



**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2018**

March 13, 2019

The following Management's Discussion and Analysis ("MD&A") is intended to assist readers in understanding Medical Facilities Corporation (the "Corporation"), its business environment, strategies, performance, outlook and the risks applicable to the Corporation. It is supplemental to and should be read in conjunction with the audited consolidated financial statements and accompanying notes of the Corporation for the year ended December 31, 2018 ("annual financial statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Substantially all of the Corporation's operating cash flows are in U.S. dollars and all amounts presented in the financial statements and herein are stated in thousands of U.S. dollars, unless indicated otherwise.

Additional information about the Corporation and its annual information form are available on SEDAR at www.sedar.com.

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1. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain information in this MD&A may constitute “forward-looking information” within the meaning of applicable securities legislation. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. Forward-looking information includes, but is not limited to, the discussion of the Corporation’s business and operating initiatives, focuses and strategies, expectations of future performance and consolidated financial results, and expectations with respect to cash flows and level of liquidity. Generally, forward-looking information can be identified by use of words such as “may”, “will”, “could”, “should”, “would”, “expect”, “believe”, “plan”, “anticipate”, “intend”, “forecast”, “objective” and “continue” (or the negative thereof) and other similar terminology. All of the forward-looking information in this MD&A is qualified by this cautionary statement.

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results, performance or achievements, industry results or events to be materially different from those expressed or implied by the forward-looking information. The material factors or assumptions that were identified and applied in drawing conclusions or making forecasts or projections set out in the forward-looking information include, but are not limited to: the successful execution of business strategies, consistent and stable economic conditions and conditions in the financial markets, and the consistent and stable legislative environment in which the Corporation operates.

Inherent in the forward-looking information are known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements, or industry results, to differ materially from any results, performance or achievements expressed or implied by such forward-looking information. Those risks, uncertainties and other factors that could cause actual results to differ materially from the forward-looking information include, but are not limited to: ability to obtain and maintain contractual arrangements with insurers and other payors, ability to attract and retain qualified physicians, availability of qualified personnel or management, legislative and regulatory changes, capital expenditures, general state of the economy, competition in the industry, opportunity to acquire accretive businesses, integration of acquisitions, currency risk, interest rate risk, success of new service lines introductions, ability to maintain profitability and manage growth, revenue and cash flow volatility, credit risk, operating risks, performance of obligations/maintenance of client satisfaction, information technology governance and security, risk of future legal proceedings, insurance limits, income tax matters, ability to meet solvency requirements to pay dividends, leverage and restrictive covenants, unpredictability and volatility of common share price, and issuance of additional common shares diluting existing shareholders’ interests, and other factors set forth under the heading “Risk Factors” in this MD&A and under the heading “Risk Factors” in the Corporation’s most recently filed annual information form (which is available on SEDAR at www.sedar.com).

Given these risks, uncertainties and other factors, investors should not place undue reliance on forward-looking information as a prediction of actual results. The forward-looking information reflects management’s current expectations and beliefs regarding future events and operating performance and is based on information currently available to management. Although management has attempted to identify important factors that could cause actual results to differ materially from the forward-looking information contained herein, there are other factors that could cause results not to be as anticipated, estimated or intended. The forward-looking information contained herein is current as of the date of this MD&A and, except as required under applicable law, the Corporation does not undertake the obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

2. NON-IFRS FINANCIAL MEASURES

The Corporation uses certain non-IFRS financial measures which it believes provide useful measures for evaluation and assessment of the Corporation's performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS, are unlikely to be comparable to similar measures presented by other issuers, and should not be considered as alternatives to comparable measures determined in accordance with IFRS as indicators of the Corporation's financial performance, including its liquidity, cash flows, and profitability.

The Corporation uses the following non-IFRS financial measures which are presented in Section 7 of this MD&A under the heading "Reconciliation of Non-IFRS Financial Measures" and reconciled to the applicable IFRS measures:

- **Cash available for distribution** is a non-IFRS financial measure of cash generated from operations during a reporting period which is available for distribution to common shareholders. Cash available for distribution is derived from cash flows from operations before changes in non-cash working capital and certain non-cash adjustments, less maintenance capital expenditures, interest and principal repayments on non-revolving debt obligations, and non-controlling interest in cash flows at the Facility (defined below) level. The Corporation calculates cash available for distribution in U.S. dollars and translates it into Canadian dollars using the average exchange rate applicable during the period.
- **Cash available for distribution per common share** is a non-IFRS financial measure calculated as the cash available for distribution divided by the weighted average number of common shares outstanding during the period.
- **Distributions** is a non-IFRS financial measure of cash distributed to holders of common shares, more commonly referred to as dividends.
- **Earnings before interest, taxes, depreciation and amortization ("EBITDA")** is a non-IFRS financial measure defined as income for the period before (i) finance costs, (ii) income taxes, (iii) depreciation of property and equipment, and (iv) amortization of other intangibles.
- **Adjusted EBITDA** is a non-IFRS financial measure defined as EBITDA before goodwill impairment.
- **Payout ratio** is a non-IFRS financial measure calculated as total distributions per common share in Canadian dollars divided by cash available for distribution per common share in Canadian dollars.

3. BUSINESS OVERVIEW

The Corporation is a British Columbia corporation. The capital of the Corporation is in the form of publicly traded common shares and 5.9% convertible unsecured subordinated debentures ("convertible debentures"). The Corporation's current monthly dividend on its common shares is Cdn\$0.09375 per share.

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. ("MFA") and Medical Facilities (USA) Holdings, Inc. ("MFH"), the Corporation owns controlling interests in, and/or controls by virtue of the power to govern, and derives substantially all of its income from, 13 limited liability entities (each a "Facility" and, collectively, the "Facilities"), each of which own either a specialty surgical hospital (an "SSH") or an ambulatory surgery center (an "ASC"). The 13 Facilities are comprised of five SSHs located in Arkansas, Indiana, Oklahoma, and South Dakota, and eight ASCs located in Arkansas, California, Michigan, Missouri, Nebraska, Ohio, Oregon and

Pennsylvania. ASCs are specialized surgical centers that only provide outpatient procedures, whereas SSHs are licensed for both inpatient and outpatient surgeries. The SSHs and ASCs provide facilities, including staffing, surgical materials and supplies, and other support necessary for scheduled surgical, pain management, imaging, and diagnostic procedures and derive their revenue primarily from the fees charged for the use of these facilities. The Facilities mainly focus on a limited number of clinical specialties such as orthopedics, neurosurgery, pain management and other non-emergency elective procedures. In addition, three of the SSHs provide urgent care services and two of the SSHs provide primary care services to their communities.

The Corporation has a 92% interest in RRI Mishawaka Hospital, LP (“RRIMH”), which owns the real estate assets underlying Unity Medical and Surgical Hospital (“UMASH”).

On August 31, 2018, the Corporation entered into an agreement providing for a new \$150 million syndicated revolving credit facility, maturing on August 31, 2023. The facility replaces the Company’s Cdn\$100 million facility. Subject to the terms of the credit agreement, the new revolving credit facility may be used for acquisitions and other general corporate purposes.

During 2018, the Corporation increased its indirect ownership interest in UMASH through the purchase of shares of its holding company, Physician’s ASC Management, LLC (“PAM”). As a result, the Corporation’s indirect ownership interest rose to 79.2% from 62.0%.

On June 1, 2018, Integrated Medical Delivery, L.L.C. (“IMD”), the Corporation’s 51% indirectly-owned subsidiary, completed the sale of its assets. The Corporation recorded a pre-tax loss of \$530 on proceeds of sale of \$3,100. The Corporation has maintained its 51% indirect ownership interest in IMD.

On January 12, 2018, the Corporation, through its indirect subsidiary, entered into an agreement with Nueterra MF Holdings, LLC to form a partnership, MFC Nueterra Holding Company, LLC (“MFC Nueterra Partnership”), in which the Corporation holds a 90.0% indirect interest, originally 94.25% until December 31, 2018. On February 1, 2018, MFC Nueterra Partnership completed an acquisition of indirect interests for the Corporation, representing between approximately 40% to 56% in seven ASCs (“the MFC Nueterra ASCs”) situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania. The physicians at the MFC Nueterra ASCs specialize in orthopedics, neurosurgery, ophthalmology, and pain management, along with sub-specialties in otolaryngology, gastroenterology, cosmetic surgery, general surgery and podiatry. Combined, the MFC Nueterra ASCs have 18 operating rooms and seven procedure rooms.

The total purchase price paid by MFC Nueterra Partnership was \$46,500. The Corporation’s portion of the purchase price of \$43,850 was funded by cash on hand and a draw on its credit facility. The transaction is accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of the MFC Nueterra ASCs are included in the financial statements.

Facility service revenue (“revenue”) and certain directly related expenses are subject to seasonal fluctuations due to the timing of case scheduling, which can be impacted by the vacation schedules of surgeons, as well as the extent to which patients have remaining deductibles on their insurance coverage, based on the time of year. Occupancy related expenses, certain operating expenses, depreciation and amortization, and interest expense remain relatively steady throughout the year.

Revenue for any given period is dependent on the volume of the procedures performed as well as the acuity and complexity of the procedures (“case mix”) and composition of payors (“payor mix”), including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance

companies and employers. Various payors have different reimbursement rates for the same type of procedure which are generally based on either predetermined rates per procedure or discounted fee-for-service rates. Medicare and Medicaid typically have lower reimbursement rates than other payors.

Revenue is recorded in the period when healthcare services are provided based upon established billing rates less adjustments required by contractual arrangements with the payors. Estimates of contractual adjustments under payor arrangements are based upon the payment terms specified in the related contractual agreements and payment history.

The volume of procedures performed at the Facilities depends on, among other things: (i) the Facilities' ability to deliver high quality care and superior services to patients and their family members; (ii) the Facilities' success in encouraging physicians to perform procedures at the Facilities through, among other things, maintenance of an efficient work environment for physicians as well as availability of facilities; and (iii) the Facilities' establishment and maintenance of strong relationships with major third-party payors in the geographic areas served. The case mix at each Facility is a function of the clinical specialties of the physicians and medical staff and is also dependent on the equipment and infrastructure at each Facility.

Non-controlling interests in the Facilities are indirectly owned, primarily by physicians practicing at the Facilities. Upon acquisition by the Corporation of indirect controlling interests in the SSHs located in Arkansas, Oklahoma, and South Dakota, the non-controlling interest owners were granted the right to exchange up to 14% (5% in the case of ASH) of the ownership interest in their respective Facilities for common shares of the Corporation. The liability associated with this derivative instrument is recorded on the consolidated balance sheet. To date, the non-controlling interest owners of two of the eligible Facilities have exercised portions of their exchangeable interests.

Summary of Facility Information as of December 31, 2018

	Arkansas Surgical Hospital ("ASH")	Unity Medical and Surgical Hospital ("UMASH")	Oklahoma Spine Hospital ("OSH")	Black Hills Surgical Hospital ("BHS")	Sioux Falls Specialty Hospital ("SFSH")	The Surgery Center of Newport Coast ("SCNC")	MFC Nueterra ASCs ("MFC Nueterra")
Location	North Little Rock Arkansas	Mishawaka Indiana	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California	Seven locations ⁽²⁾
Year Opened	2005	2009	1999	1997	1985	2004	2006-2011
Year Acquired by the Corporation	2012	2016	2005	2004	2004	2008	2018
Ownership Interest	51.0%	79.2%	62.8%	54.2%	51.0%	51.0%	38-56% ⁽²⁾
Non-controlling Interest	49.0%	20.8%	37.2%	45.8%	49.0%	49.0%	44-62% ⁽²⁾
Exchangeable Interest	5.0%	-	2.2%	10.8%	14.0%	-	-
Size	126,000 sq ft	49,000 sq ft	61,000 sq ft	75,000 sq ft	76,000 sq ft	7,000 sq ft	5,000-13,200 sq ft
Operating/Procedure Rooms	11/2	4/2	7/2	11	14	2/1	18/7
Overnight Rooms	41 ⁽¹⁾	29	25	26	34	-	-

⁽¹⁾Licensed for 49 beds.

⁽²⁾Through the MFC Nueterra Partnership, the Corporation owns indirect interests between approximately 38% to 56% in seven ASCs, situated in Arkansas, Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania.

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information

<i>In thousands of U.S. dollars, except per share amounts and as indicated otherwise</i>	Years Ended December 31,		
	2018	2017	2016
Facility service revenue	431,602	385,329	339,472
Operating expenses	358,218	326,828	271,399
Income from operations	73,384	58,501	68,073
Net income and comprehensive income for the period	51,549	46,579	39,688
Attributable to:			
Owners of the Corporation	20,927	20,637	9,750
Non-controlling interest ⁽¹⁾	30,622	25,942	29,938
Earnings per share attributable to owners of the Corporation			
Basic	\$0.68	\$0.67	\$0.31
Fully diluted	\$0.61	\$0.54	\$0.30
EBITDA ⁽²⁾	99,018	86,247	90,704
Adjusted EBITDA ⁽²⁾	99,018	94,647	90,704
Cash available for distribution ⁽²⁾	C \$48,822	C \$51,710	C \$50,655
Distributions ⁽²⁾	C \$34,864	C \$34,881	C \$34,929
Cash available for distribution per common share ⁽²⁾	C \$1.575	C \$1.668	C \$1.631
Distributions per common share ⁽²⁾	C \$1.125	C \$1.125	C \$1.125
Payout ratio ⁽²⁾	71.4%	67.5%	69.0%
	December 31, 2018	December 31, 2017	December 31, 2016
Total assets	481,787	459,588	492,461
Total long-term financial liabilities	119,305	81,265	135,946

⁽¹⁾Net income and comprehensive income attributable to owners of the Corporation fluctuates significantly between the periods due to variations in finance costs, primarily in the values of convertible debentures and exchangeable interest liability, and income taxes; these charges are incurred at the corporate level rather than at Facility level. Net income and comprehensive income attributable to non-controlling interest represents the interest of the Facilities' non-controlling interests in the net income of the Facilities on a stand-alone basis and, therefore, does not vary as significantly between the periods.

