MEDICAL FACILITIES CORPORATION	**MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2019**

March 11, 2020

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, 2019 ("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, (iv) depreciation of right-of-use assets, and (v) amortization of other intangibles.

- **Adjusted EBITDA** is a non-IFRS financial measure defined as EBITDA before goodwill and other intangibles 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 up until December 31, 2019, also included 5.9% convertible unsecured subordinated debentures ("convertible debentures"), which were repaid in full, as discussed below. The Corporation's current quarterly dividend on its common shares is Cdn$0.07 per share. On November 7, 2019, the Corporation's dividend payment schedule was changed from monthly to quarterly at an annual rate of Cdn$0.28 per common share (refer to Section 10 "Share Capital and Dividends" of this MD&A under the heading "Dividends").

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, 12[1] 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 12 Facilities are comprised of five SSHs located in Arkansas, Indiana, Oklahoma, and South Dakota, and seven ASCs located in 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.

On February 26, 2020, the Corporation announced that it has sold the majority of its interest in Unity Medical and Surgical Hospital ("UMASH") to a group of local investors (the "Buyers"), including leading physicians affiliated with South Bend Orthopedics, The South Bend Clinic, and Allied Physicians of Michiana. The Corporation no longer has a controlling interest in UMASH, with the Corporation's ownership interest decreasing to 31.7% from 87.6%. As a result, it will no longer consolidate UMASH's financial and operating results in the Corporation's consolidated financial statements. Going forward, the Corporation will account for its interest in UMASH under the equity method of accounting. In connection to this transaction, the Corporation also announced an agreement for the sale of the real estate assets underlying UMASH, consisting of land and building, for approximately $25.0 million in cash consideration, subject to adjustments for confirmatory due diligence and closing costs, to investors affiliated with the Buyers. The real estate assets are owned by RRI Mishawaka Hospital, LP ("RRIMH"), an entity in which the Corporation has a 92% interest. Negotiations to sell the assets began before December 31, 2019 and they are classified as assets held for sale on the consolidated balance sheet as at December 31, 2019.

The Corporation received $1.1 million in cash consideration for its equity interests, subject to customary adjustments, which implies an equity value for UMASH of $2.0 million, and an enterprise value of $23.1 million. In connection with the transaction, UMASH's debt obligation to MFC was reduced by $3.0 million, with the remaining $20.0 million being structured on a five-year term at an interest rate of 6.75% secured by the Buyers' equity in UMASH. The Buyers have options to acquire more of the Corporation's equity interest in UMASH on both the first and second anniversaries of the transaction closing for the greater of the current per share purchase price or the fair market value of the interest at the time the purchase option is exercised. In the event that the Corporation's ownership in UMASH falls below 25%, all of the UMASH debt owed to the Corporation would be required to be immediately repaid. The parties anticipate needing to make capital contributions to fund working capital post-closing; the Corporation's share is anticipated to be approximately $1.4 million.

On December 31, 2019, the Corporation repaid in full the principal and interest in respect of its convertible debentures upon maturity, and such convertible debentures were delisted from the Toronto Stock Exchange ("TSX") in connection therewith. The Corporation used a combination of cash on hand and a draw of $16.0 million from the corporate credit facility for the repayment.

On December 19, 2019, the Corporation sold all of its controlling ownership interest of 38.3% in Central Arkansas Surgical Center. As a result, the Corporation no longer controls the facility and deconsolidated its balances of financial position from the consolidated balance sheet as at December 31, 2019. The impact of this transaction, including the selling price and loss on sale was not material.

[1] The number is as of December 31, 2019, and includes Unity Medical and Surgical Hospital whose controlling interest was subsequently sold in February 2020.

On May 28, 2019, St. Luke's Episcopal-Presbyterian Hospitals ("St. Luke's Hospital") and MFC Nueterra Holding Company, LLC, the holding company of MFC Nueterra ASCs, announced plans to develop a new ambulatory surgery center on the west campus of St. Luke's Hospital in Chesterfield, MO ("St. Luke's ASC"), for which MFC Nueterra ASCs invested $0.5 million for a 30.0% non-controlling ownership interest. As part of this transaction, partial ownership in City Place Surgery Center was sold to St. Luke's Hospital for total proceeds of $5.0 million, of which $0.5 million was paid to non-controlling interest for net proceeds of $4.5 million to the Corporation, reducing the Corporation's indirect ownership interest in City Place Surgery Center from 51.3% to 26.1%. The Corporation retains the control over this center through its operating agreement by having continued representation on the governing board and majority voting rights, and consolidates its results in consolidated 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, 2019

	Arkansas Surgical Hospital ("ASH")	Unity Medical and Surgical Hospital ("UMASH")[3]	Oklahoma Spine Hospital ("OSH")	Black Hills Surgical Hospital ("BHSH")	Sioux Falls Specialty Hospital ("SFSH")	The Surgery Center of Newport Coast ("SCNC")	MFC Nueterra ASCs
Location	North Little Rock Arkansas	Mishawaka Indiana	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California	Six locations[2]
Year Opened	2005	2009	1999	1997	1985	2004	1997-2006
Year Acquired by the Corporation	2012	2016	2005	2004	2004	2008	2018
Ownership Interest	51.0%	87.6%	64.0%	54.2%	51.0%	51.0%	26-56%[2]
Non-controlling Interest	49.0%	12.4%	36.0%	45.8%	49.0%	49.0%	44-74%[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	5,000-14,000 sq ft
Operating/Procedure Rooms	11/2	4/2	7/2	11[4]	15	2/1	16/6
Overnight Rooms	41[1]	29	25	26	35	-	-

(1) *Licensed for 49 beds.*

(2) *Through the MFC Nueterra Partnership, the Corporation owns indirect interests between approximately 26% to 56% in six ASCs, situated in Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania.*

(3) *The Corporation's current ownership interest declined to 31.7% after the sale of its controlling interest subsequent to the year-end, as described above.*

(4) *Licensed for 12 rooms.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

In thousands of U.S. dollars, except per share amounts and as indicated otherwise	Year Ended December 31, 2019	2018 (1)	2017 (1)
Facility service revenue	398,103	390,845	345,572
Operating expenses	353,647	318,351	275,713
Income from operations	44,456	72,494	69,859
Net loss and comprehensive loss for the period from discontinued operations, net of tax	(34,255)	(1,789)	(14,301)
Net income and comprehensive income for the period from continuing operations	59,677	53,338	60,880
Attributable to:			
Owners of the Corporation (2)	37,647	22,075	29,665
Non-controlling interest (2)	22,030	31,263	31,215
Earnings per share from continuing operations attributable to owners of the Corporation			
Basic	$1.21	$0.71	$1.13
Fully diluted	$0.33	$0.62	$1.00
EBITDA (3)	74,248	93,373	92,320
Adjusted EBITDA (3)	96,248	93,373	93,720
Cash available for distribution (3) (4)	C $27,533	C $48,822	C $51,710
Distributions (3)	C $30,590	C $34,864	C $34,881
Cash available for distribution per common share (3) (4)	C $0.886	C $1.575	C $1.668
Distributions per common share (3)	C $0.984	C $1.125	C $1.125
Payout ratio (3) (4)	111.1%	71.4%	67.5%

	December 31, 2019	December 31, 2018	December 31, 2017
Total assets	470,547	481,787	459,588
Total long-term financial liabilities	185,304	119,305	81,265

(1) *Comparative results have been restated for discontinued operations.*

(2) *Net income and comprehensive income from continuing operations 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 from continuing operations 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.*

(3) *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 the heading "Reconciliation of net income and comprehensive income for the period to EBITDA".*

(4) *Cash available for distribution, cash available for distribution per common share and payout ratio are not restated for discontinued operations.*

Selected Financial Information for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

For the year ended December 31, 2019, revenue from continuing operations was $398.1 million, an increase of 1.9% from $390.8 million for the same period in 2018, with the increase mainly attributable to higher case volumes. EBITDA was $74.2 million or 18.6% of revenue compared to $93.4 million or 23.9% for the same period last year mainly due to a $22.0 million non-cash charge for impairment of goodwill in MFC Nueterra ASCs, partially offset by the reduction in operating expenses from the impact of adoption of IFRS 16, *Leases* ("IFRS 16") in the current year. Net income and comprehensive income from continuing operations for the period was $59.7 million compared to $53.3 million in 2018, 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 the heading "Change in Value of Exchangeable Interest Liability"), partially offset by a decrease in income from operations due to higher operating expenses which included the impact of the goodwill impairment charge, and higher income tax expense. As a result of the sales of the controlling interest in UMASH and the real estate of RRIMH subsequent to the year-end, net loss and comprehensive loss from discontinued operations, net of tax, of $34.3 million for the year ended December 31, 2019 and $1.8 million for the same period in 2018 were reclassified out of continuing operations.

