarter. The increase in general and administrative expenses was primarily due to $0.7 million reversal of management severance in the three months ended December 31, 2018 which was initially recognized as part of the restructuring provision recorded in Q3 2018, partly offset by expense reductions achieve from our ongoing initiative to reduce corporate general and administrative expenses. Initiatives during the second half of 2018 and early 2019 included: eliminating six positions at staff and managerial levels; reducing consulting expenses; restricting travel; subletting a portion of Corporate office space; and overall reducing general and administrative costs.

Other expense for the three months ended December 31, 2019 decreased by $3.7 million primarily due to a $0.8 million foreign exchange gain compared to a $2.9 million loss in 2018 related to the revaluation of our USD debt and a decrease of $0.4 million finance expense. This is partly offset by a $0.4 million negative change in fair value of our foreign exchange forward contract. On December 6, 2019 the Corporation amended its corporate credit facility to allow the Corporation to enter into a foreign currency forward contracts to partially mitigate foreign currency exchange risk in connection with its USD denominated debt. Please refer to the Market Risk section of this document for further information. The decrease in financing costs primarily relates to decreased balance outstanding on the corporate USD debt, from debt repayments from free cash flow made during the third and fourth quarters of 2019 and repayments from the proceeds received from the sale of AG combined with a slight decrease in LIBOR rate. The corporate head office's loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly.

Free cash flow increased $0.3 million for the three months ended December 31, 2019 when compared to the prior year quarter due to lower cash interest paid.

Annual highlights

Operating expenses decreased by $2.3 million for the year ended December 31, 2019 compared to the prior year. The decrease in expenses is primarily due to $2.0 million restructuring provision recorded in the year ended December 31, 2018 compared to $0.9 million in 2019 for management severance and staff retention payments. Excluding the restructuring costs, Corporate general and administrative expenses amount to $2.1 million and $3.4 million for the years ended December 31, 2019 and 2018, respectively. In addition, expense reductions were realized from our ongoing initiative to reduce corporate general and administrative expenses. Initiatives during the second half of 2018 and early 2019 included: eliminating six positions at staff and managerial levels; reducing consulting expenses; restricting travel; subletting a portion of Corporate office space; and overall reducing general and administrative costs. The decrease in general and administrative expenses were partly offset by an increase in share-based payments from the issuance of RSU's to Directors and employees in 2019. The Directors were granted RSU's in lieu of cash compensation.

Other expense for the year ended December 31, 2019 compared to the same period in the prior year, decreased by $3.1 million primarily due to a $2.5 million foreign exchange gain related to our USD debt and cash balances (compared to a $4.6 million loss in the prior year) partly offset by a $3.3 million increase in finance expense and $0.4 negative change in the fair value of our foreign exchange forward contract. The increase in financing costs over the prior year relates to $2.8 million make-whole interest payment made to our lender concurrent with the principal repayment of $11.4 million from proceeds on disposal of our 50% interest in AG. A non-cash accelerated amortization of debt issuance costs of $0.6 million from the debt repayment from the proceeds from the sale of AG, which primarily resulted in a $0.4 million increase in debt amortization costs, partly offset by a decrease in LIBOR rate. The corporate head office's loans and borrowings bear interest at the three-month LIBOR rate plus 7% per annum with interest payable quarterly. On December 6, 2019 the Corporation amended its corporate credit facility to allow the Corporation to enter into a foreign currency forward contracts to partially mitigate foreign currency exchange risk in connection with its USD denominated debt. Please refer to the Market Risk section of this document for further information.

Free cash flow increased $0.9 million for the year ended December 31, 2019 when compared to the prior year period, due to adjusted EBITDA increase from lower Corporate general and administrative expenses.

HISTORICAL QUARTERLY RESULTS

Selected unaudited financial data published for our continuing operations during the last eight quarters are as follows. The continuing operations results for the three months ended September 30, 2019 and December 31, 2019 exclude discontinued operations results from AG. Comparatives have also been amended to remove discontinued operations results to conform with current period presentation. The discontinued operations are only included in net income (loss) and net (loss) income per common share.

