MEDICAL FACILITIES CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

August 12, 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 unaudited interim condensed consolidated financial statements and accompanying notes (the "financial statements") of the Corporation for the three and six months ended June 30, 2020, which have been prepared in accordance with IAS 34 *Interim Financial Reporting*, 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"), and the Corporation's annual MD&A for the year ended December 31, 2019 ("annual MD&A").

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: the duration and impact of the novel coronavirus ("COVID-19") on the Corporation's financial position and operations, 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 the annual 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, payments on lease liabilities, 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 impairment of goodwill and transaction costs on the sale of controlling interest in Unity Medical and Surgical Hospital ("UMASH").

- **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. The Corporation's current quarterly dividend on its common shares is Cdn$0.07 per 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 retaining approval rights over certain significant governance matters, and derives substantially all of its income from, 11 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 11 Facilities are comprised of four SSHs located in Arkansas, 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.

The Corporation also owns a 92% controlling interest in RRI Mishawaka Hospital, LP ("RRIMH"), which owned the real estate assets underlying UMASH until their sale on June 30, 2020, as described below. The entity does not own any other assets and will be wound up.

COVID-19

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. The outbreak began to impact the Corporation's and Facilities' operations in the latter half of March 2020. All Facilities were impacted by the pandemic as elective cases were restricted, either voluntarily or by government mandate, including the temporary closure of three of the MFC Nueterra ASCs, which reopened in May 2020. Management expects the patient volumes and revenues to be negatively impacted until the effects of the pandemic begin to subside and the economy begins to stabilize.

Management believes the extent of the COVID-19 pandemic's adverse impact on the Corporation's operating results and financial condition will be driven by many factors, most of which are beyond management's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of past and potential future stay-at-home policies and business closures, continued decreases in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure. Because of these and other uncertainties, management cannot estimate the length or severity of the impact of the pandemic on the business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including management's assessment of future compliance with financial covenants, estimated implicit price concessions related to uninsured patient accounts, professional and general liability reserves, and potential impairments of goodwill and long-lived assets.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (the "CARES Act" or the "Act") was signed into law on March 27, 2020. The Act includes provisions for financial assistance to hospitals, surgery centers and health care providers via, among other provisions, the Public Health and Social Services Emergency Fund ("PHSSEF"), the Paycheck Protection Program ("PPP") and expansion of an existing Centers for Medicare and Medicaid Services accelerated payment program.

The PHSSEF is administered by the Department of Health and Human Services ("HHS") to provide eligible healthcare providers with relief funds to cover non-reimbursable expenses, including lost revenue, attributable to COVID-19. Funds not utilized for eligible expenses must be returned. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to coronavirus and shall reimburse the recipient only for healthcare related expenses or lost revenues that are attributable to coronavirus, and receipt of the funds. The Facilities received $11.1 million in total funding from the HHS as of June 30, 2020, and recognized $8.6 million in revenue as government stimulus income for the three months ended June 30,

2020. The remaining amount of $2.5 million is expected to be repaid, and was recorded as a liability as of June 30, 2020.

The PPP expands the guaranteed lending program under Section 7(a) of the Small Business Act administered by the US Small Business Administration ("SBA"). Under the PPP, certain Facilities have received $12.2 million and recognized $12.0 million as government stimulus income for the three months ended June 30, 2020. The remaining amount of $0.3 million is expected to be recognized as income in the following quarter. The loan amounts received are eligible for forgiveness to the extent they are used for certain qualifying expenses and to maintain payroll levels and related expenses during the 8-week period (extended to 24 weeks) following loan origination. Despite recognizing the PPP income in the period based on reasonable assurance that the Facilities have met the requirements for forgiveness, there is some uncertainty over the final outcome as applications for forgiveness of the PPP loans must still be formally submitted and approved subsequent to June 30, 2020.

Under the expansion of the Medicare Accelerated and Advance Payment Program most providers and suppliers can request an advance of three to six months of Medicare payments. Repayment of these accelerated/advance payments begins 120 days after issuance and will be offset against future Medicare claims. Certain Facilities have received net advances of $23.3 million, and recorded all in payor advances and government stimulus funds repayable as at June 30, 2020.

In addition to the CARES Act, the Families First Coronavirus Response Act ("FFCRA") was signed into law on March 18, 2020. This program mandates COVID-19 related family medical and paid sick leaves for employees and provides tax credits to reimburse employers for both sick leave and family medical leave. Certain Facilities have qualified for the tax credits and recorded government stimulus income of $0.6 million for the three months ended June 30, 2020.

There is uncertainty regarding the implementation and impact of the CARES Act and other existing or future stimulus legislation, if any. There can be no assurance as to the total amount of financial assistance or types of assistance the Corporation will receive, that the Corporation will be able to comply with the applicable terms and conditions to retain such assistance, that the Corporation will be able to benefit from provisions intended to increase access to resources and ease regulatory burdens for health care providers or that additional stimulus legislation will be enacted.

Sale of Controlling Interest in UMASH

On February 24, 2020, the Corporation sold the majority of its interest (decreasing to 31.7% from 87.6%) in 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. As of the date of the transaction, the Corporation no longer consolidates the financial results of UMASH and accounts for its interest under the equity method of accounting.