The Corporation generated cash available for distribution of Cdn$27.5 million, representing a decrease of Cdn$21.3 million or 43.6% from Cdn$48.8 million in the prior year. Distributions per common share decreased between the years by Cdn$0.141 to Cdn$0.984, while the payout ratio was 111.1% compared to 71.4% for the year ended December 31, 2018. 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, 2018 Compared to the Year Ended December 31, 2017

For the year ended December 31, 2018, revenue from continuing operations was $390.8 million, an increase of 13.1% from $345.6 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 $93.4 million or 23.9% of revenue compared to $92.3 million or 26.7% for the same period in 2017. Net income and comprehensive income from continuing operations for the period was $53.3 million compared to $60.9 million in 2017, with the decrease mainly attributable to higher finance costs and income tax expense, partly offset by an increase in income from operations. Net loss and comprehensive loss from discontinued operations, net of tax, of $1.8 million for the year ended December 31, 2018 and $14.3 million for the same period in 2017 was reclassified out of continuing operations.

The Corporation generated cash available for distribution of Cdn$48.8 million, representing a decrease of 5.6% from Cdn$51.7 million in 2017. Distributions per common share remained unchanged at Cdn$1.125, while the payout ratio was 71.4% for the year ended December 31, 2018 compared to 67.5% for the same period in 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, 2019

The following table and discussion compare operating and financial results from continuing operations of the Corporation for the three months ended December 31, 2019 to the three months ended December 31, 2018.

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2019**	**2018**	**$ Change**	**% Change**
Facility service revenue	**113,954**	**111,953**	**2,001**	**1.8%**
Operating expenses				
Salaries and benefits	29,791	28,702	1,089	3.8%
Drugs and supplies	36,188	35,856	332	0.9%
General and administrative expenses	15,275	17,269	(1,994)	(11.5%)
Depreciation of property and equipment	2,558	3,208	(650)	(20.3%)
Depreciation of right-of-use assets	2,584	-	2,584	100.0%
Amortization of other intangibles	1,670	3,113	(1,443)	(46.4%)
	88,066	**88,148**	**(82)**	**(0.1%)**
Income from operations	**25,888**	**23,805**	**2,083**	**8.8%**
Finance costs (income)				
Change in value of convertible debentures	612	(1,974)	2,586	131.0%
Change in value of exchangeable interest liability	(14,584)	280	(14,864)	(5,308.6%)
Interest expense on exchangeable interest liability	2,165	2,012	153	7.6%
Interest expense, net of interest income	1,894	1,023	871	85.1%
Loss (gain) on foreign currency	(475)	566	(1,041)	(183.9%)
	(10,388)	**1,907**	**(12,295)**	**(644.7%)**
Income before income taxes	**36,276**	**21,898**	**14,378**	**65.7%**
Income tax expense	5,496	2,236	3,260	145.8%
Net income and comprehensive income for the period from continuing operations	**30,780**	**19,662**	**11,118**	**56.5%**
Attributable to:				
Owners of the Corporation	22,437	8,048	14,389	178.8%
Non-controlling interest	8,343	11,614	(3,271)	(28.2%)
Basic earnings per share attributable to owners of the Corporation	$0.72	$0.26	0.46	176.9%
Fully diluted earnings per share attributable to owners of the Corporation	$0.36	$0.19	0.17	89.5%
Reconciliation of net income and comprehensive income for the period to EBITDA[(1)]				
Net income and comprehensive income for the period from continuing operations	**30,780**	**19,662**	**11,118**	**56.5%**
Income tax expense	5,496	2,236	3,260	145.8%
Finance costs (income)	(10,388)	1,907	(12,295)	(644.7%)
Depreciation of property and equipment	2,558	3,208	(650)	(20.3%)
Depreciation of right-of-use assets	2,584	-	2,584	100.0%
Amortization of other intangibles	1,670	3,113	(1,443)	(46.4%)
EBITDA[(1)]	**32,700**	**30,126**	**2,574**	**8.5%**

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

Revenue

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
ASH	19,590	19,031	559	2.9%
OSH	19,967	21,107	(1,140)	(5.4%)
BHSH	27,033	24,682	2,351	9.5%
SFSH	37,259	34,830	2,429	7.0%
SCNC	2,035	2,442	(407)	(16.7%)
MFC Nueterra ASCs	8,070	9,861	(1,791)	(18.2%)
Facility service revenue	**113,954**	**111,953**	**2,001**	**1.8%**

For the three months ended December 31, 2019, revenue increased over the same period in 2018 by $2.0 million or 1.8%. The increase was primarily attributable to higher inpatient case volumes from increased spine and other high acuity cases which generate higher average revenue per case, complemented by higher revenue from urgent care, primary care, pain management and imaging, offset partly by payor mix and lower outpatient volume.

Total surgical cases decreased by 2.6% for the quarter, as outpatient cases decreased by 3.6% but inpatient cases increased by 1.2%. Same Facility surgical case volume was lower at most Facilities, with the exception of BHSH. The decline was spread across multiple payors. Pain cases were up 4.2% for the quarter, with growth mainly from ASH, OSH and BHSH.

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

- ASH's revenue increased mainly due to a combined impact of case and payor mix, higher pain case volume, and a Medicaid tax decrease, despite lower surgical case volume.

- OSH's revenue decreased mainly due to lower surgical case volume and lower collection rates from payors, partly offset by higher average revenue per case due to combined case and payor mix and higher pain case volumes.

- BHSH's revenue increased mainly due to higher case volume and case mix, higher pain clinic and imaging revenue, as well as the revenue from the new urgent care clinic in Gillette, WY.

- SFSH's revenue increased mainly due to payor mix with a higher proportion of commercial and Blue Cross/Blue Shield payors, case mix due to increased spine cases, and an increase in non-surgical service revenue from practice and imaging revenue.

- SCNC's revenue decreased mainly due to payor mix because of higher cases with Medicare and similar payors, and lower surgical and pain case volume.

- MFC Nueterra ASCs' revenue decreased mainly due to lower case volume at Two Rivers Surgical Center and Eastwind Surgical, and lower average revenue per case due to case and payor mix.

Operating Expenses

Consolidated operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses, depreciation of property and equipment, depreciation of right-of-use assets, and amortization of other intangibles ("operating expenses"), decreased by $0.1 million or 0.1%, to $88.1 million. As a percentage of revenue, operating expenses decreased to 77.3% from 78.7% in the same period a year earlier.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2019**	**Percentage of Revenue**	**2018**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	14,583	74.4%	14,861	78.1%	(278)	(1.9%)
OSH	17,937	89.8%	17,936	85.0%	1	0.0%
BHSH	19,700	72.9%	18,208	73.8%	1,492	8.2%
SFSH	22,958	61.6%	21,781	62.5%	1,177	5.4%
SCNC	1,720	84.5%	1,706	69.9%	14	0.8%
MFC Nueterra ASCs	7,233	89.6%	8,274	83.9%	(1,041)	(12.6%)
Corporate	3,935	n/a	5,382	n/a	(1,447)	(26.9%)
Operating expenses	**88,066**	**77.3%**	**88,148**	**78.7%**	**(82)**	**(0.1%)**

Consolidated salaries and benefits increased by $1.1 million or 3.8%, primarily due to higher benefit costs due to increased enrollment and insurance claims experience ($0.5 million), increased pain and scheduling staffing at OSH ($0.3 million), increased urgent care salaries due to the Gillette urgent care at BHSH ($0.2 million), and higher wages mainly from annual increases net of reductions from efficiencies ($0.1 million). As a percentage of revenue, consolidated salaries and benefits increased to 26.1% from 25.6% a year earlier.

Consolidated drugs and supplies increased by $0.3 million or 0.9%, primarily driven by case mix and the increased implant use required by higher acuity cases overall, offset partly by the lower overall surgical volume. As a percentage of revenue, the consolidated cost of drugs and supplies decreased to 31.8% from 32.0% a year earlier.