(in thousands except per share amounts)	Dec. 31, 2019	Sep. 30, 2019	Jun. 30, 2019	Mar. 31, 2019	Dec. 31, 2018	Sep. 30, 2018	Jun. 30, 2018	Mar. 31, 2018
Revenues	**22,895**	23,248	23,579	20,600	20,614	20,833	21,680	16,689
Income (loss) from operations	**4,957**	7,131	5,206	1,887	3,548	2,902	4,971	1,130
Adjusted EBITDA [(1)]	**8,315**	10,790	9,182	6,373	6,288	8,206	8,057	4,117
Net income (loss)	**1,321**	(1,338)	(3,499)	(895)	(8,792)	(10,209)	663	(2,039)
Adjusted net income (loss) [(1)]	**1,193**	2,192	2,100	(680)	(297)	2,306	2,988	(258)
Net (loss) income attributable to:								
Shareholders	**170**	(3,157)	(2,288)	(1,472)	(6,715)	(11,080)	(976)	(2,291)
Non-controlling interests	**1,151**	1,819	(1,211)	577	(2,077)	871	1,639	252
Adjusted net (loss) income attributable to: [(1)]								
Shareholders	**(60)**	54	104	(1,568)	(1,401)	578	664	(921)
Non-controlling interests	**1,253**	2,138	1,996	888	1,104	1,728	2,324	663
Net (loss) income per common share:								
Basic	**-**	(0.08)	(0.06)	(0.04)	(0.18)	(0.29)	(0.03)	(0.06)
Diluted	**-**	(0.08)	(0.06)	(0.04)	(0.18)	(0.29)	(0.03)	(0.06)
Adjusted net (loss) income per common share: [(1)]								
Diluted	**-**	-	-	(0.04)	(0.04)	0.02	0.02	(0.02)

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

Quarterly trends and seasonality

Due to the timing of acquisitions, the prior periods shown in the above table are not necessarily comparable and should not be relied upon as an indication of future performance. Our quarterly operating results generally vary from quarter to quarter because of seasonal fluctuations in our reporting segments. On January 1, 2019 we adopted IFRS 16, refer to the Accounting Policy section for additional information. Pursuant to the new accounting standard, $1.2 million of lease payments previously recognized as rent expense are now reflected as $1.1 million of depreciation expense and $0.8 million of interest expense in the three months ended December 31, 2019.

Consolidated revenues from continuing operations for the current quarter decreased by $0.4 million over the three months ended September 30, 2019 attributed to decreases in all three segments: Club16 of $0.2 million, Impact of $0.1 million, and DLC of $0.1 million. DLC and Club16 segment's decreases are 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. The Impact segment decreased from the timing of orders fulfilled during 2019.

Income from operations from continuing operations for the three months ended December 31, 2019 decreased $2.2 million to $5.0 million from $7.1 million during the three months ended September 30, 2019. The decrease is primarily due to the decrease in revenue combined with higher operating expenses. The increase in operating expenses from an increase in operating expenses across all segments, driven from increases in wages and salaries due to year end bonuses recognized in the fourth quarter and higher advertising expenses in the DLC segment due to timing of events.

Adjusted net income for the three months ended December 31, 2019 decreased by $1.0 million compared to the preceding three months. The decrease in adjusted net income was primarily due to a decrease in income from operations partly offset by $1.1 million higher finance expenses net of interest on the disposal of discontinued operations in the three months of September 30, 2019 due to the repayment on debt from the proceeds received from the sale of AG and non-cash accelerated amortization of debt issuance costs of $0.6 million.

2020 OUTLOOK AND STRATEGIC OBJECTIVE

The information in this section is forward-looking and should be read in conjunction with the Cautionary Note Regarding Forward-Looking Information section found at the beginning of this MD&A. In 2020, our strategic objective and focus is to optimize operations and performance of our three portfolio companies, reducing our corporate debt through principal repayments from free cash flow, and continuing to manage expenses.

DLC

This segment consists primarily of mortgage brokerage operations. DLC has seen an improvement in the market in recent months, however, the mortgage industry may see headwinds from the spread of COVID-19. To date, DLC has been successful in its growth initiatives and added DLC brokers. DLC funded mortgage volumes increased 28% during the three months ended December 31, 2019 when compared to the same period in 2018. In 2020, DLC will continue to focus on market penetration growth by expanding their network of mortgage brokers and franchises with targeted recruiting initiatives. Through these initiatives, we expect funded mortgage volumes and royalty revenue growth from both existing franchises and from securing new franchises and, higher connectivity revenue from higher funded mortgage volumes and long-term contracts. DLC's growth of funded mortgage volumes may be negatively affected by COVID-19. See the COVID-19 subsection within this 2020 Outlook and Strategic Objective section.

Club16

Club16 has many organic growth initiatives planned in 2020 for its Club16 fitness clubs. Club16's membership growth from recent club openings continuing to ramp up to their expected membership levels combined with membership growth at existing clubs. Club16 opened two new clubs in 2019 (C16 Tsawwassen in January and C16 Langley in November, formerly She's Fit! Langley).

In addition, Club16 will continue to build upon the current years success of the personal training program and will expand personal training to remaining locations and grow the service offering at its existing locations. In mid-2019, Club16 hired a Director of Personal Training to assist in the expansion of personal training.