⁽²⁾Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures", Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures" and Section 5 under "Reconciliation of net income and comprehensive income for the period to EBITDA".

Selected Financial Information for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

For the year ended December 31, 2018, revenue was \$431.6 million, an increase of 12.0% from \$385.3 million for the same period in 2017, as the MFC Nueterra ASCs generated \$34.1 million of incremental revenue, with the remainder of the growth coming from same Facility operations. EBITDA was \$99.0 million or 22.9% of revenue compared to \$86.2 million or 22.4% for the same period last year. Net income and comprehensive income for the period was \$51.5 million compared to \$46.6 million in 2017, with the increase mainly attributable to an increase in income from operations which included the impact of the prior year goodwill impairment charge, partially offset by higher finance costs and income tax expense. The Corporation generated cash available for distribution of Cdn\$48.8 million, representing a decrease of Cdn\$2.9 million or 5.6% from Cdn\$51.7 million in the prior year. Distributions per common share remained consistent between the years at Cdn\$1.125, while the payout ratio was 71.4% compared to 67.5% for the year ended December 31, 2017. For a

reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

Selected Financial Information for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

For the year ended December 31, 2017, revenue was \$385.3 million, an increase of 13.5% from \$339.5 million for the same period in 2016 as UMASH generated \$23.3 million and Prairie States Surgical Center (“PSSC”) generated \$5.2 million of incremental revenue, with the remainder of the growth coming from same Facility operations. EBITDA was \$86.2 million or 22.4% of revenue compared to \$90.7 million or 26.7% for the same period in 2016. Net income and comprehensive income for the period was \$46.6 million compared to \$39.7 million in 2016, with the increase mainly attributable to the decrease in the value of exchangeable interest liability (refer to Section 5 “Consolidated Operating and Financial Review” of this MD&A under heading “Change in Value of Exchangeable Interest Liability”), partially offset by a charge for impairment of goodwill and higher income taxes. The Corporation generated cash available for distribution of Cdn\$51.7 million, representing an increase of 2.0% from Cdn\$50.7 million in 2016. Distributions per common share remained unchanged at Cdn\$1.125, while the payout ratio was 67.5% compared to 69.0% for the year ended December 31, 2017. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Three months ended December 31, 2018

The following table and discussion compare operating and financial results of the Corporation for the three months ended December 31, 2018 to the three months ended December 31, 2017.

<i>Unaudited</i>	Three Months Ended December 31,			
<i>In thousands of U.S. dollars, except per share amounts</i>	2018	2017	\$ Change	% Change
Facility service revenue	123,283	111,266	12,017	10.8%
Operating expenses				
Salaries and benefits	32,186	29,673	2,513	8.5%
Drugs and supplies	38,590	32,587	6,003	18.4%
General and administrative expenses	20,115	16,927	3,188	18.8%
Impairment of goodwill	-	8,400	(8,400)	(100.0%)
Depreciation of property and equipment	3,551	3,022	529	17.5%
Amortization of other intangibles	3,960	4,101	(141)	(3.4%)
	98,402	94,710	3,692	3.9%
Income from operations	24,881	16,556	8,325	50.3%
Finance costs				
Change in value of convertible debentures	(1,974)	(585)	(1,389)	(237.5%)
Change in value of exchangeable interest liability	279	(6,243)	6,522	104.5%
Interest expense on exchangeable interest liability	2,012	1,968	44	2.2%
Interest expense, net of interest income	1,778	1,213	565	46.6%
Loss on foreign currency	566	127	439	345.7%
	2,661	(3,520)	6,181	175.6%
Income before income taxes	22,220	20,076	2,144	10.7%
Income tax expense	2,257	2,525	(268)	(10.6%)
Net income and comprehensive income for the period	19,963	17,551	2,412	13.7%
Attributable to:				
Owners of the Corporation	8,264	10,545	(2,281)	(21.6%)
Non-controlling interest	11,699	7,006	4,693	67.0%
Basic earnings per share attributable to owners of the Corporation	\$0.27	\$0.34	(0.07)	(20.6%)
Fully diluted earnings per share attributable to owners of the Corporation	\$0.22	\$0.20	0.02	10.0%
Reconciliation of net income and comprehensive income for the period to EBITDA⁽¹⁾				
Net income and comprehensive income for the period	19,963	17,551	2,412	13.7%
Income tax expense	2,257	2,525	(268)	(10.6%)
Finance costs	2,661	(3,520)	6,181	175.6%
Depreciation of property and equipment	3,551	3,022	529	17.5%
Amortization of other intangibles	3,960	4,101	(141)	(3.4%)
EBITDA⁽¹⁾	32,392	23,679	8,713	36.8%
Goodwill impairment	-	8,400	(8,400)	(100.0%)
Adjusted EBITDA⁽¹⁾	32,392	32,079	313	1.0%

⁽¹⁾ Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.

Revenue

<i>Unaudited</i>	Three Months Ended December 31,			
<i>In thousands of U.S. dollars</i>	2018	2017	\$ Change	% Change
ASH	19,031	18,292	739	4.0%
UMASH	11,331	11,516	(185)	(1.6%)
OSH	21,107	17,954	3,153	17.6%
BHSH	24,682	25,222	(540)	(2.1%)
SFSH	34,830	35,638	(808)	(2.3%)
SCNC	2,442	2,208	234	10.6%
MFC Nueterra ASCs	9,860	-	9,860	100.0%
RRIMH	572	561	11	2.0%
IMD	-	1,027	(1,027)	(100.0%)
Intercompany eliminations	(572)	(1,152)	580	50.3%
Facility service revenue	123,283	111,266	12,017	10.8%

For the three months ended December 31, 2018, revenue increased over 2017 by \$12.0 million or 10.8%. The increase was primarily attributable to the acquisition of the MFC Nueterra ASCs which contributed \$9.9 million to the overall increase, and higher case volume of \$3.9 million, partly offset by the \$0.8 million net decline from case and payor mix combined and the discontinuation of revenue from IMD.

Total surgical cases increased by 3,801 cases or 37.5%, as outpatient cases increased by 54.4% while inpatient cases increased by 0.3%. Same Facility surgical case volume was higher, as UMASH, OSH and ASH had notable increases, partially offset by decreases at BHSH and SCNC. The MFC Nueterra ASCs drove the overall surgical case growth by adding 3,722 outpatient cases. Including the impact of the MFC Nueterra ASCs, surgical case volume growth over the same period last year came predominantly from Commercial Insurance/Private Payor and Medicare, which grew by 84.9% and 69.1%, respectively.

The above factors are reflected in each subsidiary's revenue as follows:

- ASH's revenue increased mainly due to higher case volume driven mostly by an increase in inpatient cases.
- UMASH's revenue decreased mainly due to a lower reimbursement rate becoming effective for a key Commercial payor and payor mix, mostly offset by lower bad debt expense and higher case volume.
- OSH's revenue increased mainly due to higher case volume including notable increases in pain cases, and payor and case mix.
- BHSH's revenue decreased mainly due to lower case volume, partly offset by case mix from an increase in spine stimulators and other cases that generate higher per case revenue.
- SFSH's revenue decreased mainly due to payor mix as Medicare and similar payors represented a higher share, partly offset by case mix and higher case volume.
- SCNC's revenue increased mainly due to payor mix because of higher Commercial Insurance/Private Payor cases, partly offset by case mix and lower case volume due to fewer orthopedic cases.
- MFC Nueterra ASCs contributed revenue to the overall increase subsequent to the February 1, 2018 acquisition date.

- RRIMH’s revenue, which is fully eliminated, was relatively unchanged.
- The intercompany revenue elimination relates to RRIMH’s rent revenue from UMASH.

Operating Expenses

Consolidated operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses, depreciation of property and equipment, and amortization of other intangibles (“operating expenses”), increased by \$3.7 million or 3.9%, to \$98.4 million. As a percentage of revenue, operating expenses decreased to 79.8% from 85.1% in the same period a year earlier.

<i>Unaudited</i>	Three Months Ended December 31,					
<i>In thousands of U.S. dollars</i>	2018	Percentage of Revenue	2017	Percentage of Revenue	\$ Change	% Change
ASH	14,861	78.1%	14,320	78.3%	541	3.8%
UMASH	9,751	86.1%	10,818	93.9%	(1,067)	(9.9%)
OSH	17,936	85.0%	15,032	83.7%	2,904	19.3%
BHSH	18,208	73.8%	17,219	68.3%	989	5.7%
SFSH	21,781	62.5%	20,353	57.1%	1,428	7.0%
SCNC	1,706	69.9%	1,652	74.8%	54	3.3%
MFC Nueterra ASCs	8,274	83.9%	-	n/a	8,274	100.0%
RRIMH	168	29.4%	168	29.9%	-	0.0%
IMD	-	n/a	1,096	106.7%	(1,096)	(100.0%)
Corporate and intercompany eliminations	5,717	n/a	14,052	n/a	(8,335)	(59.3%)
Operating expenses	98,402	79.8%	94,710	85.1%	3,692	3.9%

Consolidated salaries and benefits increased by \$2.5 million or 8.5%, primarily due to increases at the Facility level attributable to the MFC Nueterra ASCs (\$1.9 million), higher wage costs due to increased case acuity, volume, and wage rates (\$1.3 million), and higher benefit costs due to increased enrolment and insurance claims (\$0.6 million), partly offset by the discontinuation of expenses from IMD (\$0.8 million) and other savings. As a percentage of revenue, consolidated salaries and benefits decreased to 26.1% from 26.7% a year earlier.

Consolidated drugs and supplies increased by \$6.0 million or 18.4%, primarily driven by the MFC Nueterra ASCs (\$3.5 million), case mix (\$1.3 million) and higher case volumes (\$1.1 million). As a percentage of revenue, the consolidated cost of drugs and supplies increased to 31.3% from 29.3% a year earlier.

Consolidated general and administrative expenses (“G&A”) increased by \$3.2 million or 18.8%. The increase in G&A was mainly attributable to the MFC Nueterra ASCs (\$2.7 million), higher IT costs, building and equipment costs (\$0.6 million), and costs at the new urgent care clinics (\$0.2 million), partly offset by the discontinuation of expenses from IMD (\$0.3 million). As a percentage of revenue, consolidated G&A increased to 16.3% from 15.2% a year earlier.

Consolidated depreciation of property and equipment increased by \$0.5 million or 17.5% mainly due to the impact of the MFC Nueterra ASCs acquisition. As a percentage of revenue, consolidated depreciation of property and equipment increased to 2.9% from 2.7% a year earlier.

Consolidated amortization of other intangibles decreased by \$0.1 million or 3.4% mainly due to certain intangible assets being fully amortized, partly offset by the impact of the MFC Nueterra ASCs acquisition. As a percentage of revenue, consolidated amortization of other intangibles decreased to 3.2% from 3.7% a year earlier.

Income from Operations

Consolidated income from operations for the three months ended December 31, 2018 of \$24.9 million was \$8.3 million or 50.3% higher than consolidated income from operations of \$16.6 million recorded a year earlier, representing 20.2% of revenue, compared to 14.9% in the same period in 2017. The increase was mainly due to the prior year goodwill impairment charges of \$8.4 million, the contribution from the MFC Nueterra ASCs acquisition of \$1.6 million, and operating income increases at UMASH, OSH, ASH and SCNC, offset partly by declines at SFSH and BSHH.

<i>Unaudited</i>	Three Months Ended December 31,					
	<i>In thousands of U.S. dollars</i>	2018	Percentage of Revenue	2017	Percentage of Revenue	\$ Change
ASH	4,170	21.9%	3,971	21.7%	199	5.0%
UMASH	1,579	13.9%	698	6.1%	881	126.2%
OSH	3,172	15.0%	2,923	16.3%	249	8.5%
BSHH	6,475	26.2%	8,004	31.7%	(1,529)	(19.1%)
SFSH	13,049	37.5%	15,285	42.9%	(2,236)	(14.6%)
SCNC	736	30.1%	556	25.2%	180	32.4%
MFC Nueterra ASCs	1,585	16.1%	-	n/a	1,585	100.0%
RRIMH	404	70.6%	393	70.1%	11	2.8%
IMD	-	n/a	(69)	(6.7%)	69	100.0%
Corporate	(6,289)	n/a	(15,205)	n/a	8,916	58.6%
Income from operations	24,881	20.2%	16,556	14.9%	8,325	50.3%

Finance Costs

Change in Value of Convertible Debentures

The convertible debentures are recorded as a financial liability at fair value and re-measured at each reporting date and the changes in fair value are included in net income and comprehensive income for the respective periods. Changes in the recorded value of the convertible debentures are driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.

The following table provides a calculation of the change in fair value of convertible debentures for the reporting periods:

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	December 31, 2018	September 30, 2018 <i>Unaudited</i>	Change	December 31, 2017	September 30, 2017 <i>Unaudited</i>	Change
Face value of convertible debentures outstanding	C \$41,743	C \$41,743	-	C \$41,743	C \$41,743	-
Closing price of convertible debentures outstanding	C \$100.10	C \$100.85	(C \$ 0.75)	C \$101.00	C \$102.00	(C \$ 1.00)
Closing exchange rate of U.S. dollar to Canadian dollar	C \$1.3641	C \$1.2911	C \$0.0730	C \$1.2573	C \$1.2480	C \$0.0093
Market value of convertible debentures outstanding	30,632	32,606	(1,974)	33,533	34,118	(585)

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, and re-measured at each reporting date, and the changes in fair value are included in net income and comprehensive income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting

date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar.