Consolidated general and administrative expenses ("G&A") decreased by $2.0 million or 11.5%. The decrease in G&A was mainly attributable to the IFRS 16 impact from lower rent expenses ($2.6 million), partly offset by higher accountable care organization and locum fees at SFSH ($0.3 million), and higher professional service fees at corporate level. As a percentage of revenue, consolidated G&A decreased to 13.4% from 15.4% a year earlier.

Consolidated depreciation of property and equipment decreased by $0.7 million or 20.3% mainly due to certain assets being fully depreciated and lower capital expenditure spending. As a percentage of revenue, consolidated depreciation of property and equipment decreased to 2.2% from 2.9% a year earlier.

Consolidated depreciation of right-of-use assets equaled $2.6 million due to the IFRS 16 adoption in the current year, which represented 2.3% of revenue.

Consolidated amortization of other intangibles decreased by $1.4 million or 46.4% mainly due to certain intangible assets being fully amortized. As a percentage of revenue, consolidated amortization of other intangibles decreased to 1.5% from 2.8% a year earlier.

Income from Operations

Consolidated income from operations for the three months ended December 31, 2019 of $25.9 million was $2.1 million or 8.8% higher than consolidated income from operations of $23.8 million recorded a year earlier, representing 22.7% of revenue, compared to 21.3% in the same period in 2018.

Unaudited	Three Months Ended December 31,					
In thousands of U.S. dollars	**2019**	**Percentage of Revenue**	**2018**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	5,007	25.6%	4,170	21.9%	837	20.1%
OSH	2,030	10.2%	3,172	15.0%	(1,142)	(36.0%)
BHSH	7,333	27.1%	6,475	26.2%	858	13.3%
SFSH	14,301	38.4%	13,049	37.5%	1,252	9.6%
SCNC	315	15.5%	736	30.1%	(421)	(57.2%)
MFC Nueterra ASCs	837	10.4%	1,585	16.1%	(748)	(47.2%)
Corporate	(3,935)	n/a	(5,382)	n/a	1,447	26.9%
Income from operations	**25,888**	**22.7%**	**23,805**	**21.3%**	**2,083**	**8.8%**

Finance Costs (Income)

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.

On December 31, 2019, the Corporation repaid in full the principal and interest in respect of the convertible debentures upon maturity. Refer to Section 9 "Liquidity and Capital Resources" of this MD&A under the heading "Cash Flow Activity".

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

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2019**	**September 30, 2019** *Unaudited*	**Change**	**December 31, 2018**	**September 30, 2018** *Unaudited*	**Change**
Face value of convertible debentures outstanding	C$41,743	C$41,743	C$ -	C$41,743	C$41,743	C$ -
Closing price of convertible debentures outstanding	C$100.00	C$100.00	C$ -	C$100.10	C$100.85	(C$0.75)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.2990	$1.3242	($0.0252)	$1.3641	$1.2911	$0.0730
Market value of convertible debentures outstanding prior to repayment	32,135	31,523	612	30,632	32,606	(1,974)
Repayment of convertible debentures	(32,135)	-	(32,135)	-	-	-
Market value of convertible debentures outstanding	**-**	**31,523**	**(31,523)**	**30,632**	**32,606**	**(1,974)**

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:

In thousands of U.S. dollars, except as indicated otherwise	**December 31, 2019**	**September 30, 2019** *Unaudited*	**Change**	**December 31, 2018**	**September 30, 2018** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability	5,955,277	6,033,881	(78,604)	5,970,862	5,897,909	72,953
Closing price of the Corporation's common shares	C$4.80	C$8.03	(C$3.23)	C$15.04	C$14.35	C$0.69
Closing exchange rate of U.S. dollar to Canadian dollar	$1.2990	$1.3242	($0.0252)	$1.3641	$1.2911	$0.0730
Exchangeable interest liability	**22,006**	**36,590**	**(14,584)**	**65,832**	**65,553**	**279**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability increased by $0.2 million versus the comparative period, primarily due to the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income, increased by $0.9 million versus the comparative period, due to the adoption of IFRS 16 in the current year resulting in higher interest expenses, along with 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 gains increased by $1.0 million compared to the three month period in 2018 due to the relative change in foreign exchange rates.

Income Tax

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

Unaudited	Three Months Ended December 31,			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
Current income tax expense (recovery)	2,124	(341)	2,465	722.9%
Deferred income tax expense	3,372	2,577	795	30.8%
Income tax expense from continuing operations	**5,496**	**2,236**	**3,260**	**145.8%**

The increase in current income tax expense from continuing operations was mainly due to higher Canadian current income tax due to the depletion of tax loss carryforwards earlier in 2019. The change in the deferred income tax expense from continuing operations versus the prior year was primarily attributable to the impact of the change in exchangeable interest liability.

Net Income and Comprehensive Income from Continuing Operations

A $11.1 million increase in net income and comprehensive income from continuing operations was mainly attributable to lower 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, and an increase in income from operations, partially offset by higher income tax expense.

EBITDA

EBITDA of $32.7 million increased from $30.1 million recorded a year earlier, representing 28.7% of revenue, compared to 26.9% of revenue a year earlier. The increase was mainly due to higher revenue from Facilities and lower general and administrative expenses stemming from the impact of IFRS 16 adoption in the current year. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under the heading "Reconciliation of net income and comprehensive income for the period to EBITDA".

Year Ended December 31, 2019

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the year ended December 31, 2019 to the year ended December 31, 2018.

	Year Ended December 31,			
In thousands of U.S. dollars, except per share amounts	**2019**	**2018**	**$ Change**	**% Change**
Facility service revenue	**398,103**	**390,845**	**7,258**	**1.9%**
Operating expenses				
Salaries and benefits	114,075	107,242	6,833	6.4%
Drugs and supplies	128,445	122,873	5,572	4.5%
General and administrative expenses	59,335	67,357	(8,022)	(11.9%)
Impairment of goodwill	22,000	-	22,000	100.0%
Depreciation of property and equipment	10,430	10,404	26	0.2%
Depreciation of right-of-use assets	9,442	-	9,442	100.0%
Amortization of other intangibles	9,920	10,475	(555)	(5.3%)
	353,647	**318,351**	**35,296**	**11.1%**
Income from operations	**44,456**	**72,494**	**(28,038)**	**(38.7%)**
Finance costs (income)				
Change in value of convertible debentures	1,503	(2,901)	4,404	151.8%
Change in value of exchangeable interest liability	(43,351)	(64)	(43,287)	(67,635.9%)
Interest expense on exchangeable interest liability	7,416	8,592	(1,176)	(13.7%)
Interest expense, net of interest income	7,903	3,488	4,415	126.6%
Loss (gain) on foreign currency	(722)	778	(1,500)	(192.8%)
	(27,251)	**9,893**	**(37,144)**	**(375.5%)**
Income before income taxes	**71,707**	**62,601**	**9,106**	**14.5%**
Income tax expense	12,030	9,263	2,767	29.9%
Net income and comprehensive income for the period from continuing operations	**59,677**	**53,338**	**6,339**	**11.9%**
Attributable to:				
Owners of the Corporation	37,647	22,075	15,572	70.5%
Non-controlling interest	22,030	31,263	(9,233)	(29.5%)
Basic earnings per share attributable to owners of the Corporation	$1.21	$0.71	0.50	70.4%
Fully diluted earnings per share attributable to owners of the Corporation	$0.33	$0.62	(0.29)	(46.8%)
Reconciliation of net income and comprehensive income for the period to EBITDA and Adjusted EBITDA [(1)]				
Net income and comprehensive income for the period from continuing operations	**59,677**	**53,338**	**6,339**	**11.9%**
Income tax expense	12,030	9,263	2,767	29.9%
Finance costs (income)	(27,251)	9,893	(37,144)	(375.5%)
Depreciation of property and equipment	10,430	10,404	26	0.2%
Depreciation of right-of-use assets	9,442	-	9,442	100.0%
Amortization of other intangibles	9,920	10,475	(555)	(5.3%)
EBITDA[(1)]	**74,248**	**93,373**	**(19,125)**	**(20.5%)**
Impairment of goodwill	22,000	-	22,000	100.0%
Adjusted EBITDA[(1)]	**96,248**	**93,373**	**2,875**	**3.1%**