Impact

Impact continues to focus on strategic initiatives to secure large orders and grow revenues. In the second quarter of 2019, Impact initiated a sales strategy reorganization. As part of this strategy, Impact reorganized its sales team to increase the experience of its sales staff and implemented a more proactive sales approach in initiating sales with customers. Impact continues to focus on securing large orders in 2020, similar to the large order fulfilled in 2018/2019.

Impact manufactures its products in China and imports the products into the United States ("U.S.") for its U.S. sales. The U.S. imposed further tariffs on Chinese imports into the U.S. during 2019. Impact anticipates a potential increase in operating costs from the increase in tariffs starting in the year 2020; however, Impact does not expect a material effect to its sales.

Corporate and Consolidated

Our 2020 key priorities will be to maximize shareholder value through on-going monitoring of our operating subsidiaries; continuing to make debt repayments from excess free cash flow, and continually assessing our expenditures and maintaining our lower run-rate corporate general and administrative costs.

During the three months ended September 30, 2019, the Corporation made its first debt repayment under the amended agreement of $0.5 million from excess free cash flow and a repayment of $11.4 million from proceeds received from the sale of the Corporation's interest in AG. The Corporation made its second payment from excess free cash flow during the three months ending December 31, 2019 of $0.5 million. Subsequent to the year ended December 31, 2019, on February 26, 2020, the Corporation made a third payment from excess free cash flow of $0.8 million. As at December 31, 2019 our credit facility balance owing is USD $32.6 million (CAD $42.4 million). We expect to see decreased interest expense on our corporate USD loan in 2020, as a result of the decreased outstanding loan balance at December 31, 2019 and as a result of the LIBOR rate decreasing.

COVID-19

On March 11, 2020 the World Health Organization ("WHO") declared the COVID-19 outbreak a pandemic. As a result, all levels of government in Canada have implemented public health measures including isolation and social distancing. In response, Club16 has temporarily closed all clubs effective March 17, 2020. During the temporary closure period, Club16 intends to seek rent abatements from its various landlords and expects to reduce costs to increase liquidity.

China has limited or suspended business operations and implemented travel restrictions and quarantine measures related to the COVID-19 outbreak. However, Impact does not anticipate a material disruption to its manufacturing base, as many factories are starting to re-open.

The Corporation is working closely with Club16 and Impact management to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19.

DLC has not currently seen an effect from COVID-19; however, depending on the duration and scale of the pandemic. DLC's funded mortgage volumes maybe negatively affected.

The Corporate and Consolidation segment's free cash flow and foreign exchange and USD LIBOR rates, may be significantly affected by COVID-19, depending on the scale and duration of the pandemic.

It is challenging to predict the full extent and duration of the economic impact of the outbreak and management cannot reasonably estimate the financial and operational impact of COVID-19.

See the Liquidity subsection in the Consolidated Liquidity and Capital Resources section for discussion of management's assessment of its liquidity as a result of COVID-19.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

	As at	
(in thousands)	**December 31, 2019**	December 31, 2018
Cash and cash equivalents	**$ 5,458**	$ 5,492
Trade and other receivables	**16,270**	27,627
Prepaid expenses and deposits	**2,087**	2,758
Notes receivable	**410**	299
Inventories	**3,563**	5,847
Bank indebtedness	**-**	(397)
Accounts payable and accrued liabilities	**(16,775)**	(22,970)
Current portion of loans and borrowing	**(22,201)**	(25,698)
Deferred contract liability	**(674)**	(650)
Other current liabilities	**(326)**	(788)
Current portion capital lease obligation	**(2,449)**	(573)
Current portion non-controlling interest liability	**-**	(2,000)
Net working capital deficit	**$ (14,637)**	$ (11,053)

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

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

As at December 31, 2019 we had a consolidated cash position of $5.5 million and a net working capital deficit of $14.6 million, which was relatively consistent with the prior year consolidated cash position of $5.5 million and $3.6 million higher than the prior year net working capital deficit balance of $11.1 million. The working capital deficit was higher from lower current assets from the removal of AG from the December 31, 2019 statement of financial position and the addition of capital lease obligations from the implementation of IFRS 16. 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, 2019 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.

In response to the COVID-19 pandemic, which occurred subsequent to our year ended December 31, 2019, the Corporation has assessed its liquidity position. As a result of government implemented public health and safety measures, including social distancing and isolation, Club16 has temporarily closed all clubs effective March 17, 2020. Club16 will not collect memberships fees during club closures. On March 26, 2020, to strengthen its liquidity position during club closures, Club16 has amended its existing debt facilities to increase the revolving operating facility limit from $1.5 million to $3.0 million. Further, Club16's debt amendment included the suspension of principal payments for three months, from March to May 2020, for all debt facilities and removed the covenant test for the quarter-ended June 30, 2020. During the temporary closure period, Club16 intends to seek rent abatements and deferrals from its various landlords and expects to reduce costs to increase liquidity.