The following table provides a calculation of the change in value of exchangeable interest liability for the reporting periods:

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	December 31, 2018	September 30, 2018 <i>Unaudited</i>	Change	December 31, 2017	September 30, 2017 <i>Unaudited</i>	Change
Number of common shares to be issued for exchangeable interest liability	5,970,862	5,897,909	72,953	5,929,304	5,871,731	57,573
Closing price of the Corporation's common shares	C \$ 15.04	C \$ 14.35	C \$ 0.69	C \$ 14.23	C \$ 15.59	(C \$ 1.36)
Closing exchange rate of U.S. dollar to Canadian dollar	C \$1.3641	C \$1.2911	C \$0.0730	C \$1.2573	C \$1.2480	C \$0.0093
Exchangeable interest liability	65,832	65,553	279	67,107	73,350	(6,243)

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability remained unchanged versus the comparative period.

Interest Expense

Interest expense, net of interest income, increased by \$0.6 million versus the comparative period, due to the higher average debt balance outstanding and increases in interest rates.

Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. Foreign currency losses increased by \$0.4 million compared to the three month period in 2017 due to the relative change in foreign exchange rates.

Income Tax

Current and deferred tax components of the income tax expense for the reporting periods are as follows:

<i>Unaudited</i>	Three Months Ended December 31,			
<i>In thousands of U.S. dollars</i>	2018	2017	\$ Change	% Change
Current income tax expense (recovery)	(284)	1,162	(1,446)	(124.4%)
Deferred income tax expense	2,541	1,363	1,178	86.4%
Income tax expense	2,257	2,525	(268)	(10.6%)

The decrease in current income tax expense was due mainly to the deductibility of amortization from intangible assets acquired in the current year. The increase in the deferred income tax expense versus the prior year was primarily attributable to the tax effect of the change in exchangeable interest liability.

Net Income and Comprehensive Income

A \$2.4 million increase in net income and comprehensive income was mainly attributable to an increase in income from operations and lower income tax expense, partially offset by higher finance costs, including the change in the value of exchangeable interest liability (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability") versus the prior year.

EBITDA

EBITDA of \$32.4 million increased from \$23.7 million recorded a year earlier, representing 26.3% of revenue, compared to 21.3% of revenue a year earlier. The increase was mainly due to the prior year goodwill impairment charges of \$8.4 million, while cost savings at the corporate office offset lower earnings from the Facilities. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of net income and comprehensive income for the period to EBITDA”.

Adjusted EBITDA

Adjusted EBITDA of \$32.4 million increased by \$0.3 million from \$32.1 million in prior year, representing 26.3% of revenue compared to 28.8% a year earlier. For a reconciliation of Adjusted EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of net income and comprehensive income for the period to EBITDA”.

Year ended December 31, 2018

The following table and discussion compare operating and financial results of the Corporation for the year ended December 31, 2018 to the year ended December 31, 2017.

	Years Ended December 31,			
	2018	2017	\$ Change	% Change
<i>In thousands of U.S. dollars, except per share amounts</i>				
Facility service revenue	431,602	385,329	46,273	12.0%
Operating expenses				
Salaries and benefits	120,763	108,449	12,314	11.4%
Drugs and supplies	132,949	114,960	17,989	15.6%
General and administrative expenses	78,872	67,273	11,599	17.2%
Impairment of goodwill	-	8,400	(8,400)	(100.0%)
Depreciation of property and equipment	11,772	11,512	260	2.3%
Amortization of other intangibles	13,862	16,234	(2,372)	(14.6%)
	358,218	326,828	31,390	9.6%
Income from operations	73,384	58,501	14,883	25.4%
Finance costs				
Change in value of convertible debentures	(2,901)	1,431	(4,332)	(302.7%)
Change in value of exchangeable interest liability	(64)	(9,927)	9,863	99.4%
Interest expense on exchangeable interest liability	8,592	8,692	(100)	(1.2%)
Interest expense, net of interest income	6,458	5,892	566	9.6%
Loss (gain) on foreign currency	778	(701)	1,479	211.0%
	12,863	5,387	7,476	138.8%
Income before income taxes	60,521	53,114	7,407	13.9%
Income tax expense	8,972	6,535	2,437	37.3%
Net income and comprehensive income for the period	51,549	46,579	4,970	10.7%
Attributable to:				
Owners of the Corporation	20,927	20,637	290	1.4%
Non-controlling interest	30,622	25,942	4,680	18.0%
Basic earnings per share attributable to owners of the Corporation	\$0.68	\$0.67	0.01	1.5%
Fully diluted earnings per share attributable to owners of the Corporation	\$0.61	\$0.54	0.07	13.0%
Reconciliation of net income and comprehensive income for the period to EBITDA⁽¹⁾				
Net income and comprehensive income for the period	51,549	46,579	4,970	10.7%
Income tax expense	8,972	6,535	2,437	37.3%
Finance costs	12,863	5,387	7,476	138.8%
Depreciation of property and equipment	11,772	11,512	260	2.3%
Amortization of other intangibles	13,862	16,234	(2,372)	(14.6%)
EBITDA⁽¹⁾	99,018	86,247	12,771	14.8%
Goodwill impairment	-	8,400	(8,400)	(100.0%)
Adjusted EBITDA⁽¹⁾	99,018	94,647	4,371	4.6%

⁽¹⁾ Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.

Revenue

<i>In thousands of U.S. dollars</i>	Years Ended December 31,			
	2018	2017	\$ Change	% Change
ASH	67,848	70,600	(2,752)	(3.9%)
UMASH	40,757	37,546	3,211	8.6%
OSH	72,737	64,331	8,406	13.1%
BHSH	91,292	88,263	3,029	3.4%
SFSH	115,636	114,143	1,493	1.3%
SCNC	8,352	8,294	58	0.7%
MFC Nueterra ASCs	34,061	-	34,061	100.0%
RRIMH	2,255	2,211	44	2.0%
IMD	2,451	5,024	(2,573)	(51.2%)
Intercompany eliminations	(3,787)	(5,083)	1,296	25.5%
Facility service revenue	431,602	385,329	46,273	12.0%

For the year ended December 31, 2018, revenue increased over 2017 by \$46.3 million or 12.0%. The increase was primarily attributable to the acquisition of the MFC Nueterra ASCs which contributed \$34.1 million to the overall increase, higher case volume of \$13.8 million, and lower bad debt expense of \$0.7 million, partly offset by the discontinuation of revenue from IMD of \$2.6 million after the disposition of its assets in June 2018.

Total surgical cases increased by 13,816 cases or 38.1%, as outpatient cases increased by 57.4% while inpatient cases decreased by 1.6%. Same Facility surgical case volume increased, as UMASH, OSH and BHSH had notable increases, partially offset by decreases at ASH and SFSH. The MFC Nueterra ASCs drove the overall surgical case increase by adding 13,384 outpatient cases. Including the impact of the MFC Nueterra ASCs, surgical case volume growth over the same period last year came predominantly from Commercial Insurance/Private Payor and Medicare, which grew by 92.1% and 62.9%, respectively.

The above factors are reflected in each subsidiary's revenue as follows:

- ASH's revenue decreased mainly due to lower case volume and case mix, mostly caused by fewer spine and orthopedics cases earlier in the year.
- UMASH's revenue increased mainly due to higher case volume as outpatient surgical cases showed a notable increase from prior year, partially offset by payor mix and a lower reimbursement rate becoming effective for a key Commercial payor.
- OSH's revenue increased stemming from higher acuity cases, a payor mix which led to lower contractual adjustments, and higher case volume as both surgical and pain case volumes increased.
- BHSH's revenue increased due to higher case volume as both inpatient and outpatient cases grew, and case mix as most of the case growth came from orthopedics.
- SFSH's revenue increased due to case mix including higher case volume from increased total joint procedures, partially offset by payor mix as Medicare and similar payors were up.
- SCNC's revenue increased mainly because of payor mix due to a higher proportion of Commercial Insurance/Private Payor cases, partially offset by case mix due to fewer orthopedic cases.
- The MFC Nueterra ASCs contributed revenue to the overall increase subsequent to the February 1, 2018 acquisition date.

- RRIMH's revenue, which is fully eliminated, was consistent with prior year.
- IMD's revenue decreased due to the sale of its assets on June 1, 2018.
- The intercompany revenue elimination relates primarily to IMD's service revenue from OSH up to the date IMD's assets were sold, and RRIMH's rental revenue from UMASH.

Operating Expenses

Operating expenses increased \$31.4 million or 9.6% to \$358.2 million. As a percentage of revenue, operating expenses decreased to 83.0% from 84.8% in the same period a year earlier.

<i>In thousands of U.S. dollars</i>	Years Ended December 31,					
	2018	Percentage of Revenue	2017	Percentage of Revenue	\$ Change	% Change
ASH	54,768	80.7%	55,103	78.0%	(335)	(0.6%)
UMASH	37,819	92.8%	39,765	105.9%	(1,946)	(4.9%)
OSH	62,851	86.4%	55,016	85.5%	7,835	14.2%
BHSH	67,459	73.9%	63,577	72.0%	3,882	6.1%
SFSH	77,761	67.2%	71,878	63.0%	5,883	8.2%
SCNC	6,417	76.8%	6,307	76.0%	110	1.7%
MFC Nueterra ASCs	28,706	84.3%	-	n/a	28,706	100.0%
RRIMH	680	30.2%	670	30.3%	10	1.5%
IMD	1,843	75.2%	4,658	92.7%	(2,815)	(60.4%)
Corporate and intercompany eliminations	19,914	n/a	29,854	n/a	(9,940)	(33.3%)
Operating expenses	358,218	83.0%	326,828	84.8%	31,390	9.6%

Consolidated salaries and benefits increased by \$12.3 million or 11.4%, primarily due to increases at the Facility level attributable to the MFC Nueterra ASCs (\$6.8 million), higher wage costs (\$4.9 million) from increases in wage rates and case volume, benefit cost increases (\$1.4 million) due to increased enrolment and insurance claims, a net increase for staffing at new urgent care clinics, including the full operation of ASH urgent care (\$0.9 million), and incentive pay increases (\$0.3 million), partially offset by savings from IMD salaries (\$2.0 million). As a percentage of revenue, consolidated salaries and benefits decreased to 28.0% from 28.1% a year earlier.

Consolidated drugs and supplies increased by \$18.0 million or 15.6%, primarily driven by the MFC Nueterra ASCs (\$11.9 million), higher case volumes (\$3.7 million), and the case mix impact net of cost savings (\$2.1 million). As a percentage of revenue, the consolidated cost of drugs and supplies increased to 30.8% from 29.8% a year earlier.

Consolidated G&A increased by \$11.6 million or 17.2%. The increase in G&A was mainly attributable to the MFC Nueterra ASCs (\$9.2 million), higher orthopedic service line and accountable care organization costs at SFSH (\$1.2 million), higher IT, building and equipment costs (\$1.3 million), costs at the new urgent care clinics (\$0.5 million), a loss on the sale of IMD's assets (\$0.5 million), and other various increases, offset partially by the prior year inclusion of a charge for CEO transition (\$2.0 million). As a percentage of revenue, consolidated G&A increased to 18.3% from 17.5% a year earlier.

The Corporation recorded total non-cash goodwill impairment charges of \$8.4 million in the prior year, consisting of \$7.0 million relating to the UMASH/RRIMH cash generating unit ("CGU") and \$1.4 million relating to the IMD CGU.

Consolidated depreciation of property and equipment increased by \$0.3 million or 2.3% mainly due to the impact of the MFC Nueterra ASCs acquisition. As a percentage of revenue, consolidated depreciation of property and equipment decreased to 2.7% from 3.0% a year earlier.

Consolidated amortization of other intangibles decreased by \$2.4 million or 14.6% mainly due to certain intangible assets being fully amortized, partly offset by the impact of the MFC Nueterra ASCs acquisition. As a percentage of revenue, consolidated amortization of other intangibles decreased to 3.2% from 4.2% a year earlier.

Income from Operations

Consolidated income from operations for the year ended December 31, 2018 of \$73.4 million was \$14.9 million or 25.4% higher than consolidated income from operations of \$58.5 million, recorded a year earlier, representing 17.0% of revenue, compared to 15.2% in the same period in 2017. The increase was mainly due to the prior year goodwill impairment charges of \$8.4 million, the impact from the acquisition of the MFC Nueterra ASCs (\$5.4 million), operating income increases at several Facilities led by UMASH, and lower corporate costs due partly to the CEO transition charge in the prior year (\$2.9 million), offset partly by declines at SFSH, ASH and BSHS.

<i>In thousands of U.S. dollars</i>	Years Ended December 31,					
	2018	Percentage of Revenue	2017	Percentage of Revenue	\$ Change	% Change
ASH	13,080	19.3%	15,497	22.0%	(2,417)	(15.6%)
UMASH	2,938	7.2%	(2,219)	(5.9%)	5,157	232.4%
OSH	9,886	13.6%	9,315	14.5%	571	6.1%
BHSH	23,833	26.1%	24,685	28.0%	(852)	(3.5%)
SFSH	37,875	32.8%	42,265	37.0%	(4,390)	(10.4%)
SCNC	1,935	23.2%	1,987	24.0%	(52)	(2.6%)
MFC Nueterra ASCs	5,355	15.7%	-	n/a	5,355	100.0%
RRIMH	1,575	69.8%	1,541	69.7%	34	2.2%
IMD	608	24.8%	367	7.3%	241	65.7%
Corporate	(23,701)	n/a	(34,937)	n/a	11,236	32.2%
Income from operations	73,384	17.0%	58,501	15.2%	14,883	25.4%

Finance Costs

Change in Value of Convertible Debentures

The convertible debentures are recorded as a financial liability at fair value and re-measured at each reporting date and the changes in fair value are included in net income and comprehensive income for the respective periods. Changes in the recorded value of the convertible debentures are driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.