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

Revenue

	Year Ended December 31,			
In thousands of U.S. dollars	2019	2018	$ Change	% Change
ASH	69,709	67,848	1,861	2.7%
OSH	74,159	72,737	1,422	2.0%
BHSH	95,510	91,292	4,218	4.6%
SFSH	118,488	115,636	2,852	2.5%
SCNC	7,659	8,352	(693)	(8.3%)
MFC Nueterra ASCs	32,578	34,061	(1,483)	(4.4%)
Integrated Medical Delivery, L.L.C. ("IMD")	-	2,451	(2,451)	(100.0%)
Intercompany eliminations	-	(1,532)	1,532	100.0%
Facility service revenue	**398,103**	**390,845**	**7,258**	**1.9%**

For the year ended December 31, 2019, revenue increased over 2018 by $7.3 million or 1.9%. The increase was primarily attributable to a combination of the Gillette urgent care, primary care, pain clinics, imaging service revenue, and higher surgical case volume totaling $6.6 million, the impact of an extra month of operations in January 2019 after the acquisition of MFC Nueterra ASCs in February 2018 totaling $2.7 million, and an increase of $0.8 million from combined case and payor mix, partly offset by the discontinuation of revenue from IMD of $2.5 million after the disposition of its assets in June 2018.

Total surgical cases increased by 2.1%, as outpatient cases increased by 1.5% and inpatient cases increased by 2.9%. Case volume increased at most Facilities with the exception of SFSH and SCNC. Surgical case volume growth over the same period last year came predominantly from Blue Cross/Blue Shield and Medicare, which grew by 23.4% and 6.8%, respectively, including the favorable impact of an extra month of operations in January 2019 from MFC Nueterra ASCs.

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

- ASH's revenue increased mainly due to higher case volume from both surgical and pain procedures, and payor mix due to lower Medicaid tax.
- OSH's revenue increased based on higher average revenue per case stemming from increased complexity of cases, partly offset by lower collection rates from payors.
- BHSH's revenue increased due mainly to case mix and an increase in urgent care revenue, including the new Gillette clinic, higher pain clinic and imaging revenue, and higher surgical case volume, partially offset by the sale of the ENT clinic.
- SFSH's revenue increased due to improved case mix with a higher portion of spine procedures, higher practice and imaging revenues, partly offset by payor mix and a higher bad debt expense.
- SCNC's revenue decreased mainly because of payor mix from an increased share of Medicare and like payor cases and lower case volume, partially offset by case mix with increased orthopedic cases.
- MFC Nueterra ASCs' revenue decreased mainly due to case and payor mix that led to lower average revenue per case, as well as lower case volume at Two Rivers Surgical Center and Eastwind Surgical, partly offset by the additional revenue from an extra month of operations in January 2019 after the acquisition in February 2018.

- IMD's revenue decreased due to the sale of its assets on June 1, 2018.

- The intercompany revenue elimination relates to IMD's service revenue from OSH, up to the date IMD's assets were sold.

Operating Expenses

Operating expenses increased $35.3 million or 11.1% to $353.6 million. As a percentage of revenue, operating expenses increased to 88.8% from 81.5% in the same period a year earlier.

	Year Ended December 31,					
In thousands of U.S. dollars	**2019**	**Percentage of Revenue**	**2018**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	55,372	79.4%	54,768	80.7%	604	1.1%
OSH	68,069	91.8%	62,851	86.4%	5,218	8.3%
BHSH	72,750	76.2%	67,459	73.9%	5,291	7.8%
SFSH	80,483	67.9%	77,761	67.2%	2,722	3.5%
SCNC	6,529	85.2%	6,417	76.8%	112	1.7%
MFC Nueterra ASCs	28,650	87.9%	28,706	84.3%	(56)	(0.2%)
IMD	-	n/a	1,843	75.2%	(1,843)	(100.0%)
Corporate and intercompany eliminations	41,794	n/a	18,546	n/a	23,248	125.4%
Operating expenses	**353,647**	**88.8%**	**318,351**	**81.5%**	**35,296**	**11.1%**

Consolidated salaries and benefits increased by $6.8 million or 6.4%, primarily due to Facility level increases including wage increases ($1.5 million), benefit cost increases due to increased enrollment and insurance claim experience ($1.5 million), an increase for staffing at the new BHSH urgent care clinic in Gillette, WY ($1.3 million), at OSH for pain clinic ($1.2 million), and at its other departments ($0.9 million), the corporate level CFO separation costs ($1.3 million), and an extra month of operations at MFC Nueterra ASCs ($0.6 million), partially offset by savings from IMD salaries ($1.5 million), and other savings in incentive based compensation. As a percentage of revenue, consolidated salaries and benefits increased to 28.7% from 27.4% a year earlier.

Consolidated drugs and supplies increased by $5.6 million or 4.5%, primarily driven by the case mix, including increases in spine and orthopedic cases that increased implant costs ($4.0 million), an extra month of operations at MFC Nueterra ASCs ($0.9 million), and higher supply costs. As a percentage of revenue, the consolidated cost of drugs and supplies increased to 32.3% from 31.4% a year earlier.

Consolidated G&A decreased by $8.0 million or 11.9%. The decrease in G&A was mainly attributable to the lower rent expenses resulting from the adoption of IFRS 16 in the current year ($10.9 million) and savings from the declining market values of share based compensation ($1.2 million), partly offset by higher professional service fees ($1.1 million), an extra month of operations at MFC Nueterra ASCs ($0.9 million), and higher other administrative expenses. As a percentage of revenue, consolidated G&A decreased to 14.9% from 17.2% a year earlier.

Due to the ongoing underperformance at certain MFC Nueterra ASCs, the Corporation recorded a non-cash goodwill impairment charge of $22.0 million during the year (refer to Section 13 "Critical Accounting Judgements and Estimates" of this MD&A under the heading "Impairment of Non-Financial Assets").

Consolidated depreciation of property and equipment remained consistent year over year. As a percentage of revenue, consolidated depreciation of property and equipment decreased to 2.6% from 2.7% a year earlier.

Consolidated depreciation of right-of-use assets equaled $9.4 million due to the adoption of IFRS 16 in the current year, which represented 2.4% of revenue.

Consolidated amortization of other intangibles decreased by $0.6 million or 5.3% mainly due to certain intangible assets being fully amortized, partly offset by the extra month of amortization of intangibles at MFC Nueterra ASCs after the acquisition in February 2018. As a percentage of revenue, consolidated amortization of other intangibles decreased to 2.5% from 2.7% a year earlier.

Income from Operations

Consolidated income from operations for the year ended December 31, 2019 of $44.5 million was $28.0 million or 38.7% lower than $72.5 million recorded a year earlier, representing 11.2% of revenue, compared to 18.5% in the same period in 2018. The decrease was mainly due to the goodwill impairment charge of $22.0 million, and operating income decreases at several Facilities led by OSH, partially offset by increases in operating income at ASH and SFSH.

	Year Ended December 31,					
In thousands of U.S. dollars	**2019**	**Percentage of Revenue**	**2018**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	14,337	20.6%	13,080	19.3%	1,257	9.6%
OSH	6,090	8.2%	9,886	13.6%	(3,796)	(38.4%)
BHSH	22,760	23.8%	23,833	26.1%	(1,073)	(4.5%)
SFSH	38,005	32.1%	37,875	32.8%	130	0.3%
SCNC	1,130	14.8%	1,935	23.2%	(805)	(41.6%)
MFC Nueterra ASCs	3,928	12.1%	5,355	15.7%	(1,427)	(26.6%)
IMD	-	n/a	608	24.8%	(608)	(100.0%)
Corporate	(41,794)	n/a	(20,078)	n/a	(21,716)	(108.2%)
Income from operations	**44,456**	**11.2%**	**72,494**	**18.5%**	**(28,038)**	**(38.7%)**

Finance Costs (Income)

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.

On December 31, 2019, the Corporation repaid in full the principal and interest of the convertible debentures upon maturity. Refer to Section 9 "Liquidity and Capital Resources" of this MD&A under the heading "Cash Flow Activity".