The Corporation is working closely with Club16 and Impact management to maximize the current government subsidies (including the wage subsidy) available in response to COVID-19.

On March 27, 2020, DLC amended its existing debt facilities to suspend principal payments effective April 2020 for six months, in order to increase liquidity.

On March 24, 2020, the Corporation unwound its foreign exchange forward rate contract for net proceeds of $1.5 million to further strengthen its liquidity position in response to uncertainties of the scale and duration of COVID-19.

At this time, management is not anticipating a material liquidity deficiency that would affect its short- and long-term objectives of meeting the Corporation's obligations as they come due. The impact of COVID-19 on the Corporation's subsidiaries will impact earnings and could impact cash flows of the Corporation, as well as its ability to meet bank covenants; however, due to material uncertainties of the scale and duration of COVID-19, management cannot reasonably estimate the financial statement impact of COVID-19 and will work with its lenders to find satisfactory resolutions as necessary.

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, 2019**		Dec. 31, 2018
Cash provided by operating activities	**$**	**27,475**	$	14,648
Cash used in investing activities		**(6,742)**		(21,512)
Cash (used in)/provided by financing activities		**(20,366)**		2,355
Increase (decrease) in net cash		**367**		(4,509)
Impact of foreign exchange on net cash and cash equivalents		**(4)**		54
Net cash and cash equivalents, beginning of period		**5,095**		9,550
Net cash and cash equivalents, end of period	**$**	**5,458**	$	5,095

Operating activities

The net cash provided by operating activities for the year ended December 31, 2019 increase was primarily related to cash flows generated by DLC operations of $19.1 million (compared to $12.3 million in the prior year), Club16 of $9.5 million (compared to $4.5 million in the prior year), AG of $5.9 million (compared to $5.9 million in the prior year) and Impact of $4.6 million (compared to $1.7 million in the prior year). The cash provided was partially offset by corporate head office requirements of $11.7 million (compared to $9.8 million in the prior year), which are primarily related to finance expense, general and administration costs, and restructuring costs.

Investing activities

The net cash used in investing activities for the year ended December 31, 2019 consisted primarily of DLC's investments in intangible assets and investments of $5.2 million, $8.1 million in distributions and dividends paid to non-controlling interest unitholders, and Club16 and AG's investment in capital assets of $6.9 million. The cash used in investing activities was offset by net proceeds from sale of discontinued operations of $13.5 million which included $14.2 million cash proceeds less $0.6 million AG cash disposed and $64 thousand of disposal costs.

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.

Financing activities

Cash used in financing activities for the year ended December 31, 2019 consisted primarily of the $11.4 million repayment of debt by Corporate head office from proceeds received on the sale of AG and $1.0 million debt payments from excess free cash flow. In addition, $7.7 million repayment on DLC, Club16 and AG's term loan facilities, $0.5 million dividends paid to common shareholders, costs for debt amendments, and $5.5 million of net payments for lease commitments. Upon adoption of IFRS 16, lease payments previously classified as rent expense of $6.0 million are now classified as cash flows from financing activities compared to cash flows from operating activities under the previous standard. Offsetting the cash used from financing activities were proceeds from debt financing of $4.5 million on Club16 facilities for additional draws related to financing capital expenditures for the recent club expansions, and additional proceeds from DLC and AG facilities of $2.1 million.

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.

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, 2019, corporate head office received dividends and distributions from its subsidiaries of $11.1 million (December 31, 2018—$12.4 million). During the year ended December 31, 2019 total distributions paid to NCI holders were $8.1 million (December 31, 2018—$9.2 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, 2019 and December 31, 2018.

	As at			
(in thousands)		**December 31, 2019**		December 31, 2018
Loans and borrowings	**$**	**61,173**	$	86,705
Less: net cash and cash equivalents		**(5,458)**		(5,095)
Net loans and borrowings	**$**	**55,715**	$	81,610
Shareholders' equity	**$**	**73,711**	$	79,956

Loans and borrowings

Our available credit facilities consist of a term facility at the corporate head office level, as well as acquisition and operating credit facilities within DLC, Club16, and Impact. Impact has no amounts drawn as at December 31, 2019 and has not historically drawn on the facility.

Corporate USD facility

Effective March 12, 2019, the Corporation amended its term credit facility ("Corporate Credit Facility") to allow the Corporation to repay debt at par with all excess free cashflow as defined in the agreement and to increase the total leverage ratio. At December 31, 2019, the Corporation had $3.8 million classified as current debt. In consideration for the amendments, the Corporation 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:

- 4.25:1.00 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, 2019, the Corporation was in compliance with all such covenants.