The following table provides a calculation of the change in fair value of convertible debentures for the reporting periods:

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	December 31, 2018	December 31, 2017	Change	December 31, 2017	December 31, 2016	Change
Face value of convertible debentures outstanding	C \$41,743	C \$41,743	-	C \$41,743	C \$41,743	-
Closing price of convertible debentures outstanding	C \$100.10	C \$101.00	(C \$ 0.90)	C \$101.00	C \$103.26	(C \$ 2.26)
Closing exchange rate of U.S. dollar to Canadian dollar	C \$1.3641	C \$1.2573	C \$0.1068	C \$1.2573	C \$1.3427	(C \$0.0854)
Market value of convertible debentures outstanding	30,632	33,533	(2,901)	33,533	32,102	1,431

Change in Value of Exchangeable Interest Liability

The liability for the exchangeable interest is recorded at fair value, and re-measured at each reporting date, and the changes in fair value are included in net income and comprehensive income for the respective periods. Changes in the recorded value of the exchangeable interest liability between the reporting periods are attributable to the (i) changes in the number of common shares to be issued for the exchangeable interest liability, which are driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) changes in the market price of the Corporation's common shares, and (iii) fluctuations of the value of the Canadian dollar against the U.S. dollar.

The following table provides a calculation of the change in value of exchangeable interest liability for the reporting periods:

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	December 31, 2018	December 31, 2017	Change	December 31, 2017	December 31, 2016	Change
Number of common shares to be issued for exchangeable interest liability	5,970,862	5,929,304	41,558	5,929,304	5,886,925	42,379
Closing price of the Corporation's common shares	C \$ 15.04	C \$ 14.23	C \$ 0.81	C \$ 14.23	C \$ 17.57	(C \$ 3.34)
Closing exchange rate of U.S. dollar to Canadian dollar	C \$1.3641	C \$1.2573	C \$0.1068	C \$1.2573	C \$1.3427	(C \$0.0854)
Exchangeable interest liability	65,832	67,107	(1,275)	67,107	77,034	(9,927)
Exercise of exchangeable rights by non-controlling interests			1,211			-
Change in value of exchangeable interest liability			(64)			(9,927)

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by \$0.1 million primarily due to the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income, increased by \$0.6 million to \$6.5 million due to the higher average debt balance outstanding and the increase in interest rates.

Foreign Currency

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. Foreign currency losses increased by \$1.5 million compared to the prior year, due to the relative change in foreign exchange rates.

Income Tax

Current and deferred tax components of the income tax expense for the reporting periods are as follows:

<i>In thousands of U.S. dollars</i>	Years Ended December 31,			
	2018	2017	\$ Change	% Change
Current income tax expense (recovery)	2,232	(2,199)	4,431	201.5%
Deferred income tax expense	6,740	8,734	(1,994)	(22.8%)
Income tax expense	8,972	6,535	2,437	37.3%

The increase in current income tax expense versus last year was due mainly to higher income from the Facilities, and lower deductibility of interest in the period due partly to the Tax Cuts and Jobs Act (“TCJA”). The decrease in the deferred income tax expense versus the prior year was primarily attributable to the tax effect of the change in exchangeable interest liability.

Net Income and Comprehensive Income

A \$5.0 million increase in net income and comprehensive income was mainly attributable to higher income from operations, partly offset by higher finance costs and income taxes.

EBITDA

EBITDA of \$99.0 million increased by \$12.8 million from \$86.2 million recorded a year earlier, representing 22.9% of revenue compared to 22.4% a year earlier. The increase was mainly due to the prior year goodwill impairment charges of \$8.4 million, the incremental contribution from the MFC Nueterra ASCs (\$6.0 million) and increases at UMASH and OSH, which were partially offset by decreases at SFSH, ASH and BHSH. Lower corporate costs were due mainly to the prior year CEO transition charge, partly offset by the loss on disposal of IMD’s assets. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of net income and comprehensive income for the period to EBITDA”.

Adjusted EBITDA

Adjusted EBITDA of \$99.0 million increased from \$94.6 million recorded a year earlier, representing 22.9% of revenue compared to 24.6% a year earlier. For a reconciliation of Adjusted EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of net income and comprehensive income for the period to EBITDA”.

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results

Unaudited <i>In thousands of U.S. dollars, except per share amounts</i>	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Facility service revenue	123,283	104,207	106,494	97,618	111,266	88,974	96,085	89,004
Operating expenses								
Salaries and benefits	32,186	30,060	29,615	28,902	29,673	26,418	26,174	26,184
Drugs and supplies	38,590	32,660	31,712	29,987	32,587	26,942	28,850	26,581
General and administrative expenses	20,115	18,839	21,257	18,661	16,927	16,266	17,944	16,136
Impairment of goodwill	-	-	-	-	8,400	-	-	-
Depreciation of property and equipment	3,551	2,780	2,737	2,704	3,022	2,816	2,868	2,806
Amortization of other intangibles	3,960	3,349	3,312	3,241	4,101	4,100	4,056	3,977
	98,402	87,688	88,633	83,495	94,710	76,542	79,892	75,684
Income from operations	24,881	16,519	17,861	14,123	16,556	12,432	16,193	13,320
Finance costs (income)								
Change in value of convertible debentures	(1,974)	428	(671)	(684)	(585)	1,307	(618)	1,326
Change in value of exchangeable interest liability	279	2,316	(840)	(1,820)	(6,243)	8,017	(15,324)	3,623
Interest expense on exchangeable interest liability	2,012	1,922	2,143	2,515	1,968	2,121	2,155	2,446
Interest expense, net of interest income	1,778	1,841	1,465	1,374	1,213	1,612	1,483	1,586
Loss (gain) on foreign currency	566	(210)	223	200	127	(393)	(318)	(116)
	2,661	6,297	2,320	1,585	(3,520)	12,664	(12,622)	8,865
Income (loss) before income taxes	22,220	10,222	15,541	12,538	20,076	(232)	28,815	4,455
Income tax expense (recovery)	2,257	2,215	2,491	2,009	2,525	(2,397)	6,691	(284)
Net income and comprehensive income for the period	19,963	8,007	13,050	10,529	17,551	2,165	22,124	4,739
Attributable to:								
Owners of the Corporation	8,264	2,135	6,300	4,228	10,545	(3,560)	14,168	(516)
Non-controlling interest	11,699	5,872	6,750	6,301	7,006	5,725	7,956	5,255
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	\$0.27	\$0.07	\$0.20	\$0.14	\$0.34	(\$0.11)	\$0.46	(\$0.02)
Fully diluted	\$0.22	\$0.07	\$0.18	\$0.12	\$0.20	(\$0.11)	\$0.18	(\$0.02)
Reconciliation of net income and comprehensive income for the period to EBITDA and Adjusted EBITDA ⁽¹⁾								
Net Income and comprehensive income for the period	19,963	8,007	13,050	10,529	17,551	2,165	22,124	4,739
Income tax expense (recovery)	2,257	2,215	2,491	2,009	2,525	(2,397)	6,691	(284)
Finance costs (income)	2,661	6,297	2,320	1,585	(3,520)	12,664	(12,622)	8,865
Depreciation of property and equipment	3,551	2,780	2,737	2,704	3,022	2,816	2,868	2,806
Amortization of other intangibles	3,960	3,349	3,312	3,241	4,101	4,100	4,056	3,977
EBITDA ⁽¹⁾	32,392	22,648	23,910	20,068	23,679	19,348	23,117	20,103
Impairment of goodwill	-	-	-	-	8,400	-	-	-
Adjusted EBITDA ⁽¹⁾	32,392	22,648	23,910	20,068	32,079	19,348	23,117	20,103

⁽¹⁾ Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures.

During the last eight quarters, the following items have had a significant impact on the Corporation's financial results:

- Revenue varies directly in relation to the number of cases performed as well as to the type of cases performed and the payor. For example, revenue for orthopedic cases will typically be higher than ear, nose and throat cases, and cases funded by Medicare or Medicaid will be lower than those paid for by private insurance. Changes in case volumes, case mix and payor mix are normal and expected due to the nature of the

Corporation's business. Surgical cases are mainly elective procedures and the volume of cases performed in any given period are subject to medical necessity and patient and physician preferences in scheduling (e.g., work schedules and vacations). The Corporation generally records higher revenue in the fourth quarter as many patients tend to seek medical procedures at the end of the year, primarily as a result of their inability to carry over unused insurance benefits into the following calendar year. During the course of the last eight quarterly reporting periods, revenue has also been impacted by the periodic receipt of electronic health record incentive payments, development of urgent and primary care service lines, and new acquisitions.

- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix as well as development costs related to the Corporation's strategic move into urgent and primary care at BSHH, SFSH, and ASH in an effort to build and expand care networks in the respective market areas. In addition, operating expenses have been impacted by costs related to the establishment of an accountable care organization by SFSH as well as the entering by SFSH into a management agreement for the orthopedic service line (refer to Section 12 of this MD&A under heading "Related Party Transactions").
- In addition, revenue and operating expenses have been impacted by acquisition and sale of assets in 2018.
- The changes in the recorded value of the convertible debentures have been driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.
- The changes in the recorded value of the exchangeable interest liability have been driven by (i) the changes in the number of common shares issuable for the exchangeable interest liability, which are in turn driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) the changes in the market price of the Corporation's common shares, and (iii) the fluctuations of the value of the Canadian dollar against the U.S. dollar.
- The fluctuations in interest expense on the exchangeable interest liability are due to the variation in distributions from the Facilities between the reporting periods.
- The fluctuations in foreign currency have been driven by the movements of exchange rate of the Canadian dollar in relation to U.S. dollar.
- Fluctuations in current income taxes have been driven by the changes in operating performance of the Facilities, the deductibility of corporate expenses, intercompany interest expense deductions and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by the changes in the exchangeable interest liability and Canadian cumulative tax operating loss carryforwards, along with the impact of U.S. tax reform pursuant to the U.S. federal tax law changes enacted on December 22, 2017 (Public law no. 115-97, more commonly known by the name of "*The Tax Cuts and Jobs Act*" or "TCJA").

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

The following table presents reconciliation of cash available for distribution to cash provided by operating activities:

		Three Months Ended December 31, (Unaudited)		Years Ended December 31,	
		2018	2017	2018	2017
<i>In thousands of U.S. dollars, except as indicated otherwise</i>					
		\$	\$	\$	\$
CASH PROVIDED BY OPERATING ACTIVITIES	USD	19,517	20,581	81,452	79,986
Non-controlling interest in cash flows of the Facilities ⁽¹⁾		(13,877)	(14,556)	(43,761)	(43,860)
Interest expense on exchangeable interest liability ⁽²⁾		2,012	1,968	8,592	8,692
Difference between straight-line rent expense and actual payments made ⁽³⁾		209	250	903	1,024
Maintenance capital expenditures ⁽⁴⁾		(978)	(1,269)	(3,046)	(4,259)
Difference between accrual-based amounts and actual cash flows related to interest and taxes ⁽⁵⁾		1,433	(1,389)	(364)	2,083
Change in non-cash operating working capital items ⁽⁶⁾		8,000	9,097	1,458	926
Share-based compensation ⁽⁷⁾		(94)	(73)	(412)	(341)
Repayment of non-revolving debt ⁽⁸⁾		(2,148)	(1,507)	(7,142)	(4,431)
CASH AVAILABLE FOR DISTRIBUTION	USD	14,074	13,102	37,680	39,820
	CDN	18,904	16,654	48,822	51,710
DISTRIBUTIONS	CDN	8,734	8,705	34,864	34,881
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE ⁽⁹⁾	CDN	\$0.61	\$0.54	\$1.58	\$1.67
TOTAL DISTRIBUTIONS PER COMMON SHARE ⁽⁹⁾	CDN	\$0.28	\$0.28	\$1.13	\$1.13
PAYOUT RATIO		46.2%	52.3%	71.4%	67.5%
Average exchange rate of Cdn\$ to US\$ for the period		1.3432	1.2713	1.2957	1.2986
Weighted average number of common shares outstanding		31,054,500	30,950,345	30,998,008	31,002,972

⁽¹⁾ Non-controlling interest in cash flows of the Facilities is deducted in determining cash available for distribution as distributions from the Facilities to the non-controlling interest holders are required to be made concurrently with distributions from the Facilities to the Corporation.

⁽²⁾ Interest expense on exchangeable interest liability represents a notional amount of interest expense deducted in the determination of net income and comprehensive income attributable to owners of the Corporation. It is added back to determine cash available for distribution as it is a non-cash charge and is not distributable to the holders of the non-controlling interest.

⁽³⁾ Difference between straight-line rent expense and actual payments made represents the difference between rent expense recorded using the straight-line method over the life of the lease versus actual payments made. As a non-cash adjustment, this item is added back in the calculation of cash available for distribution.

⁽⁴⁾ Maintenance capital expenditures at the Facility level reflect expenditures incurred to maintain the current operating capacities of the Facilities and are deducted in the calculation of cash available for distribution.

⁽⁵⁾ Cash flows from operating activities, as presented in the Corporation's consolidated statements of cash flows, represent actual cash inflows and outflows, while calculation of cash available for distribution is based on the accrued amounts and, therefore, the difference between the accrual-based amounts and actual cash inflows and outflows related to interest, income and withholding taxes is included in the above table.

⁽⁶⁾ While changes in non-cash operating working capital are included in the calculation of cash provided by operating activities, they are not included in the calculation of cash available for distribution as they represent only temporary sources or uses of cash due to the differences in timing of recording revenue and corresponding expenses and actual receipts and outlays of cash. Such changes in non-cash operating working capital are financed from the available cash or credit facilities of the Facilities.

⁽⁷⁾ Share-based compensation expense represents a charge included in salaries and benefits in the period which does not have a cash impact until the underlying stock options vest. As a non-cash item, this expense is added back in the calculation of cash available for distribution.

⁽⁸⁾ Repayment of non-revolving debt at the Facility level reflects contractual obligations of the Facilities and is deducted in the calculation of cash available for distribution.

⁽⁹⁾ Calculated based on the weighted average number of common shares outstanding.

Cash available for distribution in the three months ended December 31, 2018 (Cdn\$18.9 million) increased by Cdn\$2.2 million compared to the cash available for distribution the same quarter last year (Cdn\$16.7 million).