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

In thousands of U.S. dollars, except as indicated otherwise	December 31, 2019	December 31, 2018	Change	December 31, 2018	December 31, 2017	Change
Face value of convertible debentures outstanding	C$41,743	C$41,743	C$ -	C$41,743	C$41,743	C$ -
Closing price of convertible debentures outstanding	C$100.00	C$100.10	(C$0.10)	C$100.10	C$101.00	(C$0.90)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.2990	$1.3641	($0.0651)	$1.3641	$1.2573	$0.1068
Market value of convertible debentures outstanding prior to repayment	32,135	30,632	1,503	30,632	33,533	(2,901)
Repayment of convertible debentures	(32,135)	-	(32,135)	-	-	-
Market value of convertible debentures outstanding	**-**	**30,632**	**(30,632)**	**30,632**	**33,533**	**(2,901)**

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:

In thousands of U.S. dollars, except as indicated otherwise	December 31, 2019	December 31, 2018	Change	December 31, 2018	December 31, 2017	Change
Number of common shares to be issued for exchangeable interest liability	5,955,277	5,970,862	(15,585)	5,970,862	5,929,304	41,558
Closing price of the Corporation's common shares	C$4.80	C$15.04	(C$10.24)	C$15.04	C$14.23	C$0.81
Closing exchange rate of U.S. dollar to Canadian dollar	$1.2990	$1.3641	($0.0651)	$1.3641	$1.2573	$0.1068
Exchangeable interest liability	**22,006**	**65,832**	**(43,826)**	**65,832**	**67,107**	**(1,275)**
Exercise of exchangeable rights by non-controlling interests			475			1,211
Change in value of exchangeable interest liability			**(43,351)**			**(64)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $1.2 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 $4.4 million to $7.9 million due to the adoption of IFRS 16 in the current year resulting in higher interest expenses, along with 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 gains 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 from continuing operations for the reporting periods are as follows:

	Year Ended December 31,			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
Current income tax expense	5,062	2,167	2,895	133.6%
Deferred income tax expense	6,968	7,096	(128)	(1.8%)
Income tax expense from continuing operations	**12,030**	**9,263**	**2,767**	**29.9%**

The increase in current income tax expense from continuing operations versus last year was primarily due to the depletion of tax loss carryforwards in the calculation of Canadian taxable income combined with higher U.S. current tax from increased taxable income from continuing operations. The change in the deferred income tax expense from continuing operations versus the prior year was primarily attributable to the effect of the change in exchangeable interest liability combined with the impact of the MFC Nueterra ASCs impairment charge.

Net Income and Comprehensive Income from Continuing Operations

A $6.3 million increase in net income and comprehensive income from continuing operations was mainly attributable to lower 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, partly offset by lower income from operations, including the impairment charge on MFC Nueterra ASCs.

EBITDA

EBITDA of $74.2 million decreased by $19.2 million from $93.4 million recorded a year earlier, representing 18.6% of revenue compared to 23.9% a year earlier. The decrease was mainly due to the goodwill impairment charge and higher operating expenses at Facilities, partly offset by the lower rent expenses, included in general and administrative expenses, due to the adoption of IFRS 16 in the current year. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under the heading "Reconciliation of net income and comprehensive income for the period to EBITDA".

Adjusted EBITDA

Adjusted EBITDA of $96.2 million increased from $93.4 million recorded a year earlier, representing 24.2% of revenue compared to 23.9% a year earlier. For a reconciliation of Adjusted EBITDA to an applicable IFRS measure, see Section 5 under the heading "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 from Continuing Operations

Unaudited	**2019**				**2018**			
In thousands of U.S. dollars, except per share amounts	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Facility service revenue	**113,954**	**96,536**	**94,230**	**93,383**	**111,953**	**93,617**	**96,637**	**88,638**
Operating expenses								
Salaries and benefits	29,791	27,800	28,396	28,088	28,702	26,700	26,285	25,555
Drugs and supplies	36,188	31,503	30,613	30,141	35,856	30,212	29,126	27,679
General and administrative expenses	15,275	14,827	15,189	14,044	17,269	16,151	18,021	15,916
Impairment of goodwill	-	22,000	-	-	-	-	-	-
Depreciation of property and equipment	2,558	2,461	2,278	3,133	3,208	2,438	2,400	2,358
Depreciation of right-of-use assets	2,584	2,211	2,749	1,898	-	-	-	-
Amortization of other intangibles	1,670	2,673	2,730	2,847	3,113	2,502	2,465	2,395
	88,066	**103,475**	**81,955**	**80,151**	**88,148**	**78,003**	**78,297**	**73,903**
Income (loss) from operations	**25,888**	**(6,939)**	**12,275**	**13,232**	**23,805**	**15,614**	**18,340**	**14,735**
Finance costs (income)								
Change in value of convertible debentures	612	(675)	554	1,012	(1,974)	428	(671)	(684)
Change in value of exchangeable interest liability	(14,584)	(20,211)	(21,349)	12,793	280	2,316	(840)	(1,820)
Interest expense on exchangeable interest liability	2,165	1,515	1,796	1,940	2,012	1,922	2,143	2,515
Interest expense, net of interest income	1,894	1,914	2,146	1,949	1,023	1,057	751	657
Loss (gain) on foreign currency	(475)	141	(154)	(234)	566	(210)	223	199
	(10,388)	**(17,316)**	**(17,007)**	**17,460**	**1,907**	**5,513**	**1,606**	**867**
Income (loss) before income taxes	**36,276**	**10,377**	**29,282**	**(4,228)**	**21,898**	**10,101**	**16,734**	**13,868**
Income tax expense (recovery)	5,496	1,727	6,752	(1,945)	2,236	2,203	2,646	2,178
Net income (loss) and comprehensive income (loss) for the period from continuing operations	**30,780**	**8,650**	**22,530**	**(2,283)**	**19,662**	**7,898**	**14,088**	**11,690**
Attributable to:								
Owners of the Corporation	22,437	4,861	18,239	(7,890)	8,048	2,078	6,972	4,977
Non-controlling interest	8,343	3,789	4,291	5,607	11,614	5,820	7,116	6,713
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	$0.72	$0.15	$0.59	($0.25)	$0.26	$0.07	$0.22	$0.16
Fully diluted	$0.36	($0.02)	$0.24	($0.25)	$0.19	$0.07	$0.20	$0.16
Reconciliation of net income (loss) and comprehensive income (loss) for the period to EBITDA and Adjusted EBITDA (1)								
Net income (loss) and comprehensive income (loss) for the period from continuing operations	**30,780**	**8,650**	**22,530**	**(2,283)**	**19,662**	**7,898**	**14,088**	**11,690**
Income tax expense (recovery)	5,496	1,727	6,752	(1,945)	2,236	2,203	2,646	2,178
Finance costs (income)	(10,388)	(17,316)	(17,007)	17,460	1,907	5,513	1,606	867
Depreciation of property and equipment	2,558	2,461	2,278	3,133	3,208	2,438	2,400	2,358
Depreciation of right-of-use assets	2,584	2,211	2,749	1,898	-	-	-	-
Amortization of other intangibles	1,670	2,673	2,730	2,847	3,113	2,502	2,465	2,395
EBITDA (1)	**32,700**	**406**	**20,032**	**21,110**	**30,126**	**20,554**	**23,205**	**19,488**
Impairment of goodwill	-	22,000	-	-	-	-	-	-
Adjusted EBITDA (1)	**32,700**	**22,406**	**20,032**	**21,110**	**30,126**	**20,554**	**23,205**	**19,488**

(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.

- 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 BHSH, SFSH, and ASH in an effort to build and expand care networks in the respective market areas. Operating expenses have also 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 the acquisition and sale of assets in 2018 and 2019.

- Due to the ongoing underperformance at certain MFC Nueterra ASCs, management assessed and recorded an impairment of goodwill in 2019.

- 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. On December 31, 2019, the Corporation repaid in full the principal and interest in respect of its convertible debentures upon maturity.

- 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. During 2019, declines in the market price of the Corporation's common shares from the second quarter to the fourth quarter mainly drove the fluctuations in the change in value of exchangeable interest liability.