During the year ended December 31, 2019 the Corporation made a debt payment of CAD $1.0 million from excess free cash flow. The Corporation also paid CAD $11.4 million of principal outstanding on its facility from proceeds on disposal of our 50% interest in AG. As at December 31, 2019 our Corporate Credit Facility balance owing is USD $32.6 million (CAD $42.4 million)

On December 6, 2019 the Corporation amended its corporate credit facility to allow the Corporation to enter into foreign currency forward contracts to partially mitigate foreign currency exchange risk. The foreign currency forward contracts are secured through an intercreditor agreement which permits the Corporation to grant security to counterparties in an amount up to $7.0 million (refer to the Market Risk section of this MD&A).

Corporate—Promissory note

On October 31, 2017 the Corporation issued a promissory note payable totaling $2.5 million to a non-controlling interest shareholder of AG, which bears interest at a rate of 6% per annum. The promissory note was cancelled on September 30, 2019 as part of the AG Transaction.

DLC

DLC's term loan facility matures on December 30, 2021. This facility is held at the DLC subsidiary level and has $3.4 million outstanding as of December 31, 2019 (December 31, 2018—$5.1 million).

DLC's $9.5 million revolving credit facility is held as an operating demand loan to finance working capital requirements and fund acquisitions. This facility is held at the DLC subsidiary level and has $7.0 million drawn as of December 31, 2019 (December 31, 2018—$7.3 million).

On July 23, 2019 DLC entered into a new $1.1 million term loan facility. This facility is held at the DLC subsidiary level and has $1.0 million outstanding as of December 31, 2019 (December 31, 2018—$nil).

DLC amended its revolving credit facility on July 23, 2019 to decrease the testing frequency of the DLC financial covenants for the debt service charge ratio and senior net debt to EBITDA from quarterly to annually.

Borrowings under the term loan facility and operating facility bear interest at a rate equal to prime rate plus 1.0% per annum. The loan facility is secured by a general security agreement with first charge over the assets of DLC. Financial covenants include the requirement to maintain a debt service charge ratio of not less than 1.05:1.00 and a debt-to-EBITDA ratio of less than 2.5:1.00. As at December 31, 2019, DLC was in compliance with all such covenants.

Subsequent to the year ended December 31, 2019, DLC amended its debt facilities agreements, see the Liquidity section of this document for further details.

Club16

Club16's $9.0 million demand credit facility had $8.7 million drawn at December 31, 2019 (December 31, 2018—$6.1 million). The facility matures on the earlier of (i) demand by the lender, or (ii) 60 months from the date of each drawdown.

Club16's $1.5 million revolving operating facility is held to finance its working capital requirements. The facility is held at the Club16 level and has $0.9 million drawn as at December 31, 2019 (December 31, 2018—$1.0 million).

On August 12, 2019, Club16 amended its existing demand credit facility to decrease the testing frequency of the financial covenant for the debt service charge ratio from quarterly to annually and amended the interest rate. Borrowings under the term loans and operating facility bear interest at prime rate plus 0.5% to 2.0% per annum as at December 31, 2019 (from prime plus 1.25% previously) and are secured by a general security agreement with first charge over the assets of Club16. At December 31, 2019 the facilities bore interest at prime plus 0.75% per annum. 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 December 31, 2019, Club16 was in compliance with all such covenants.

Subsequent to the year ended December 31, 2019, Club16 amended its debt facilities agreement, see the Liquidity section of this document for further details.

Dividends to FAC shareholders

On March 12, 2019 the Board of Directors resolved to suspend the dividend policy, and as such, no dividends were declared in 2019. Total dividends paid during the year ended December 31, 2019 was $0.5 million relating to dividends declared in December 2018 (December 31, 2018—$1.9 million).

SHARE CAPITAL

As of April 23, 2020, and December 31, 2019, the Corporation had 38,082,513 and 38,182,513 common shares outstanding, respectively (December 31, 2018—38,182,542).

As at April 23, 2020, there were outstanding stock options to purchase 323,893 common shares with exercise prices ranging from $3.00 to $4.40, and 2,078,568 lender warrants with an exercise price of $1.4375. There were no options issued in the year ended December 31, 2019 or December 31, 2018.

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 16, 27 and 28 of the consolidated financial statements for more information.