On a per common share basis, cash available for distribution of Cdn\$0.61 increased by Cdn\$0.07, or 12.8% from the same quarter last year of Cdn\$0.54. The distributions remained constant at Cdn\$0.28 resulting in a payout ratio of 46.2% as compared to a payout ratio of 52.3% in the same period in 2017.

Cash available for distribution in the year ended December 31, 2018 (Cdn\$48.8 million) decreased by Cdn\$2.9 million compared to the cash available for distribution the same quarter last year (Cdn\$51.7 million). On a per common share basis, cash available for distribution of Cdn\$1.58 decreased by Cdn\$0.09, or 5.6% from the same period last year of Cdn\$1.67. The distributions remained constant at Cdn\$1.13 resulting in a payout ratio of 71.4% as compared to a payout ratio of 67.5% in the same period in 2017.

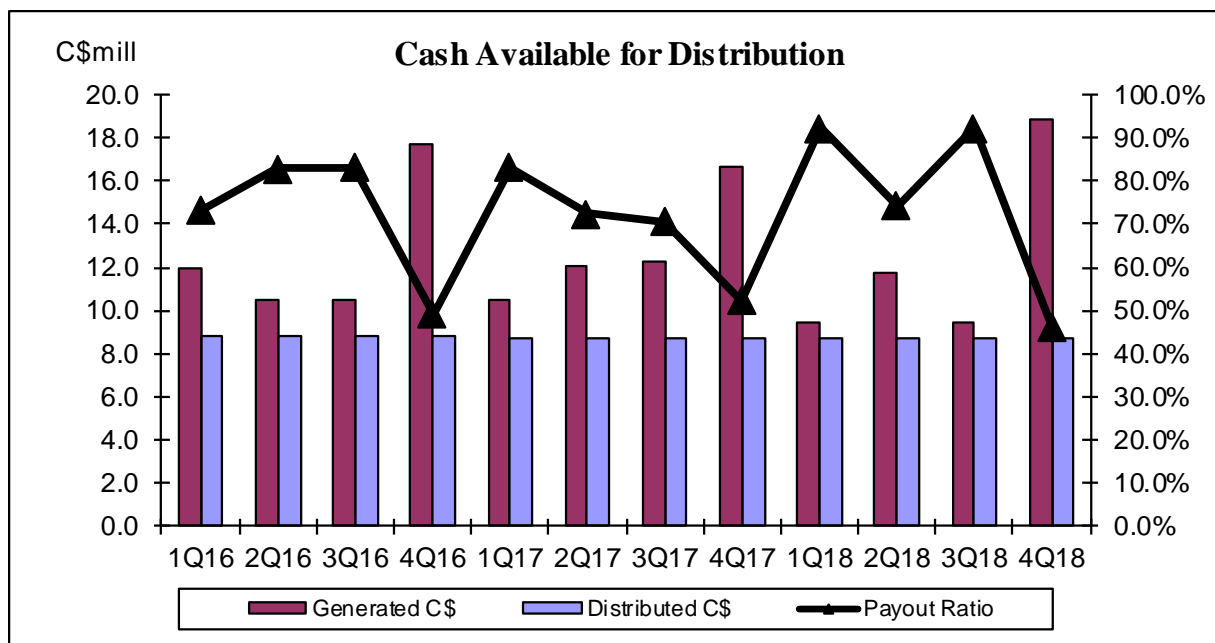
The Corporation's cash available for distribution comes solely from the Facilities. The following table provides a reconciliation of cash generated at the Facility level to the Corporation's cash available for distribution:

	Three Months Ended December 31, <i>(Unaudited)</i>		Years Ended December 31,	
	2018	2017	2018	2017
<i>In thousands of U.S. dollars</i>	\$	\$	\$	\$
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization	34,001	34,523	107,718	104,762
Debt service costs:				
Interest	(1,220)	(1,039)	(4,665)	(4,504)
Repayment of non-revolving debt	(2,148)	(1,509)	(7,142)	(4,432)
Maintenance capital expenditures	(978)	(1,269)	(3,046)	(4,259)
Loss on disposal of property and equipment	-	499	-	499
Difference between straight-line rent expense and actual payments made	209	250	903	1,024
Cash available for distribution at Facility level	29,864	31,455	93,768	93,090
Non-controlling interest in cash available for distribution at Facility level	(13,877)	(14,556)	(43,761)	(43,860)
Corporation's share of the cash available for distribution at Facility level	15,987	16,899	50,007	49,230
Corporate expenses	(886)	(1,541)	(5,350)	(7,401)
Interest expense on convertible debentures	(472)	(487)	(1,899)	(1,894)
Interest on corporate credit facility	(839)	(607)	(2,846)	(2,314)
Provision for current income taxes	284	(1,162)	(2,232)	2,199
Cash available for distribution	14,074	13,102	37,680	39,820

Compared to the three months ended December 31, 2017, the cash available for distribution in U.S. dollars increased by \$1.0 million or 7.4% because of lower current income taxes and corporate expenses, offset partly by lower cash available at the Facility level.

Compared to the year ended December 31, 2017, the cash available for distribution in U.S. dollars decreased by \$2.1 million or 5.4% due mainly to the higher provision for current income taxes which was partly offset by higher cash available at the Facility level and lower corporate expenses.

The chart below shows the Corporation’s cash available for distribution, distributions and payout ratios for the last twelve quarters:



8. OUTLOOK

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading “Caution Concerning Forward-Looking Statements”, this section contains forward-looking statements including with respect to the overall impact of the U.S. and local economies, ongoing changes in the healthcare industry, management strategies of the Corporation, and U.S. Tax Reform. Such statements involve known and unknown risks, uncertainties and other factors outside of management’s control, including the risk factors set forth under the heading “Risk Factors” in this MD&A and the Corporation’s most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

The outlook for the Corporation is influenced by many inter-related factors including the economy, the healthcare industry, management strategies of the Corporation, and U.S. tax reform.

The Economy

Management’s expectations could be impacted by the general state of the U.S. economy. The strength of the local economies of the areas served by the Corporation’s Facilities is an important factor in the Corporation’s outlook.

Healthcare Industry

While impossible to currently quantify, the potential modification or replacement of the *Patient Protection and Affordable Care Act* (“PPACA”), demographic changes and growing healthcare costs present numerous challenges and opportunities, including:

- the challenge of continuing pressure on reimbursement levels from government-funded plans (Medicare, Medicaid and similar plans) and private insurance companies, combined with the increasing share of case volume that such plans represent;
- the opportunity for additional case volumes arising from ownership of, and participation in, accountable care organizations and the related challenge of payor mix shifting to Medicare plans;
- the opportunity arising from reimbursement incentives which reward healthcare entities that meet specified quality and operational goals and operate in the most efficient and cost-effective manner;
- the opportunity for an increase in the number of patients with health insurance which is expected to lead to an increase in surgical cases and a reduction in uncompensated care; and
- an increased demand for services provided by the Corporation’s Facilities due to the increasing average age and life expectancy of the U.S. population, overall population growth and advances in science and technology.

It is still unclear what the final outcome will be for the expansion in Medicaid beneficiaries which was envisioned under the PPACA. South Dakota and Oklahoma have not implemented an expansion of their Medicaid plans, while Arkansas expanded Medicaid using an alternative to traditional expansion.

Management Strategies

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Facilities, along with the acquisitions of new, accretive facilities that are complementary to the Corporation’s core business, specifically in the SSH and ASC space. In addition to accretive core acquisitions, management will also consider other medical ventures where the financial and operational metrics are strong and could enhance a more comprehensive and integrated delivery model.

In collaboration with local management and physicians, management will continue to differentiate and grow the Corporation’s Facilities by:

- maintaining service lines of the highest quality;
- physician development, including continued recruitment and retention of physician investors and potential physician utilizers, based on community needs;
- expanding the complement of service offerings at the Facilities;
- in-market acquisitions of ancillary businesses (ASCs, imaging and urgent care services); and
- sharing and implementing best practices and cost reduction strategies, with emphasis on supply chain and implant costs.

Management has a robust acquisition pipeline and will continue to investigate accretive acquisition targets that meet the Corporation’s acquisition criteria to include facilities with:

- accretion, with growth available from a local strong provider base, attractive demographics, and opportunities for operating enhancements;
- high quality and optimum clinical outcomes; and
- continued strong earnings and opportunity for growth.

Management will maintain its emphasis on continuation of these strategies, combined with a strong balance sheet, an experienced management team and continuing identification of suitable accretive opportunities to enhance the Corporation’s operating performance.

U.S. Tax Reform

Management expects that it will be able to utilize carryforwards of disallowed current year interest expense deductions to future years. Pursuant to the TCJA, MFA’s deductions attributable to the interest expense on the promissory notes (the interest paid by MFA on all debt, including the MFA promissory notes, less its interest income) will be limited to 30% of adjusted taxable income, which generally represents EBITDA for the next three years (2019-2021), versus earnings before interest and taxes thereafter (2022 and beyond). Any disallowed interest expense may be carried forward to future years. This limitation applies to newly-issued loans as well as those originated before 2018. Moreover, other limitations on the deductibility of interest under U.S. federal income tax laws, potentially including limitations applicable to certain high-yield debt obligations, could apply under certain circumstances to defer and/or eliminate all or a portion of the interest deduction that MFA would otherwise be entitled to with respect to interest on such indebtedness.

It should be noted that the sweeping changes in the TJCA have other elements that may be beneficial to MFA, but there are provisions that may be adverse to MFA. The extent to which these changes will result in a net benefit or detriment to MFA is uncertain at this time, due to the newness of the legislation and the need for significant further guidance from the U.S. Treasury and the Internal Revenue Service. There may also be changes made legislatively to the provisions of the TCJA to correct technical defects in the law.

9. LIQUIDITY AND CAPITAL RESOURCES

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading “Caution Concerning Forward-Looking Statements”, this section contains forward-looking statements including with respect to cash flows and future contractual payments. Such statements involve known and unknown risks, uncertainties and other factors outside of management’s control, including the risk factors set forth under the heading “Risk Factors” in this MD&A and the Corporation’s most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

Cash Balances

The Corporation’s cash and cash equivalents balances, including short-term investments, are as follows:

<i>In thousands of U.S. dollars</i>	December 31, 2018	December 31, 2017
Cash and cash equivalents at Facility level	11,536	11,915
Cash and cash equivalents at corporate level	25,150	44,114
Cash and cash equivalents	36,686	56,029
Short-term investments	10,284	8,934
Cash and cash equivalents, including short-term investments	46,970	64,963

Cash Flow Activity

Cash Flow

<i>In thousands of U.S. dollars</i>	Years Ended December 31,			
	2018	2017	\$ Change	% Change
Cash provided by operating activities	81,452	79,986	1,466	1.8%
Cash used in investing activities	(64,683)	(10,187)	(54,496)	(535.0%)
Cash used in financing activities	(35,334)	(71,922)	36,588	50.9%
Decrease in cash and cash equivalents	(18,565)	(2,123)	(16,442)	(774.3%)
Effect of exchange rate fluctuations on cash balances held	(778)	701	(1,479)	(211.0%)
Cash and cash equivalents, beginning of the period	56,029	57,451	(1,422)	(2.5%)
Cash and cash equivalents, end of the period	36,686	56,029	(19,343)	(34.5%)

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis with bank indebtedness as all Facilities have lines of credit available to them or on a permanent basis with offerings of securities of the Corporation. Negative changes in the general state of the U.S. economy could affect the Corporation's liquidity by reducing cash generated from operating activities or by limiting access to short-term financing as a result of tightening credit markets.

Operating Activities and Working Capital

Cash from operating activities in the year ended December 31, 2018 increased by \$1.5 million compared to the same period in 2017, primarily due to higher income from the Facilities, partially offset by higher income taxes.

As at December 31, 2018, the Corporation had consolidated net working capital of \$33.2 million compared to \$33.8 million as at December 31, 2017. The change was due mainly to the use of cash during the year to partially fund acquisitions and the reclassification of convertible debentures to current as they mature in 2019, mostly offset by the reclassification of the corporate credit facility to non-current after it was renewed in August 2018. The level of working capital, including financing required to cover any deficiencies, is dependent on the operating performance of the Corporation and fluctuates from period to period.

As at December 31, 2018, accounts receivable were \$67.3 million (December 31, 2017: \$63.5 million), accounts payable and accrued liabilities totaled \$45.9 million (December 31, 2017: \$42.3 million), total assets were \$481.8 million (December 31, 2017: \$459.6 million) and total long-term liabilities, excluding exchangeable interest liability, were \$120.6 million (December 31, 2017: \$82.3 million).

Investing Activities

The \$54.5 million increase in cash used in investing activities for the year ended December 31, 2018 compared to the same period in 2017 was mainly due to outflows for the net investment in the MFC Nueterra ASCs (\$40.8 million), higher purchases of property and equipment in the current year (\$10.6 million), the further investment in UMASH (\$3.8 million), and net increases in interest bearing investments (\$2.6 million), partly offset by proceeds from the disposal of IMD assets (\$3.1 million).

Financing Activities

The \$36.6 million decrease in cash used by financing activities for the year ended December 31, 2018 was mainly due to the draw of \$20.0 million from the corporate credit facility to partially finance the acquisition of

the MFC Nueterra ASCs, increased borrowing at the Facility level to fund strategic expansions, and a partial note repayment by UMASH in the prior year (\$6.4 million).

The Facilities have available credit facilities in place, excluding capital leases, in the aggregate amount of \$27.2 million, of which \$8.1 million was drawn as at December 31, 2018. The balances available under the credit facilities, combined with cash and cash equivalents as at December 31, 2018, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements.

With the exception of UMASH, the partnership or operating agreements governing each of the respective Facilities do not permit the Corporation to access the assets of the Facilities to settle the liabilities of other subsidiaries of the Corporation, and the Facilities have no obligation to (and could not, without the approval of the holders of the non-controlling interest) take any steps to settle the liabilities of the Corporation or its other subsidiaries.