- 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)		Year Ended December 31,	
In thousands of U.S. dollars, except as indicated otherwise		**2019**	**2018**	**2019**	**2018**
CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**18,296**	**19,517**	**77,375**	**81,452**
Non-controlling interest in cash flows of the Facilities [1]		(13,270)	(13,877)	(37,565)	(43,761)
Interest expense on exchangeable interest liability [2]		2,165	2,012	7,416	8,592
Payment of lease liabilities [3]		(3,553)	-	(12,152)	-
Difference between straight-line rent expense and actual payments made [4]		-	209	-	903
Maintenance capital expenditures [5]		(951)	(978)	(2,666)	(3,046)
Difference between accrual-based amounts and actual cash flows related to interest and taxes [6]		(180)	1,433	(3,064)	(364)
Change in non-cash operating working capital items [7]		8,202	8,000	(1,520)	1,458
Share-based compensation [8]		(179)	(94)	(466)	(412)
Repayment of non-revolving debt [9]		(1,859)	(2,148)	(6,868)	(7,142)
Classification of cash as assets held for sale [10]		260	-	260	-
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**8,931**	**14,074**	**20,750**	**37,680**
	CDN	**11,764**	**18,904**	**27,533**	**48,822**
DISTRIBUTIONS	**CDN**	**4,368**	**8,734**	**30,590**	**34,864**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE [11]	**CDN**	**$0.378**	**$0.609**	**$0.886**	**$1.575**
TOTAL DISTRIBUTIONS PER COMMON SHARE [11]	**CDN**	**$0.140**	**$0.281**	**$0.984**	**$1.125**
PAYOUT RATIO		**37.0%**	**46.2%**	**111.1%**	**71.4%**
Average exchange rate of Cdn$ to US$ for the period		1.3172	1.3432	1.3269	1.2957
Weighted average number of common shares outstanding		31,106,259	31,054,500	31,084,900	30,998,008

(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) *Payment of lease liabilities represents rent payments on principal portions of lease liabilities under IFRS 16 and is deducted in determining cash available for distribution as this is a cash item included in financing activities on cash flow statements. This is applicable to 2019 after the adoption of IFRS 16.*

(4) *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.*

(5) *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.*

(6) *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.*

(7) *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.*

(8) *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.*

(9) *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.*

(10) *Classification of cash as assets held for sale represents an adjustment to add back the cash balance excluded from the consolidated balance sheet.*

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

Cash available for distribution in the three months ended December 31, 2019 (Cdn$11.8 million) decreased by Cdn$7.1 million compared to the cash available for distribution in the same quarter last year (Cdn$18.9 million). On a per common share basis, cash available for distribution of Cdn$0.38 decreased by Cdn$0.23, or 37.7% from the same quarter last year of Cdn$0.61. The distributions per common share decreased by Cdn$0.14 resulting in a payout ratio of 37.0% as compared to a payout ratio of 46.2% in the same period in 2018.

Cash available for distribution in the year ended December 31, 2019 (Cdn$27.5 million) decreased by Cdn$21.3 million compared to the cash available for distribution in the previous year (Cdn$48.8 million). On a per common share basis, cash available for distribution of Cdn$0.89 decreased by Cdn$0.69, or 43.7% from the previous year of Cdn$1.58. The distributions per common share decreased by Cdn$0.15 from Cdn$1.13 to Cdn$0.98 resulting in a payout ratio of 111.1% as compared to a payout ratio of 71.4% in 2018.

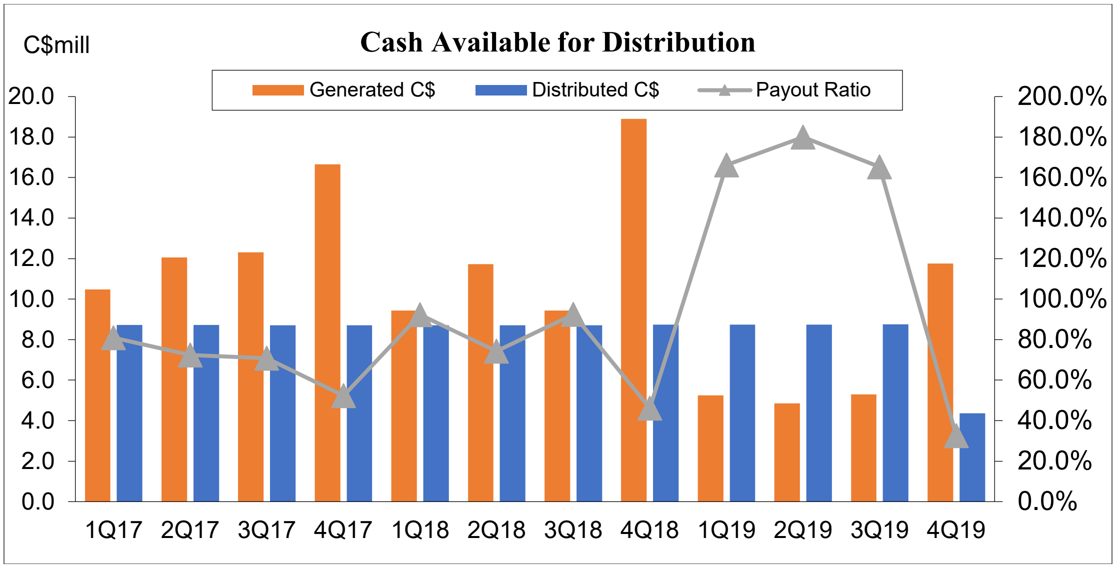
The Corporation's cash available for distribution comes solely from the Facilities. The following table provides a reconciliation of cash generated at the Facility level to the Corporation's cash available for distribution:

	Three Months Ended December 31, *(Unaudited)*		**Year Ended December 31,**	
In thousands of U.S. dollars	**2019**	**2018**	**2019**	**2018**
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization	33,385	34,001	100,238	107,718
Debt service costs:				
Interest	(1,501)	(1,220)	(6,037)	(4,665)
Repayment of non-revolving debt	(1,859)	(2,148)	(6,868)	(7,142)
Maintenance capital expenditures	(951)	(978)	(2,666)	(3,046)
Payment of lease liabilities	(3,506)	-	(11,936)	-
Non-cash loss (gain)	281	-	(987)	-
Difference between straight-line rent expense and actual payments made	-	209	-	903
Cash available for distribution at Facility level	25,849	29,864	71,744	93,768
Non-controlling interest in cash available for distribution at Facility level	(13,270)	(13,877)	(37,565)	(43,761)
Corporation's share of the cash available for distribution at Facility level	**12,579**	**15,987**	**34,179**	**50,007**
Corporate expenses	(1,361)	(886)	(5,920)	(5,350)
Interest expense on convertible debentures	(469)	(472)	(1,851)	(1,899)
Interest on corporate credit facility	(673)	(839)	(2,943)	(2,846)
Provision for current income taxes	(1,405)	284	(2,975)	(2,232)
Classification of cash as assets held for sale	260	-	260	-
Cash available for distribution	**8,931**	**14,074**	**20,750**	**37,680**

Compared to the three months ended December 31, 2018, the cash available for distribution for the three months ended December 31, 2019 in U.S. dollars decreased by $5.1 million or 36.5% because of lower cash available at the Facility level and higher current income tax.

Compared to the year ended December 31, 2018, the cash available for distribution for the year ended December 31, 2019 in U.S. dollars decreased by $16.9 million or 44.9% due mainly to lower cash available at the Facility level.

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 continues to develop its acquisition pipeline and 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 note (the interest paid by MFA on all debt, including the MFA promissory note, less its interest income) will be limited to 30% of adjusted taxable income, which generally represents EBITDA for the next two years (2020-2021), 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.

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:

In thousands of U.S. dollars	**December 31, 2019**	**December 31, 2018**
Cash and cash equivalents at Facility level	10,397	11,536
Cash and cash equivalents at corporate level	21,589	25,150
Cash and cash equivalents	**31,986**	**36,686**
Short-term investments	-	10,284
Cash and cash equivalents, including short-term investments	**31,986**	**46,970**

Cash Flow Activity

Cash Flow

	Year Ended December 31,			
In thousands of U.S. dollars	**2019**	**2018**	**$ Change**	**% Change**
Cash provided by operating activities	77,375	81,452	(4,077)	(5.0%)
Cash provided by (used in) investing activities	1,372	(64,683)	66,055	102.1%
Cash used in financing activities	(83,692)	(35,334)	(48,358)	(136.9%)
Decrease in cash and cash equivalents	**(4,945)**	**(18,565)**	**13,620**	**73.4%**
Effect of exchange rate fluctuations on cash balances held	505	(778)	1,283	164.9%
Classification of UMASH cash as assets held for sale	(260)	-	(260)	(100.0%)
Cash and cash equivalents, beginning of the period	36,686	56,029	(19,343)	(34.5%)
Cash and cash equivalents, end of the period	**31,986**	**36,686**	**(4,700)**	**(12.8%)**

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, 2019 decreased by $4.1 million compared to the same period in 2018, primarily due to lower income from Facilities and higher income taxes.