(in thousands)	Less than 1 year	1–3 years	4–5 years	After 5 years	Total
Accounts payable and accrued liabilities	$ 16,775	$ -	$ -	$ -	$ **16,775**
Loans and borrowings	22,201	40,554	559	-	**63,314**
Long-term accrued liabilities	-	683	-	-	**683**
Leases	5,326	15,217	8,585	3,589	**32,717**
	$ 44,302	$ 56,454	$ 9,144	$ 3,589	$ **113,489**

Consulting agreement

In January 2019 DLC renewed a consulting agreement for promotional support for one year. The consulting agreement was renewed in February 2020 for an annual amount of $0.2 million and expires in January 2022.

Service agreement

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

In March 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 $0.9 million. The agreement is a related party transaction due to common management between DLC and the service provider. The service agreement expires in March 2023.

DLC has contracts with external dealers to recruit franchises. DLC has a commitment to pay these dealers a commission for the DLC 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 in a loss on contract settlement of $0.4 million for the year ended December 31, 2019 (December 31, 2018—$1.5 million).

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at December 31, 2019 or April 23, 2020 not disclosed or discussed previously.

CONTINGENCIES

The Corporation's subsidiaries have outstanding legal claims, some of which the Corporation has been indemnified. The outcome of the outstanding claims is not determinable and no provision for settlement has been made in the financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FINANCIAL INSTRUMENTS

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

We are exposed in varying degrees to a variety of risks from the use of financial instruments, which mainly include cash and cash equivalents, trade and other receivables, loans and borrowings, investments, and trade payables and accrued liabilities.

Because of the use of these financial instruments, we are exposed to risks that arise from their use, including market risk, credit risk and liquidity risk. This section describes our objectives, policies and processes for managing these risks and the methods used to measure them.

Our financial instrument classifications as at December 31, 2019 is as follows.

(in thousands)	Carrying value	Fair value	Classification
Financial assets			
Investments	**557**	**557**	Fair value through profit or loss
Equity accounted investment	**1,229**	**1,229**	Fair value through profit or loss
Financial liabilities			
Foreign exchange forward contract liability	**(365)**	**(365)**	Fair value through profit or loss
Loans and borrowings	**(61,173)**	**(61,173)**	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 foreign exchange forward contract; USD interest expense; and Impact's operations, as a significant portion of its business is conducted in USD. At December 31, 2019 the USD cash balance is USD $0.2 million (CAD $0.2 million), compared to USD $0.2 million (CAD $0.3 million) at December 31, 2018. The USD loans and borrowing balance is USD $32.6 million (CAD $42.4 million); at December 31, 2018, it was USD $42.0 million (CAD $57.3 million). A 10% strengthening of the U.S. dollar against the Canadian dollar would result in a $2.4 million increase in net loss before tax for the year ended December 31, 2019 (December 31, 2018—$5.9 million increase).

To manage the Corporation's foreign exchange exposure on its USD loan, the Corporation entered into an intercreditor agreement with our lender and a third-party counterparty, which allows the Corporation to enter into foreign exchange forward contracts up to USD $25.0 million. The forward contracts are secured through the intercreditor agreement, which allows the Corporation to offer the counterparty security up to $7.0 million. During the year ended December 31, 2019, the Corporation entered into a USD $15.0 million (CAD $19.9 million) foreign exchange forward contract at a forward rate of 1.329 with a settlement period of six months from December 14, 2021 to June 14, 2022.

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, 2019 (December 31, 2018—$0.8 million).

CREDIT RISK

As at December 31, 2019 $0.5 million (December 31, 2018—$2.1 million) of our trade receivables are greater than 90 days' outstanding and total expected credit losses as at December 31, 2019 is $0.1 million (December 31, 2018—$19 thousand). A decline in economic conditions, or other adverse conditions, could lead to reduced revenue and gross margin, and could impact the collectability of accounts receivable. The Corporation mitigates this risk by monitoring economic conditions and managing its customer credit risk.

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

(in thousands)		As at December 31, 2019		December 31, 2018
Cash and cash equivalents	**$**	**5,458**	$	5,492
Trade and other receivables		**16,826**		28,226
Notes receivable		**410**		299
	$	**22,694**	$	34,017

LIQUIDITY RISK

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

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

December 31, 2019, the Corporation entered into a USD $15.0 million (CAD $19.9 million) forward contract for its U.S. denominated debt.

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'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 have 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, as they 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, extent and duration of health outbreaks, the extent and duration of COVID-19, 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.

COVID-19

The Corporation and its subsidiaries are sensitive to the extent and duration of COVID-19. In particular, Club16's operations are significantly affected by the temporary closure of its clubs. The duration of the club closures is dependent on the scale and duration of COVID-19. DLC's operations may also be negatively affected in the event the Canadian housing market declines. As such, COVID-19 may adversely impact earnings, cash flows and the financial position of the Corporation, the full effects of which are not yet known.