The Corporation has in place a \$150.0 million line of credit with a syndicate of three Canadian chartered banks which matures on August 31, 2023 ("credit facility"). The credit facility can be used for general corporate purposes, including working capital and capital expenditures, finance of acquisitions, repayment of convertible debentures, and/or repurchase of the Corporation's common shares. As at December 31, 2018, \$68.8 million was drawn and remained outstanding for the current credit facility. The proceeds drawn from the previous credit facility were used in 2016 for the acquisition of UMASH and its underlying property through RRIMH (\$47.8 million), and the acquisition of the MFC Nueterra ASCs (\$20.0 million) in the first quarter of 2018. As at December 31, 2018, the Corporation was in compliance with all of its debt covenants.

The Corporation's convertible debentures are denominated in Canadian dollars and are reflected in the financial statements in U.S. dollars at fair value at the rate of exchange in effect at the balance sheet date. As at December 31, 2018, the Corporation had Cdn\$41.7 million aggregate principal amount of convertible debentures outstanding while the fair market value of the convertible debentures was \$30.6 million. The convertible debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. The convertible debentures mature on December 31, 2019 ("Maturity Date") and are convertible into 52.3286 common shares per Cdn\$1,000 principal amount of convertible debentures, at any time, at the option of the holder, representing a conversion price of Cdn\$19.11 per common share ("Conversion Price"). If the holders of the convertible debentures do not exercise the right to convert their holdings into the Corporation's common shares prior to the Maturity Date, the principal amount is due and payable in full. The convertible debentures are subordinate to all other existing and future senior secured or unsecured indebtedness of the Corporation.

The convertible debentures contain a provision whereby, in connection with a change in control transaction, holders of the convertible debentures would be entitled to convert their debentures within a specified time period and would receive, in addition to the number of shares on conversion, additional shares calculated as a function of the change of control offer price and time remaining to maturity.

Prior to the Maturity Date, the convertible debentures may be redeemed in whole or in part from time to time at the option of the Corporation, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date.

Contractual Obligations

The mandatory repayments under the credit facilities and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of December 31, 2018, are as follows:

Contractual Obligations	Carrying values at December 31, 2018 \$	Future payments (including principal and interest)				
		Total \$	Less than 1 year \$	1-3 years \$	4-5 years \$	After 5 years \$
Dividends payable	2,134	2,134	2,134	-	-	-
Accounts payable	23,138	23,138	23,138	-	-	-
Accrued liabilities	22,721	22,721	22,721	-	-	-
Corporate credit facility	68,800	82,480	3,157	9,471	69,852	-
Facilities' revolving credit facilities	8,059	8,270	7,554	716	-	-
Notes payable and term loans	61,908	67,600	14,471	20,083	10,423	22,623
Finance lease obligation	1,624	2,528	1,171	1,259	98	-
Convertible debentures	30,632	32,439	32,439	-	-	-
Operating leases and other commitments	-	84,197	9,941	16,399	14,212	43,645
Total contractual obligations	219,016	325,507	116,726	47,928	94,585	66,268

The Corporation anticipates renewing, extending, repaying or replacing its credit facilities which fall due over the next twelve months and expects that cash flows from operations and working capital will be adequate to meet future payments on other contractual obligations over the next twelve months.

10. SHARE CAPITAL AND DIVIDENDS

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading "Caution Concerning Forward-Looking Statements", this section contains forward-looking statements including with respect to the Corporation's expected payment of dividends. Such statements involve known and unknown risks, uncertainties and other factors outside of management's control, including the risk factors set forth under the heading "Risk Factors" in this MD&A and the Corporation's most recently filed annual information form, which could cause results to differ materially from those described or anticipated in the forward-looking statements.

The following table summarizes the outstanding number of stock options as of December 31, 2018:

Optionee	Number of Options Held	Exercise Price	Grant Date
Chief Executive Officer	450,000	C\$14.03	March 29, 2018
	350,000	C\$16.47	May 18, 2017
Chief Financial Officer	425,000	C\$17.98	November 21, 2016
Chief Development Officer	350,000	C\$21.15	September 19, 2016
Vice-President, Operations	120,000	C\$14.03	March 29, 2018
Former Chief Executive Officer	223,562	C\$17.24	May 1, 2016
Total number of outstanding options	1,918,562		

Outstanding options (the "Options") will vest after five years of employment and, for certain executive officers, subject to the Corporation maintaining a dividend rate not less than the rate in effect at the time of the grant date. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to a blackout extension term.

As at December 31, 2018, the Corporation had 31,054,500 common shares outstanding. In the event that all Cdn\$41.7 million aggregate principal amount of convertible debentures outstanding were converted into the

common shares of the Corporation prior to their Maturity Date, the total number of additional common shares issuable would be 2,184,353.

Normal Course Issuer Bids

The Corporation's normal course issuer bid allowing the Corporation to repurchase up to 620,918 of its common shares is in effect from May 16, 2018 to May 15, 2019. During the year ended December 31, 2018, the Corporation did not repurchase any of its common shares. During the year ended December 31, 2017, the Corporation purchased 95,600 of its common shares for \$1,094, under a previous normal course issuer bid.

Dividends

Dividend declarations are determined based on monthly reviews of the Corporation's earnings, capital expenditures and related cash flows. Such declarations take into account that the cash generated in the period is to be distributed to the maximum extent considered prudent after (i) debt service obligations, (ii) other expense and tax obligations, and (iii) reasonable reserves for working capital, and capital expenditures. The Corporation has paid consecutive dividends since its inception. The Corporation expects, subject to its monthly performance reviews as explained above and the judgment of the board of directors, to maintain the current level of dividends on its common shares. Cash distributions declared in the period from January 1, 2018 to December 31, 2018 totaled Cdn\$1.125 per common share.

Dividend Reinvestment and Share Purchase Plan

The Corporation has a Dividend Reinvestment and Share Purchase Plan which allows shareholders resident in Canada to automatically re-invest, in a cost-effective manner, the monthly cash dividends on their common shares into additional common shares of the Corporation.

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as at December 31, 2018 consist of cash and cash equivalents, short-term investments, accounts receivable, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt, corporate credit facility and convertible debentures) and exchangeable interest liability.

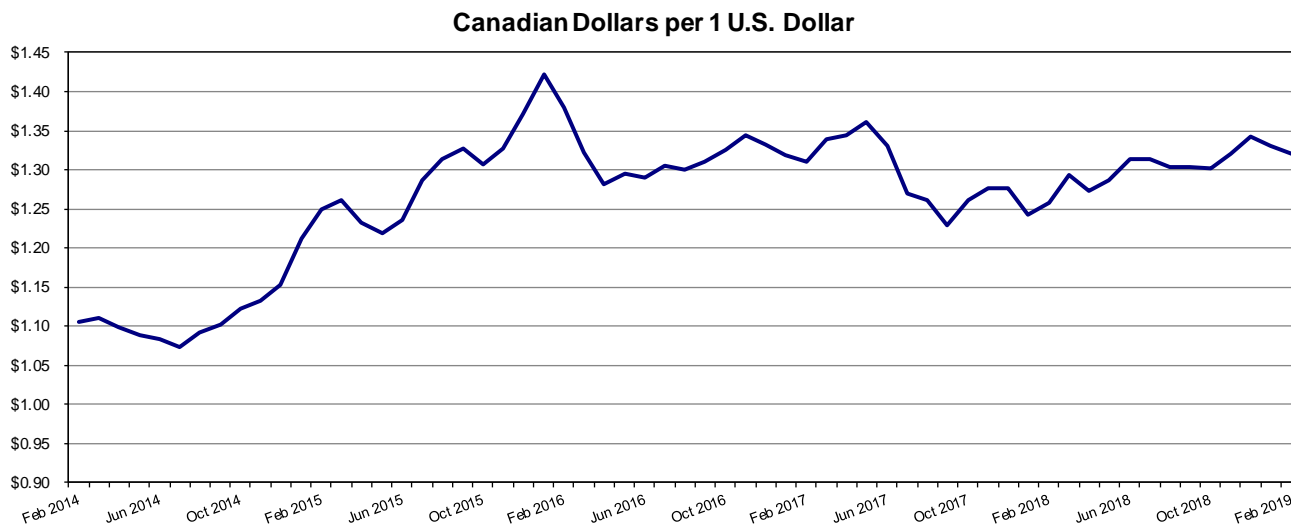
The fair values of convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these instruments bear interest at rates comparable to current market rates. The fair values of all other financial instruments of the Corporation, due to the short-term nature of these instruments, approximate their carrying values.

Foreign Exchange Risk

The Facilities derive revenue, incur expenses and make distributions to their owners, including the Corporation, in U.S. dollars. The Corporation pays dividends to common shareholders and interest on its convertible debentures and incurs a portion of its expenses in Canadian dollars. The amounts of distributions from the Facilities to their owners, including the Corporation and non-controlling interest, are dependent on the results of the operations and cash flows generated by the Facilities in any particular period.

Strengthening of the Canadian dollar against the U.S. dollar negatively impacts currency translation differences with respect to the funds available for the Corporation's Canadian dollar denominated dividend and interest payments and expenses. A weakening Canadian currency in relation to U.S. currency has the opposite effect.

The graph below shows the movement of the monthly average exchange rates between Canadian and U.S. dollars since February 2014:



The Corporation may, from time to time, enter into foreign exchange forward contracts dependent upon actual or anticipated company performance and current market conditions. As of December 31, 2018, the Corporation did not hold any foreign exchange forward contracts.

Credit Risk

The substantial portion of the Corporation's accounts receivable balance is with governmental payors and health insurance companies which are assessed as having a low risk of default and is consistent with the Facilities' history with these payors. Management reviews reimbursement rates and aging of the accounts receivable to monitor its credit risk exposure. On an ongoing basis, management assesses the circumstances affecting the recoverability of its accounts receivable and adjusts allowances based on changes in those factors. Monthly, actual bad debts for a trailing period are compared with the allowance to support the estimate of recoverability. Considerations related to historical experience are also factored into the valuation of the current period accounts receivable.

From time to time, the Corporation may enter into foreign exchange forward contracts and may place excess funds for investment with certain financial institutions. Investment of excess funds is guided by the investment policy of the Corporation that, among other things, (i) prescribes the eligible types of investments and (ii) establishes limits on the amounts that can be invested with any one financial institution.

Interest Rate Risk

The Corporation and the Facilities are exposed to interest rate fluctuations which can impact their borrowing costs. The Facilities use floating rate debt facilities for operating lines of credit that fund short-term working capital needs and use fixed rate debt facilities to fund investments and capital expenditures.

Share Price Risk

The Corporation's convertible debentures and exchangeable interest liability are measured on quoted market prices of its convertible debentures and common shares in active markets and, therefore, the Corporation is exposed to variability in net income and comprehensive income as prices change. Share price risk includes the impact of foreign exchange. The Corporation does not have any hedges against price risk.

Liquidity Risk

Liquidity risk is the risk that the Corporation, including its Facilities, will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure and financial leverage. The Corporation also manages liquidity risk by continuously monitoring actual and projected cash flows and by taking into account the receipts and maturity profile of financial assets and liabilities. The board of directors of the Corporation reviews and approves operating and capital budgets, as well as any material transactions out of the ordinary course of business.

12. RELATED PARTY TRANSACTIONS

A member of the Corporation's board of directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the year ended December 31, 2018 of \$4,501 (December 31, 2017: \$4,501). As well, the director is a minority member of another ownership group that owns and leases imaging equipment to the same Facility, for which the Facility paid equipment rent for the year ended December 31, 2018 of \$544 (December 31, 2017: \$593).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. For the year ended December 31, 2018, SFSH paid the South Dakota Interventional Pain Institute, LLC ("SDIPI") \$660 (December 31, 2017: \$659) for the use of a facility and related equipment. As of December 31, 2018, SFSH had a balance payable to SDIPI of \$39 (December 31, 2017: \$59). For the year ended December 31, 2018, BSHS paid Mountain Plains Real Estate Holdings, LLC \$180 for the use of a facility (December 31, 2017: \$180).

In February 2015, SFSH incorporated a wholly-owned subsidiary which is designed to function as an accountable care organization ("ACO"). The ACO was approved for participation in the Medicare Shared Savings Program, which is an incentive program established under the provisions of the PPACA. As one of the initiatives of the ACO, SFSH entered into an agreement with Great Plains Surgical, LLC ("Great Plains"), an entity controlled by certain indirect non-controlling owners of SFSH, for the provision of management services in relation to the orthopedic service line at SFSH to improve the quality of services provided and realize savings on implants and other supplies used in that service line. In addition to the payment of fees for providing management of the orthopedic service line, Great Plains is entitled to receive performance payments for realized cost savings and the attainment of quality levels.

The following is a summary of transactions at each Facility with their respective related parties during the reporting periods:

<i>In thousands of U.S. dollars</i>		Years Ended December 31,	
		2018	2017
Entity	Nature of services or goods received	\$	\$
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	5,523	5,233
UMASH	Provision of physician professional services and billing services.	3,718	4,033
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	1,446	1,567
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	1,005	888
SFSH	Provision of management services in relation to orthopedic service line at SFSH, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, laundry services, facility and related equipment, and shared services.	9,444	7,556
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	1,965	-
Total		23,101	19,277

13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Corporation estimates certain amounts reflected in its financial statements based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates because of the uncertainties inherent in making assumptions and estimates regarding unknown future outcomes. Note 20 to the annual financial statements details critical accounting judgments and estimates used in the preparation of the Corporation's financial statements. There have been no changes in the nature of these judgments and estimates since December 31, 2017.

The accounting estimates discussed below are highlighted because they require difficult, subjective, and complex management judgments. The Corporation believes that each of its assumptions and estimates is appropriate to the circumstances and represents the most likely future outcome.

Revenue

Revenue is recorded in the period when healthcare services are provided based on actual amounts received and the estimated net realizable amounts due from patients and payors. The amounts due are estimated using established billing rates less adjustments required by contractual arrangements with the payors. Estimates of contractual adjustments are based on the payment terms specified in the related contractual agreements and payment history. Payor contractual payment terms are generally based on predetermined rates per procedure or discounted fee-for-service rates. For payors for which the Facilities do not have contracts, the Facilities estimate the necessary adjustments based on a twelve-month history of reimbursements on closed cases. Revenue is only recorded where collectability is highly probable. As a result, certain amounts for self-paying patients are not recognized in revenue.