As at December 31, 2019, the Corporation had consolidated net working capital of $71.5 million compared to $33.2 million as at December 31, 2018. The change was mainly due to the impact of classifying UMASH and RRIMH as "Assets held for sale" in current assets and "Liabilities directly associated with assets held for sale" in current liabilities, and the redemption of convertible debentures upon maturity on December 31, 2019 which was partially funded by the draw on the corporate credit facility, partly offset by the impact of IFRS 16 which recognizes the current and long-term portions of lease liabilities. 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, 2019, accounts receivable were $66.5 million (December 31, 2018: $67.3 million), accounts payable and accrued liabilities totaled $41.4 million (December 31, 2018: $45.9 million), total assets were $470.5 million (December 31, 2018: $481.8 million) and total long-term liabilities, excluding exchangeable interest liability, were $189.9 million (December 31, 2018: $120.6 million).

Investing Activities

The $66.1 million decrease in cash used in investing activities for the year ended December 31, 2019 compared to the same period in 2018 was mainly due to the net investment in prior year in the MFC Nueterra ASCs ($40.8 million), the net redemption of interest bearing investments to redeem the convertible debentures in the current year ($11.6 million), lower purchases of property and equipment in the current year ($9.3 million), partial divestment of ownership interest in City Place Surgery Center in the current year ($4.6 million) and lower investment in UMASH in the current year ($3.0 million), partly offset by proceeds from the disposal of IMD assets in prior year ($3.1 million).

Financing Activities

The $48.4 million increase in cash used in financing activities for the year ended December 31, 2019 was mainly due to the redemption of convertible debentures upon maturity in 2019 ($32.1 million), decreased borrowings from revolving credit facilities and notes payable than prior year ($15.4 million), the reclassification from operating activities of payments of lease liabilities upon the adoption of IFRS 16 in the current year ($12.2 million), partly offset by decreases in dividends paid to shareholders and non-controlling interest ($8.8 million).

The Facilities have available credit facilities in place in the aggregate amount of $35.3 million, of which $10.5 million was drawn as at December 31, 2019. The balances available under the credit facilities, combined with cash and cash equivalents as at December 31, 2019, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements.

OSH was in violation of the financial covenant for its revolving credit facility as at December 31, 2019, and amended its credit agreement with the creditor prior to the issuance of financial statements, effective December 31, 2019. As a result of this covenant violation, the entire outstanding balance of OSH's revolving credit facility was classified as current liabilities as at December 31, 2019.

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, 2019, $84.8 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 ($48.8 million), and the acquisition of the MFC Nueterra ASCs ($20.0 million) in the first quarter of 2018. The proceeds drawn from the current credit facility were used in 2019 to repay in full the convertible debentures upon maturity ($16.0 million). As at December 31, 2019, the Corporation was in compliance with all of its debt covenants.

The Corporation's convertible debentures were denominated in Canadian dollars and were reflected in the financial statements in U.S. dollars at fair value at the rate of exchange in effect at the balance sheet date. The convertible debentures paid interest semi-annually in arrears on June 30 and December 31 of each year. On December 31, 2019, the Corporation repaid in full the principal amount and accrued interest for the convertible debentures in the amount of Cdn$43.0 million upon maturity.

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, 2019, are as follows:

		Future payments (including principal and interest)				
Contractual Obligations	**Carrying values at December 31, 2019 $**	**Total $**	**Less than 1 year $**	**1-3 years $**	**4-5 years $**	**After 5 years $**
Dividends payable	1,118	1,118	1,118	-	-	-
Accounts payable	23,601	23,601	23,601	-	-	-
Accrued liabilities	17,768	17,768	17,768	-	-	-
Income taxes payable	2,212	2,212	2,212	-	-	-
Corporate credit facility	84,800	96,460	2,120	7,420	86,920	-
Facilities' revolving credit facilities	10,503	10,602	10,602	-	-	-
Notes payable	56,082	64,212	10,484	18,786	13,130	21,812
Lease liabilities	67,381	90,878	11,229	22,703	19,697	37,249
Total contractual obligations	**263,465**	**306,851**	**79,134**	**48,909**	**119,747**	**59,061**

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, 2019:

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	300,000	C$12.79	June 24, 2019
Chief Development Officer	350,000	C$21.15	September 19, 2016
Former Chief Executive Officer	223,562	C$17.24	May 1, 2016
Former Chief Financial Officer	221,344	C$17.98	November 21, 2016
Total number of outstanding options	**1,894,906**		

Outstanding options (the "Options") will vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to a blackout extension term.

As at December 31, 2019, the Corporation had 31,106,259 common shares outstanding.

Normal Course Issuer Bids

The Corporation's normal course issuer bid allowing the Corporation to repurchase up to 621,144 of its common shares is in effect from May 16, 2019 to May 15, 2020. During the years ended December 31, 2019 and December 31, 2018, the Corporation did not repurchase any of its common shares.

Dividends

Dividend declarations are determined based on periodic 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 after considering (i) debt service obligations, (ii) other expense and tax obligations, (iii) reasonable reserves for working capital and capital expenditures, and (iv) financial flexibility. The Corporation has revised the distributions to a quarterly dividend at an annual rate of Cdn$0.28 per common share. Cash distributions declared in the period from January 1, 2019 to December 31, 2019 totaled Cdn$0.984 per common share.

This change in the dividend did not affect the monthly dividend declared on October 22, 2019 and paid on November 15, 2019. The first dividend payment under the new payout schedule was a prorated amount for a partial period from November 1, 2019 to December 31, 2019 and was paid on January 15, 2020. The first full quarterly dividend will be paid on April 15, 2020, subject to approval by the Board of Directors.

Payment date	Record date	Ex-dividend date	Amount per share
January 15, 2020	December 31, 2019	December 30, 2019	Cdn$ 0.04667
April 15, 2020	March 31, 2020	March 30, 2020	Cdn$ 0.07000

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 quarterly 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, 2019 consist of cash and cash equivalents, accounts receivable, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt and corporate credit facility) and exchangeable interest liability.

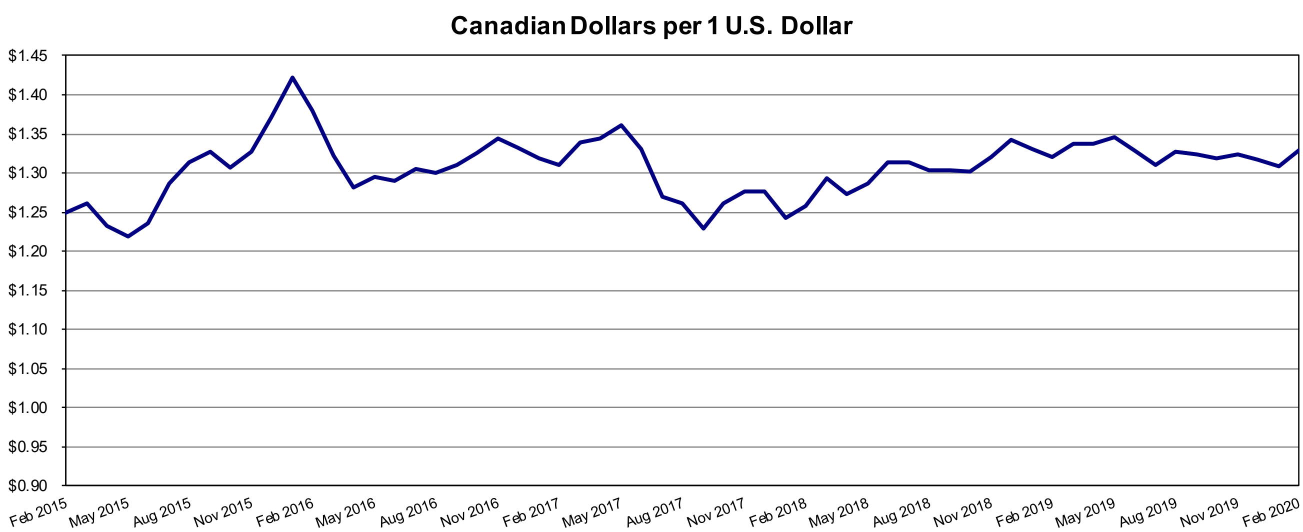
The fair value of the exchangeable interest liability is determined based on the closing trading price of the Corporation's common share price at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these 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 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 2015:



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, 2019, 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 until maturity 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, 2019 of $4.5 million (December 31, 2018: $4.5 million).