RELATED PARTY TRANSACTIONS

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

Property leases

DLC and Impact lease and rent office space from companies that are controlled by minority partners within the subsidiaries. During the year ended December 31, 2019 the total costs incurred under these leases was $0.5 million, respectively (December 31, 2018—$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, 2019, was $0.4 million, respectively (December 31, 2018—$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, 2019 the Corporation has recorded a receivable due from the DLC founders in an amount of $0.3 million for the sales tax amounts payable recorded by DLC (December 31, 2018—$0.3 million). This receivable has been recorded in trade and other receivables in the Corporation's consolidated statement of financial position.

Loans and advances

Club16 has loans and advances due from companies that are controlled by key management personnel of Club16 in the amount of $2.4 million as at December 31, 2019 (December 31, 2018—$2.2 million). The balance is included in accounts receivable in the Corporation's consolidated financial statements. The advancement is unsecured, due on demand and non-interest bearing.

Administrative services

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, 2019 was $0.9 million (December 31, 2018—$0.3 million).

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, 2019**	December 31, 2018
Director fees	**$ -**	$ 352
Salaries and benefits	**1,512**	1,621
Share-based payments	**342**	407
	$ 1,854	$ 2,380

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, 2019 a liability has been recognized for the current fair value of the liability of $1.0 million (December 31, 2018—$0.8 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 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.

Lease term

Management applies significant judgement to assess the term of a lease when there are options to extend or terminate. The Corporation has elected to use hindsight for determining the lease term for leases that contain options to extend or terminate. Where the Corporation's leases include multiple renewal options, management has determined whether those options are likely to be exercised. For Club16, renewal options related to fitness clubs have been assumed to be exercised to extend between 2030 and 2040. Management's assessment of a lease term could have an impact on the amounts recognized for a leases' right-of-use asset and liability; depreciation and amortization charge recorded on the right-of-use asset; and interest expense recorded on the liability.

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 12 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 financial statements.

Deferred taxes

The determination of the Corporation's net loss 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 24 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.).

ACCOUNTING POLICIES

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

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

(in thousands)	Three months ended December 31, 2019	Year ended December 31, 2019
Lease payments		
DLC	$ 46	$ 186
Club16	1,085	4,269
Impact	20	1,327
Corporate and consolidated	46	174
Discontinued operations	-	(1,247)
Total lease payments	$ 1,197	$ 4,709
Depreciation and amortization on right-of-use asset		
DLC	44	177
Club16	1,013	3,774
Impact	18	1,510
Corporate and consolidated	-	16
Discontinued operations	-	(1,440)
Total depreciation and amortization on right-of-use asset	$ 1,075	$ 4,037
Interest on lease liability		
DLC	4	16
Club16	802	2,226
Impact	4	278
Corporate and consolidated	14	60
Discontinued operations	-	(260)
Total interest on lease liability	$ 824	$ 2,320
Total depreciation and interest	$ 1,899	$ 6,357

(in thousands)	Year ended December 31, 2019 As reported	Excluding IFRS 16	Difference
Change on items in consolidated statement of loss from continuing operations			
General and administrative expenses	$ 40,457	$ 45,166	$ 4,709
Depreciation and amortization	13,933	9,896	(4,037)
Finance expense	13,690	11,370	(2,320)
Net loss from continuing operations	(2,468)	(820)	1,648
Change on non-IFRS measures			
Adjusted EBITDA	$ 34,660	$ 29,951	$ (4,709)

SELECTED ANNUAL FINANCIAL INFORMATION

The following table summarizes selected annual information for 2019, 2018 and 2017.

		Period ended (1)				
(in thousands, except per share amounts)		**2019**		2018		2017
Consolidated Statement of Loss Data from Continuing Operations:						
Revenues	**$**	**90,322**	$	79,816	$	72,762
(Loss) attributable to shareholders		**(3,527)**		(18,223)		(5,974)
(Loss) per share:						
Basic	**$**	**(0.09)**	$	(0.48)	$	(0.16)
Diluted	**$**	**(0.09)**	$	(0.48)	$	(0.16)
Consolidated Statement of Financial Position Data:						
Total assets		**321,820**		346,621		354,365
Total long-term financial liabilities		**90,575**		67,549		64,352

(1) AG as a discontinued operation has been excluded from the consolidated statement of loss results and consolidated statement of financial position results for the year ended December 31, 2019. The consolidated statement of loss comparative results for the years ended December 31, 2018 and December 31, 2017 have been amended to conform to current year presentation. The statement of financial position comparative results for the years ended December 31, 2018 and December 31, 2017 have not been amended and include the net assets of AG.