Allowance for Non-Collectible Receivable Balances

The Facilities maintain an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. To arrive at the allowance for non-collectible receivable balances, management uses estimates of future collections of accounts receivable that differ from the original estimates used at the time of revenue recognition. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

Impairment of Non-Financial Assets

Non-financial assets that have an indefinite useful life, such as goodwill and trade names, are tested at least annually for impairment and when events or changes in circumstances indicate that the carrying amount may not be recoverable. Non-financial assets that have a definite useful life and are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The methodology used to test for impairment includes significant judgment, estimates, and assumptions. Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell ("FVLCS") and value in use. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, and discount rates at a specific point in time. These estimates are subject to measurement uncertainty as they are dependent on factors outside of management's control. In addition, by their nature, impairment tests involve a significant degree of judgment as expectations concerning future cash flows and the selection of appropriate market inputs are subject to considerable risks and uncertainties.

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for impairment.

Management has identified seven CGUs for which impairment testing is performed. As at December 31, 2017, IMD represented another CGU, but its assets were disposed of on June 1, 2018. The UMASH/RRIMH CGU contains the assets of two separate subsidiaries of the Corporation, because the assets of RRIMH consist of the land and building of UMASH's primary facility, making the two entities interdependent. The MFC Nueterra ASCs, which are managed as a network, collectively represent another CGU. The remaining Facilities represent subsidiary operations which are independent of each other, and are therefore identified as separate CGUs. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

Factors considered by management in determining a triggering event include: deterioration in market and economic conditions, volatility in the financial markets causing declines in the Corporation's share price, increases in the Corporation's weighted-average cost of capital, changes in valuation multiples, changes to healthcare legislation in the United States both federally and in the jurisdictions in which the Facilities operate, changes to the physician complement at the Facilities, decreases in expected future reimbursement rates, declining patient referrals, physical conditions of facilities and equipment, and increased costs of inputs, such as drugs, supplies, and labour.

When considered significant, management incorporates changes to these factors in its estimated future cash flows to assess the impact on the recoverable value of its non-financial assets.

Management calculates the recoverable amount of each CGU using EBITDA specific to each CGU by a multiple determined using market data, such as EBITDA to market capitalization ratios of comparable publicly traded companies and recent prices for capital transactions within the industry. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data. To assess reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 based on (i) the market capitalization of the outstanding common shares, taking

into account a 20% equity control premium attributable to the common shares, (ii) the fair value of convertible debentures outstanding, and (iii) the Corporation's portion of the Facilities' long-term debt, less (iv) cash on hand.

Management performed an assessment of impairment indicators mentioned above as at December 31, 2018 and determined that there has been no impairment of non-financial assets, including goodwill and other intangibles.

Management performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2017, and concluded that goodwill was impaired in the UMASH/RRIMH and IMD CGUs, with impairment charges of \$7,000 and \$1,400, respectively.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of deferred taxable income. The Corporation's income tax assets and liabilities are based on interpretations of income tax legislation across various jurisdictions in Canada and the United States. The Corporation's effective tax rate can change from year to year based on the mix of income among different jurisdictions, changes in tax laws in these jurisdictions, and changes in the estimated value of deferred tax assets and liabilities. The Corporation's income tax expense reflects an estimate of the cash taxes the Corporation is expected to pay for the current year and a provision for changes arising in the values of deferred tax assets and liabilities during the year. The carrying value of these assets and liabilities is impacted by factors such as accounting estimates inherent in these balances, management's expectations about future operating results, and previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authorities. Such differences in interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective legal entity's domicile. On a regular basis, management assesses the likelihood of recovering value from deferred tax assets, such as loss carry forwards, as well as from the depreciation of capital assets, and adjusts the tax provision accordingly.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be used. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax-planning strategies. If management's estimates or assumptions change from those used in current valuation, management may be required to recognize an adjustment in future periods that would increase or decrease deferred income tax asset or liability and increase or decrease income tax expense. Pursuant to the TCJA, the Corporation's United States federal corporate income tax rate was reduced to 21% from its effective 2017 federal tax rate of 34%.

14. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the financial information published by the Corporation. In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have certified that the annual filings fairly present in all material respects the financial condition, results of operations and cash flows and have also certified regarding controls as described below.

Under the supervision of, and with the participation of the CEO and the CFO, management has designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Corporation, including its consolidated subsidiaries, is made known to the CEO and the CFO by

others within those entities for the period in which the annual and interim filings of the Corporation are being prepared, and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

In addition to DC&P, under the supervision of, and with the participation of the CEO and the CFO, management has designed internal controls over financial reporting (“ICFR”) using the 2013 Committee of Sponsoring Organizations of the Treadway Commission framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

Management, including the CEO and the CFO, performed an evaluation of the effectiveness of DC&P as of December 31, 2018, and has concluded that the design and effectiveness of these controls and procedures at December 31, 2018 provide reasonable assurance that material information relating to the Corporation, including its subsidiaries, was made known to the CEO and CFO on a timely basis to ensure adequate disclosure.

Management, including the CEO and the CFO, performed an evaluation of the effectiveness of its ICFR as of December 31, 2018 using the COSO framework. Management has concluded that the overall design and effectiveness of these controls at December 31, 2018 provide reasonable assurance of the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes in the Corporation’s ICFR during the year beginning on January 1, 2018 and ended on December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR.

From time to time, to supplement a small corporate office, the Corporation engages various outside experts and advisors to assist with various accounting, controls and tax issues in the normal course.

15. RISK FACTORS

The following information is a summary of risk factors and is qualified in its entirety by reference to, and must be read in conjunction with the detailed information appearing in the Corporation’s most recently filed annual information form available on SEDAR at www.sedar.com.

Risks Related to the Business and the Industry of the Corporation

The revenue and profitability of the Corporation and its subsidiaries, including the Facilities, depend heavily on payments from third-party payors, including government healthcare programs (Medicare and Medicaid) and managed care organizations, which are subject to frequent regulatory changes and cost containment initiatives. Changes in the terms and conditions of, or reimbursement levels under, insurance or healthcare programs, which are typically short-term agreements, could adversely affect the revenue and profitability of the Corporation. The Corporation’s revenue and profitability could be impacted by its ability to obtain and maintain contractual arrangements with insurers and payors active in its service areas and by changes in the terms of such contractual arrangements.

The revenue and profitability of the Facilities is dependent upon physician relationships. There can be no assurance that physician groups performing procedures at the Facilities will maintain successful medical practices, or that one or more key members of a particular physician group will continue practicing with that group or that the members of that group will continue to perform procedures at the Facilities at current levels or at all.

The trend of rising drug costs is currently challenging to counteract and puts downward pressure on the Facilities' operating margins as they have limited control over price increases.

Healthcare facilities, such as the Facilities, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Receipt and renewal of such licenses, certifications and accreditations are often based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative compliance actions by the Facilities that could be burdensome and expensive.

There are a number of U.S. federal and state regulatory initiatives, which apply to healthcare providers, and in particular to SSHs, including the Facilities. Among the most significant are the federal Anti-Kickback Statute, the federal physician self-referral law (commonly referred to as the Stark Law), the PPACA, the *False Claims Act* and the federal rules relating to management and protection of patient records and patient confidentiality.

The PPACA contains provisions that prohibit the formation or development of any new physician owned hospitals in the United States after a specified date. However, the grandfathering provisions of the law that permit existing physician owned hospitals, such as the SSHs, to continue their operations and billings to government payors like Medicare and Medicaid for hospital services, provided they meet certain investment and patient transparency requirements. The law, among other things:

- (a) prohibits the existing or grandfathered hospitals from expanding the baseline number of overnight beds, operating rooms or procedure rooms from the number of such rooms that the existing hospital had as of the date of enactment of the legislation, unless certain narrowly-drawn growth criteria are met;
- (b) prohibits increases in the aggregate percentage value of physician ownership or investment in physician owned hospitals, or in entities whose investments include the hospitals;
- (c) imposes restrictions on the manner of physician investment in physician owned hospitals; and
- (d) requires disclosure to patients of physician ownership and requires hospitals to obtain a signed patient acknowledgement as to whether the hospital has physicians present 24 hours a day, seven days a week.

The Corporation conducted an extensive review to ensure that the Facilities operating agreements and procedures are in compliance with the provisions and limitations of the PPACA. The Facilities have updated their operating agreements and procedures as necessary to ensure compliance with the requirements of the PPACA.

While the Facilities carry general and professional liability insurance against claims arising in the ordinary course of business, the insurance market is dynamic and there can be no assurance that adequate coverage will be available in the future or that any coverage in place will be adequate to cover claims.

Any major capital expenditures at the Facilities will require additional capital, which may be funded through additional debt or equity financings. These funding sources could result in significant additional interest expense or ownership dilution to current holders of the Corporation's securities.

There is significant competition in the healthcare business. The Facilities compete with other healthcare facilities in providing services to physicians and patients, contracting with managed care payors and recruiting qualified staff.

The Facilities may be vulnerable to economic downturns and may be limited in their ability to withstand such financial pressures. Increased unemployment or other adverse economic conditions may impact the volume of services performed, cause shifts to payors with lower reimbursements (e.g., Medicare) and/or result in higher uncollectible accounts.

Maintenance capital expenditures, which are deducted in the calculation of cash available for distribution (please refer to Section 2 under the heading “Non-IFRS Financial Measures” and Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures” above), represent expenditures that are required to maintain the productive capacity of the Facilities. Historically, such expenditures have represented on average 1.2% of revenue of the Facilities. Management believes that such level of maintenance capital expenditures will continue in the future and, accordingly, will not adversely impact the cash available for distribution generated by the Corporation.

Cyber Security Incidents

As providers of healthcare services, information technology is a critical component of the day-to-day operation of the Facilities. The Facilities rely on information technology to create, process, transmit and store sensitive and confidential data, including protected health information, personally identifiable information, and proprietary and confidential business performance data. The Facilities utilize electronic health records and other health information technology, along with additional technology systems, in connection with their operations, including for, among other things, billing and supply chain and labour management. The Facilities have privacy and security processes in place to protect sensitive health and business information. The systems used by the Facilities, in turn, interface with and rely on third-party systems. Incident response policies and processes are in place at Facilities that provide for prompt identification and management of security incidents to facilitate maintenance and/or restoration of business continuity. The Corporation is not aware of the Facilities having experienced a material breach of cyber security.

The preventive actions taken to reduce the risk of such incidents and protect information technology may not be sufficient in the future. As cyber security threats continue to evolve, the Facilities may not be able to anticipate certain attack methods in order to implement effective protective measures, and may be required to expend significant additional resources to continue to modify and strengthen security measures, investigate and remediate any vulnerabilities in information systems and infrastructure, or invest in new technology designed to mitigate security risks. Cyber events can also occur due to insider threats or human error. Third parties to whom the Facilities outsource certain functions, or with whom their systems interface, are also subject to the risks outlined above and may not have or use appropriate controls to protect confidential information. A breach or attack affecting a third-party service provider or partner could harm the Corporation’s business even if the Corporation does not control the service that is attacked.

Although the Corporation and the Facilities have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event. Any cyber security breach or system interruption could result in the unauthorized disclosure, misuse or loss of confidential, sensitive or proprietary information, could negatively impact the ability of the Facilities to conduct normal business operations (including the collection of revenues), and could result in potential liability under privacy, security, consumer protection or other applicable laws, regulatory penalties, negative publicity and damage to the Corporation’s reputation, any of which could have a material adverse effect on the Corporation’s business, financial position, results of operations or cash flows.

Disasters and Similar Events

The occurrences of natural and man-made disasters and similar events, including acts of nature such as hurricanes, tornadoes, earthquakes, or other factors beyond the Corporation's control, such as wildfires, may damage some or all of the Facilities, interrupt utility service to some or all of the Facilities, disrupt patient scheduling, displace patients, employees and physician partners, or otherwise impair the operation of some or all of the Facilities or the generation of revenues from the Facilities. Furthermore, the impact, or impending threat, of a natural disaster may require evacuation of one or more Facilities, which would be costly and would involve risks for the patients.

Risks Related to the Structure of the Corporation

The Corporation is entirely dependent on the operations and assets of the Facilities through the indirect ownership of between 38.2% and 79.2% of these Facilities. Future dividend payments by the Corporation are not guaranteed and are totally dependent upon the operating results and related cash flows from the Facilities and the limitations of applicable laws.

The payout by the Facilities and the Corporation of a substantial majority of their operating cash flows will make additional capital and operating expenditures dependent on increased cash flows or additional financing in the future.

The Corporation's dividend payments to its shareholders are denominated in Canadian dollars, whereas all of its revenue is denominated in U.S. dollars. To the extent that future dividend payments are not covered by foreign exchange forward contracts, the Corporation is exposed to currency exchange risk.

There can be no assurance that the Corporation will be able to repay the principal amount outstanding on its convertible debentures when due. Additionally, the convertible debentures are payable in Canadian dollars and, therefore, the Corporation is exposed (at maturity and/or repayment) to currency exchange risk with respect to the principal amounts of these instruments.

Non-competition agreements executed by physician owners of the non-controlling interests in the Facilities may not be enforceable, which lack of enforceability could impact the revenue and profitability of the Facilities.

The Corporation does not have the ability to direct day-to-day governance or management inputs in respect of the Facilities, except in certain limited circumstances.

The degree to which the Corporation is leveraged on a consolidated basis could have important consequences to the holders of the common shares, including:

- (a) The Corporation's and Facilities' ability in the future to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes may be limited.
- (b) The Corporation or Facilities being unable to refinance indebtedness on terms acceptable to the Corporation or at all.
- (c) A portion of the Corporation's cash flow (on a consolidated basis) from operations is likely to be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations, capital expenditures, acquisitions and/or dividends on its common shares.