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, 2019, SFSH paid the South Dakota Interventional Pain Institute, LLC ("SDIPI") $0.2 million (December 31, 2018: $0.7 million) for the use of a facility and related equipment. As of December 31, 2019, SFSH had a balance payable to SDIPI of $1.0 million (December 31, 2018: nominal). For the year ended December 31, 2019, BHSH paid Mountain Plains Real Estate Holdings, LLC $0.2 million for the use of a facility (December 31, 2018: $0.2 million).

SFSH has a wholly-owned subsidiary 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:

In thousands of U.S. dollars		Year Ended December 31,	
Entity	**Nature of services or goods received**	**2019**	**2018**
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	4,545	5,523
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	1,547	1,446
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	1,279	1,005
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.	10,104	9,444
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	2,363	1,965
UMASH	Provision of physician professional services and billing services.	1,446	3,718
Total		**21,284**	**23,101**

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 21.26 to the annual financial statements details critical accounting judgments and estimates used in the preparation of the Corporation's financial statements.

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 calculated based on two approaches: 1) the estimated future cash flows, discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, and 2) the trailing twelve months and estimated future EBITDA multiplied by a market multiple relevant to the CGU. As a result, any impairment losses are a result of management's best estimates of expected revenues, expenses, cash flows, discount rates, and market multiples 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. 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, (ii) the fair value of convertible debentures outstanding, for December 31, 2018 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, 2019 and determined that there has been no impairment of non-financial assets, including goodwill and other intangibles. As at September 30, 2019, management recorded an impairment charge of $22.0 million for the MFC Nueterra ASCs CGU. As at June 30, 2019, management recorded an impairment charge of $29.5 million for the UMASH/RRIMH CGU. In the annual financial statements, this charge has been reported as part of the net income and net comprehensive income from the discontinued operations.

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.

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 ("COSO") 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, 2019, and has concluded that the design and effectiveness of these controls and procedures at December 31, 2019 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, 2019 using the COSO framework. Management has concluded that the overall design and effectiveness of these controls at December 31, 2019 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, 2019 and ended on December 31, 2019, 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 of business.

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"), represent expenditures that are required to maintain the productive capacity of the Facilities. Historically, such expenditures have represented on average 0.8% 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' information systems and applications also require continual maintenance, upgrading and enhancement to meet their operational needs. If the Facilities experience difficulties with the transition and integration of information systems or are unable to implement, maintain, or expand their systems properly, the Facilities could suffer from, among other things, operational disruptions, regulatory problems and increases in administrative expenses. 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 data breach.

The preventive actions taken to reduce the risk of such incidents and protect information and technology resources may not be sufficient. In general, Facilities' information systems are vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, human acts, break-ins and similar events.

Facilities' business is at risk from and may be impacted by information security incidents, including ransomware, malware, phishing, social engineering, and other security events. Such incidents can range from individual attempts to gain unauthorized access to information technology systems to more sophisticated security threats. These events can also result from internal compromises, such as human error or malicious acts. These events can occur on Facilities' systems or on the systems of their partners and subcontractors. Problems with, or the failure of, Facilities' technology and systems or any system upgrades or programming changes associated with such technology and systems could have a material adverse effect on Facilities' operations, patient care, data capture, medical documentation, billing, collections, assessment of internal controls and management and reporting capabilities.

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. 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 harm to patients or 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 many require evacuation of one or more Facilities, which would be costly and would involve risks for the patients.

Pandemics, Epidemics and Other Outbreaks

The Corporation's and Facilities' operations and financial results could potentially be impacted by a pandemic, epidemic or outbreak of a contagious disease in the markets in which they operate. Additionally, a pandemic, epidemic or outbreak of a contagious disease could affect the business operations of Facilities' supply chain, resulting in shortages of drugs and supplies.

An outbreak of a contagious disease could diminish the public's trust in Facilities, especially if a Facility were to fail to accurately or timely diagnose patients affected by such a disease. If any of the Facilities were involved in treating patients for such a contagious disease, other patients might cancel or defer elective procedures or otherwise avoid medical treatment, resulting in reduced patient volumes and operating revenues.

While the current coronavirus (COVID-19) outbreak is presently not affecting the Corporation's and Facilities' operations, an outbreak in one of the communities in which the Facilities operate could potentially necessitate the temporary closure of one or more of Facilities. Furthermore, the treatment of someone presenting symptoms of COVID-19 at a Facility may result in a temporary shutdown, the diversion of patients or staffing shortages.

Management cannot presently estimate the overall operational and financial impact that such an outbreak and facility closure(s) could have on the Corporation's results. Any potential long-term effect of the COVID-19 outbreak on business operations, financial and stock price performance, strategy, capital allocation and risk mitigation remains to be seen.

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 26.1% and 87.6% 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.

Non-compete agreements executed by physician owners of the non-controlling interests in the Facilities may not be enforceable. This 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; and

(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, or in connection with future financing or acquisitions by the Corporation. 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 five 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. 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 tax rate of 21% and is also subject to certain U.S. state and local taxes (which will not be addressed herein). MFA will claim certain deductions, including an interest deducted related to the interest paid on its debt and interest arising on other debt in the consolidated group, to the extent allowed by law, in computing its taxable income for U.S. federal income tax purposes.

Pursuant to the U.S. federal tax law changes enacted on December 21, 2017 (Public law no. 115-97, more commonly known by the name of "The Tax Cuts and Jobs Act"), a number of changes effective from 2018 onward could, 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, there are restrictions on the deductibility of interest, generally limiting such deductibility to 30% of "adjusted taxable income", although disallowed interest can be carried forward for future years. There are also 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 indefinitely). 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", and 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 reduce 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, 2019.

IFRS 16, *Leases*

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16, which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right of use asset on the consolidated balance sheet. There are minimal changes to lessor accounting.

The Corporation has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated, and it is presented, as previously reported, under IAS 17, *Leases* ("IAS 17") and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a Lease

Previously, the Corporation determined at contract inception whether an arrangement was or contained a lease under IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"). The Corporation now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for considerations.

On transition to IFRS 16, the Corporation elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

Lessee Accounting

The Facilities' lease assets include premises, medical equipment and office equipment. The Corporation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Corporation recognizes right-of-use assets and lease liabilities for most leases, except for those leases that are of low value (such as certain office equipment) and operating leases for which the lease term ends within 12 months of the date of initial application of IFRS 16. The Corporation recognizes the payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant Accounting Policies

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Corporation has applied judgment to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Corporation is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Significant Accounting Policies – Transition

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any deferred rent payments.

The Corporation used the following practical expedients when applying IFRS 16:

- exclude certain operating leases for which the lease term ends within 12 months of the date of initial application of IFRS 16;
- exclude certain low-value leases from IFRS 16;
- 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.

Summary of Impacts

In thousands of U.S. dollars	**January 1, 2019**
Right-of-use assets	63,278
Property and equipment	(881)
Deferred rent liabilities	(3,080)
Long-term debt	(905)
Lease liabilities	66,358

In relation to the leases under IFRS 16, the Corporation recognized depreciation and interest expenses, instead of operating lease expense. As a result, during the year ended December 31, 2019, the Corporation recognized \$7.3 million of incremental depreciation expense and \$3.2 million of incremental interest expense, while general and administrative expenses were lower by \$10.9 million as the Corporation no longer records lease expenses in general and administrative expenses. Notes 7 and 18 of the annual financial statements detail the lease-related balances, including lease liabilities and right-of-use assets.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* ("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 Corporation has adopted IFRIC 23, with no material impacts on the consolidated financial statements.

17. NEW AND REVISED IFRS NOT YET ADOPTED

There are no relevant new and revised IFRS that have been issued but are not yet effective, and not yet adopted by the Corporation.