Revenues increased in the current year over the comparative periods due to increases in DLC revenues of $4.7 million due to increased funded mortgage volumes; increases in Club16 revenues of $3.7 million due to increased member number growth and increase in personal training revenue; and increases in Impact revenues of $2.1 million from several large orders received in 2018, of which a portion was fulfilled in the first half of 2019.

Total assets decreased in the current period over the comparative periods primarily due to the sale of AG in the year ended December 31, 2019. Total long-term financial liabilities increased in the current period over the comparative periods due to the addition of lease liabilities from the implementation of IFRS 16 and the Corporation entering into a USD $15.0 million foreign exchange forward contract, resulting in a net long-term financial liability of CAD $0.4 million at December 31, 2019.

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 make payments on the Corporate credit facility.

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

	Three months ended		Year ended	
(in thousands)	**Dec. 31, 2019**	Dec. 31, 2018	**Dec. 31, 2019**	Dec. 31, 2018
INCOME (LOSS) BEFORE INCOME TAX	**$ 2,402**	$ (1,307)	**$ 6,992**	$ (1,320)
Add back:				
Depreciation and amortization	**3,541**	2,763	**13,933**	10,762
Finance expense	**2,490**	2,083	**13,690**	8,124
	8,433	3,539	**34,615**	17,566
Adjustments to remove:				
Share-based payments	**75**	52	**375**	408
Net loss (gain) on sale of capital and intangible assets	**272**	(13)	**301**	51
Foreign exchange (gain) loss	**(806)**	2,929	**(2,449)**	4,647
Change in fair value of foreign exchange forward contract	**365**	-	**365**	-
Loss (gain) on contract settlement	**51**	(50)	**404**	1,463
Other income	**-**	-	**110**	(63)
Acquisition, integration and restructuring costs	**(75)**	(169)	**939**	2,596
Adjusted EBITDA	**8,315**	6,288	**34,660**	26,668
Adjustments:				
NCI portion of adjusted EBITDA	**(3,711)**	(2,822)	**(15,387)**	(12,412)
Cash interest expense (1) (2)	**(1,268)**	(1,617)	**(6,122)**	(6,197)
Cash income tax expense (1)	**(686)**	(560)	**(3,199)**	(2,639)
Maintenance capex (1)	**(748)**	(425)	**(2,851)**	(2,587)
Lease payments (1)	**(735)**	-	**(2,887)**	-
Free Cash Flow attributable to FAC shareholders	**$ 1,167**	$ 864	**$ 4,214**	$ 2,833

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

(2) Excludes $2.8 million make-whole interest payment made to the Corporation's lender from proceeds on disposal of AG.

ADJUSTED EBITDA MARGIN

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

ADJUSTED EBITDA ATTRIBUTED TO SHAREHOLDERS AND NCI

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

PROPORTIONATE SHARE OF INVESTEE ADJUSTED EBITDA

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

(in thousands)	Three months ended Dec. 31, 2019	Three months ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
Adjusted EBITDA	**$ 8,315**	6,288	**$ 34,660**	$ 26,668
Add back:				
Corporate and consolidated	**643**	637	**2,233**	3,208
NCI portion of adjusted EBITDA	**(3,711)**	(2,822)	**(15,387)**	(12,412)
Total Proportionate share of investee adjusted EBITDA	**$ 5,247**	4,103	**$ 21,506**	**$** 17,464

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, and other one-time non-recurring items.

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

(in thousands)	Three months ended Dec. 31, 2019	Three months ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2018
Net income (loss)	**$ 1,321**	$ (8,792)	**$ (4,411)**	$ (20,377)
Add back:				
Discontinued operations	**-**	6,105	**6,879**	7,257
Interest paid with proceeds on sale of AG		-	**2,771**	-
Foreign exchange (gain) loss	**(806)**	2,929	**(2,449)**	4,647
Change in fair value of foreign exchange forward contract	**365**	-	**365**	-
Net loss (gain) on sale of capital and intangible assets	**272**	(13)	**301**	51
Loss (gain) on contract settlement	**51**	(50)	**404**	1,463
Non-cash write-off of deferred tax asset	**-**	-	**-**	10,439
Other expense (income)	**-**	-	**110**	(63)
Acquisition, integration and restructuring costs	**(75)**	(169)	**939**	2,596
Income tax effects of adjusting items	**65**	(307)	**(104)**	(1,274)
Adjusted net income	**$ 1,193**	$ (297)	**$ 4,805**	$ 4,739
Adjusted net loss attributable to shareholders	**(60)**	(1,401)	**(1,470)**	(1,080)
Adjusted net income attributable to non-controlling interest	**1,253**	1,104	**6,275**	5,819
Diluted adjusted income (loss) per share	**-**	(0.04)	**(0.04)**	(0.03)