The Corporation has a credit facility that contains restrictive covenants which limit the discretion of the Corporation or its management with respect to certain matters. Furthermore, the Facilities have credit facilities that contain restrictive covenants which may limit the Facilities' abilities to make distributions.

Additional common shares may be issued by the Corporation pursuant to exchange agreements with the holders of the non-controlling interests in the Facilities, in connection with future financing or acquisitions by the Corporation or in connection with the exercise of the conversion option by the holders of the convertible debentures. The issuance of common shares may dilute an investor's investment in the Corporation and reduce distributable cash per common share.

MFA and MFH are organized under the laws of the State of Delaware. The Facilities that are located in South Dakota are formed under the laws of the State of South Dakota. The Facility located in Indiana is formed under the laws of the State of Indiana, the Facility located in Oklahoma is formed under the laws of the State of Oklahoma, the Facility located in Arkansas is formed under the laws of the State of Arkansas and the Facility located in California and seven MFC Nueterra ASCs are formed under the laws of the State of Delaware, and one MFC Nueterra ASC is formed under the laws of the State of Michigan. All of the assets of the Facilities are located outside of Canada and certain of the directors and officers of the Corporation and its subsidiaries are residents of the United States. As a result, it may be difficult or impossible for investors to effect service within Canada upon the Corporation's subsidiaries, the Facilities, or their directors and officers who are not residents of Canada, or to realize against them in Canada upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws.

The market price of the common shares may be subject to general volatility.

Payment of Dividends is not Guaranteed

Dividends to shareholders are paid at the discretion of the Corporation's board of directors and are not guaranteed. The Corporation may alter its dividend level and dividends from the Corporation, if any, will depend on, among other things, the results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law, and other factors that the board of directors may deem relevant. The directors may decrease the level of dividends provided for in their existing dividend policies, or discontinue dividends at any time, and without prior notice.

Eligibility for Investment

There can be no assurance that the common shares will continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, tax-free savings accounts and registered disability savings plans.

The Corporation is Subject to Canadian Tax

As a Canadian corporation, the Corporation is generally subject to Canadian federal, provincial and other taxes. The Corporation is required to include in computing its taxable income the interest received by the Corporation on the MFA promissory notes ("MFA Promissory Notes"). Historically, the Corporation's tax attributes have offset this income inclusion such that it did not result in a current material liability for Canadian taxes. However, these tax attributes are expected to be fully utilized in 2019. Once the Corporation fully utilizes its existing tax attributes (or if, for any reason, these attributes were not available to the Corporation), the Corporation's Canadian tax liability would materially increase. Although management intends to explore potential opportunities to preserve the historic tax efficiency of the Corporation's structure, no assurances can be given that the Corporation's Canadian tax liability will not materially increase at that time.

There can be no assurance that Canadian federal income tax laws and Canada Revenue Agency administrative policies respecting the Canadian federal income tax consequences generally applicable to the Corporation or to a holder of common shares will not be changed in a manner which adversely affects holders of the common shares.

The Corporation's Structure may be Subject to Additional U.S Federal Income Tax Liability

MFA is subject to U.S. federal income tax on its consolidated taxable income at the U.S. federal corporate rate of 21% and is also subject to certain U.S. state and local taxes (which will not be addressed herein). MFA will claim interest deductions, to the extent permitted under applicable tax law, for the interest paid on MFA Promissory Notes in computing its income for U.S. federal income tax purposes. To the extent this interest expense is not deductible or is disallowed, the U.S. federal income tax liability of MFA will increase, which could materially affect the after-tax cash available to distribute to the Corporation and therefore to holders of common shares. While the Corporation has received advice from an independent third party, based on certain representations by the Corporation and MFA and determinations made by the Corporation's independent financial advisors, that the MFA Promissory Notes should be treated as debt for U.S. federal income tax purposes, it is possible that the Internal Revenue Service ("IRS") could successfully challenge that position and assert that the MFA Promissory Notes should be treated as equity rather than debt for U.S. federal income tax purposes.

The determination of whether the MFA Promissory Notes are debt or equity for U.S. federal income tax purposes is based on an analysis of the facts and circumstances. There is no clear statutory definition of debt for U.S. federal income tax purposes, historically its characterization has been governed by principles developed in case law, which analyzes numerous factors that are intended to identify the economic substance of the purported creditor's interest in the corporation. Not all courts have applied this analysis in the same manner, and some courts have placed more emphasis on certain factors than other courts have. Moreover, subsequent changes in fact or subsequent actions or inactions by the Corporation could impact this analysis of the deductibility of the interest on the Promissory Notes, or could be used by the IRS to call into question this analysis or the facts. In addition, on October 13, 2016, the IRS issued final and temporary regulations that address the treatment of certain related-party debt for U.S. federal income tax purposes and which, if applicable, would re-characterize certain types of debt issued by U.S. corporations as equity. These regulations could apply to the Promissory Notes if those instruments are modified or if new debt instruments are issued by MFA. If some or a portion of the Promissory Notes were re-characterized as equity, payments of interest thereon would be non-deductible equity distributions to the Corporation and would be subject to a 5% U.S. withholding tax to the extent MFA had current or accumulated earnings and profits.

Alternatively, the IRS could argue that the interest on the MFA Promissory Notes exceeds an arm's length rate, in which case only the portion of the interest expense that does not exceed an arm's length rate may be deductible and the remainder would be subject to U.S. withholding tax to the extent that MFA had current or accumulated earnings and profits. The Corporation has received advice from independent financial advisors that the interest rates on the MFA Promissory Notes are commercially reasonable in the circumstances, although that advice is not binding on the IRS. Furthermore, other limitations on the deductibility of interest under U.S. federal income tax laws, potentially including limitations applicable to "high-yield" debt obligations, could apply under certain circumstances to defer and/or eliminate all or a portion of the interest deduction to which MFA would otherwise be entitled.

Pursuant to the TCJA, MFA's deductions attributable to the interest expense on the interest paid by MFA on all debt, including the MFA Promissory Notes will be limited to 30% of "adjusted taxable income", which generally means EBITDA for the next three years (2019-2021), and earnings before interest and taxes ("EBIT") thereafter (2022 and beyond). Any disallowed interest expense under these provisions may be carried forward to future

years. This limitation applies to newly issued loans as well as those originated before 2018, such as the Promissory Notes. Lengthy and complex U.S. Treasury regulations were issued in late 2018 concerning these new interest deductibility rules.

Certain other changes under the TJCA may, if applicable, affect the U.S. federal tax liability of MFA, although the extent to which that occurs is dependent on the future factual situation of MFA, as well as how this legislation is interpreted by the U.S. Treasury and ultimately the courts. For example, for 2018 and onward there are new limitations on the use of net operating losses (generally, those can only be utilized to the extent of 80% of taxable income in any given year, although unused net operating losses can be carried forward for 20 years). In addition, there is a new U.S. federal income tax regime known as “BEAT”, which is the acronym for “base erosion anti-abuse tax”, which is designed to potentially limit the tax effectiveness of deductions for payments between U.S. and non-U.S. related parties by imposing a minimum tax on the U.S. corporation. The BEAT regime does not apply unless the payor, U.S. corporation, has annual gross receipts of \$500 million or more over a three-year period.

If interest deductibility is limited, the use of net operating losses is restricted, or the BEAT regime applies, the result is likely to be an increase in the U.S. federal tax liability of MFA. If the U.S. federal tax liability of MFA is increased, this may affect the ability of MFA to make interest and principal payments on the MFA Promissory Notes, as well as reducing the amount of after-tax cash generated by MFA that could otherwise be available to make distributions to the Corporation and thereafter to pay dividends to holders of common shares.

United States Investment Company Act of 1940

While the Corporation believes that through its subsidiaries and affiliates it is actively engaged in operating businesses and does not meet the definition of an investment company for purposes of the *United States Investment Company Act of 1940* (the “1940 Act”), depending on the composition and valuation of the Corporation’s assets and the sources of the Corporation’s income from time to time, the Corporation could fall within the technical definition of the term “investment company” in the 1940 Act. Moreover, the determination of whether a company like the Corporation is an investment company involves complex analysis of regulations and facts, and the Corporation has not sought and does not anticipate seeking confirmation from the Securities and Exchange Commission (the “SEC”) that it agrees with the Corporation’s analysis. If the SEC were to disagree with the Corporation’s analysis or the Corporation otherwise were to determine that it is an investment company as defined in the 1940 Act, the Corporation may, among other steps, prudently acquire or sell assets in order to avoid remaining an “investment company” as defined under the 1940 Act. Such acquisitions or sales could be on terms other than those on which it would otherwise acquire or sell such assets or the timing of such transactions could be disadvantageous to the Corporation. If the Corporation were unable to avoid being an investment company and were therefore required to register as such under the 1940 Act, the Corporation would become subject to substantial regulation with respect to its capital structure (including its ability to use leverage), management, operations, transactions with affiliated persons, portfolio composition (including restrictions with respect to diversification), and other matters.

16. NEW AND REVISED IFRS ADOPTED

The Corporation has applied the following new and revised IFRSs which are effective for year beginning January 1, 2018, without any material impact.

IFRS 2, Share-Based Payments (“IFRS 2”)

In September 2016, the IASB issued amendments to IFRS 2. The amendments provide clarification on how to account for certain types of share-based payment transactions.

IFRS 9, Financial Instruments (“IFRS 9”)

In 2014, the IASB issued IFRS 9, replacing IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”), and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income, and fair value through profit and loss (“FVTPL”). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL.

The following table summarizes the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Fair value through profit and loss(i)	Fair value through profit and loss
Short term investments	Fair value through profit and loss(i)	Fair value through profit and loss
Accounts receivable	Loans and receivables	Amortized cost
Trade payables and other liabilities	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost
Convertible debentures	Fair value through profit and loss(ii)	Fair value through profit and loss
Exchangeable interest liability	Fair value through profit and loss(ii)	Fair value through profit and loss

(i) Financial instruments designated at fair value through profit and loss.

(ii) Financial instruments required to be classified at fair value through profit and loss.

The following accounting policies apply to the subsequent measurement of relevant financial assets:

- Financial assets at FVTPL – These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized net income and comprehensive income.
- Financial assets at amortized cost – These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, impairment, and any gain or loss on derecognition are recognized in net income and comprehensive income.

Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (“ECL”) model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

Impairment losses are recorded in general and administrative expenses in the statements of income and comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the statements of income and comprehensive income. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

The Corporation applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Corporation. The Corporation adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied do not have a material impact on trade receivables and other financial assets of the Corporation.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

In 2014, the IASB issued IFRS 15, replacing IAS 18, *Revenue* (“IAS 18”), IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted the standard with no material impact on its interim condensed consolidated financial statements for the year ended December 31, 2018.

Under IFRS 15, the Corporation recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Corporation expects to be entitled to, including variable consideration to the extent that it is probable that a significant reversal will not occur.

Revenue consists of the actual amounts received and the estimated net realizable amounts receivable from patients and third-party payors. Revenue is derived from the provision of the facilities and ancillary services for the performance of scheduled (as opposed to emergency) surgical, imaging, and diagnostic procedures. The Facilities bill either their patients or the patients’ third-party payors that provide insurance and coverage to patients. Revenue is recognized as of the date of the service when the recovery of consideration is probable and the Corporation has satisfied with its performance obligation.

While the majority of revenue is received from third-party payors, a small amount of revenue is received directly from self-paying patients. Revenue is only recorded where collectability is highly probable. Each Facility has agreements with third-party payors that provide for payments at amounts different from the Facility's established rates. Payment arrangements include pre-determined rates per diagnosis, reimbursed costs, discounted charges, and per diem payments. As a result of established agreements with third-party payors, settlements under reimbursement arrangements are determined with a high degree of accuracy and are accrued on an estimated basis in the period the services are rendered, and are adjusted in future periods, as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the period of settlement. Up to the sale of IMD's assets on June 1, 2018, revenue relating to IMD's third-party business solution service was included in revenue, and consisted of fees for business services provided to healthcare entities, recorded as services were provided and collection was reasonably assured.

17. NEW AND REVISED IFRS NOT YET ADOPTED

The Corporation has not applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRS 16, Leases ("IFRS 16")

In 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which removes the dual lease model for lessees and will require recognition of a liability for the present value of future lease payments and a corresponding right of use asset on the balance sheet. There are minimal changes to lessor accounting. The Corporation will adopt IFRS 16 in its consolidated financial statements for the annual period beginning on January 1, 2019.

As the method of transition, the Corporation will adopt the modified retrospective approach, resulting in a cumulative catch-up gain or loss from the adoption being recorded in opening retained earnings on January 1, 2019. Furthermore, the Corporation will elect to measure the right-of-use asset of leases at the amount equal to lease liability.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Corporation has applied the following exemptions and practical expedients:

- grandfather the definition of a lease for existing contracts at the date of initial application;
- exclude certain low-value leases from IFRS 16 lease accounting;
- exclude certain operating leases for which the lease term ends within 12 months of the date of initial application from IFRS 16 lease accounting;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

The preliminary estimate of the impact includes the recognition of approximately \$67.9 million to \$83.0 million of right-of-use assets and lease liabilities on its consolidated balance sheet. Depreciation expense will increase due to the depreciation of the right-of-use asset, and interest expense will increase due to the imputed interest on the lease liability. General and administrative expense will decrease due to the elimination of operating lease expenses.

IFRIC 23 Uncertainty over Income Tax Treatments (“IFRIC 23”)

In June 2017, the IASB issued IFRIC 23 in response to diversity in practice for various issuers in circumstances in which there is uncertainty in the application of the tax law. While IAS 12, *Income Taxes* provides requirements on the recognition and measurement of current and deferred tax assets and liabilities, there is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. The IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if it is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Corporation intends to adopt IFRIC 23 in its consolidated financial statements for the annual period beginning on January 1, 2019, and does not expect any significant impact.