The Corporation received $1.1 million in cash consideration for its equity interests, subject to customary adjustments. In connection with the transaction, the loan receivable by the Corporation from UMASH ("loan receivable") was reduced by $3.0 million, with the remaining $20.0 million structured on a five-year term at an interest rate of 6.75%, adjusted annually, 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 Buyers and the Corporation made capital contributions to fund working capital post-closing; the Corporation's total obligation is approximately $1.4 million, of which $0.8 million has been funded.

On June 30, 2020, the Corporation sold the real estate assets underlying UMASH to investors affiliated with the Buyers for net proceeds of $24.7 million and recorded a receivable for this amount as at June 30, 2020. Subsequently, upon receipt, the net proceeds from the sale were used to reduce the outstanding balance on the Corporation's operating credit facility.

In connection with the combined transactions of sale of controlling interest and real estate assets, the Corporation recorded a gain on sale of $8.2 million, which was offset by an impairment loss reserved on the loan receivable. During the three months ended June 30, 2020, the Corporation recorded an impairment gain on the loan receivable of $0.7 million. The Corporation also incurred transaction costs of $0.5 million, which are included in general and administrative expenses from continuing operations.

Other Information

On June 30, 2020, the operations of an urgent care centre affiliated with Arkansas Surgical Hospital, LLC located in Sherwood, Arkansas were shut down. As a result of this closure, the Corporation recorded a $0.4 million pre-tax loss on impairment of leasehold improvement assets (part of property and equipment) and the right-of-use asset on its premises lease. This loss is included in general and administrative expenses from continuing operations.

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 June 30, 2020

	Arkansas Surgical Hospital (“ASH”)	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	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California	Six locations[3]
Year Opened	2005	1999	1997	1985	2004	1997-2006
Year Acquired by the Corporation	2012	2005	2004	2004	2008	2018
Ownership Interest	51.0%	64.0%	54.2%	51.0%	51.0%	29-56%[3]
Non-controlling Interest	49.0%	36.0%	45.8%	49.0%	49.0%	71-44%[3]
Exchangeable Interest	5.0%	1.0%	10.8%	14.0%	-	-
Size	126,000 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	7/2	11[2]	15	2/1	16/6
Overnight Rooms	41[1]	25	26	33	-	-

[1] *Licensed for 49 beds.*

[2] *Licensed for 12 rooms.*

[3] *Through the MFC Nueterra Partnership, the Corporation owns indirect interests between approximately 29% to 56% in six ASCs, situated in Michigan, Missouri, Nebraska, Ohio, Oregon and Pennsylvania.*

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

Unaudited	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
In thousands of U.S. dollars, except per share amounts and as indicated otherwise	**2020**	**2019** [1]	**2020**	**2019** [1]
Facility service revenue	67,659	94,230	160,421	187,613
Government stimulus income	21,145	-	21,145	-
Total revenue and other income	88,804	94,230	181,566	187,613
Operating expenses	71,218	81,461	152,945	162,005
Income from operations	17,586	12,769	28,621	25,608
Net income for the period from continuing operations	7,377	22,921	21,984	20,246
Attributable to:				
Owners of the Corporation [2]	241	18,555	9,664	10,348
Non-controlling interest [2]	7,136	4,366	12,320	9,898
Net income (loss) for the period from discontinued operations, net of tax	93	(26,421)	(1,739)	(29,029)
Earnings per share from continuing operations attributable to owners of the Corporation				
Basic	$0.01	$0.60	$0.31	$0.33
Fully diluted	$0.01	$0.14	$0.30	$0.20
EBITDA [3]	24,603	20,526	42,711	41,243
Adjusted EBITDA [3]	24,603	20,526	43,161	41,243
Cash available for distribution [3] [4]	C$ 8,225	C$ 4,872	C$ 17,056	C$ 10,127
Distributions [3]	C$ 2,178	C$ 8,739	C$ 4,355	C$ 17,473
Cash available for distribution per common share [3] [4]	C$ 0.264	C$ 0.157	C$ 0.548	C$ 0.326
Distributions per common share [3]	C$ 0.070	C$ 0.281	C$ 0.140	C$ 0.562
Payout ratio [3] [4]	26.5%	179.0%	25.5%	172.4%

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

(2) Net *income from continuing operations attributable to owners of the Corporation fluctuates significantly between the periods due to variations in finance costs, primarily in the value of exchangeable interest liability and, until December 31, 2019, in the value of convertible debentures, impairment gains recorded on the loan receivable, and income taxes. These charges are incurred at the corporate level rather than at Facility level. On the other hand, net 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 for the period from continuing operations to EBITDA and Adjusted 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 Three Months Ended June 30, 2020 Compared to the Three Months Ended June 30, 2019

For the three months ended June 30, 2020, total revenue and other income from continuing operations was $88.8 million, a decrease of 5.8% from $94.2 million for the same period in 2019. Facility service revenue from continuing operations of $67.7 million decreased by 28.2% from $94.2 million for the same period in 2019, primarily due to a decline in case volume as a result of the COVID-19 pandemic which forced the Facilities to reduce their elective surgeries or temporarily cease operations in April 2020. This was partly offset by the recognition of government stimulus income of $21.1 million. EBITDA was $24.6 million or 27.7% of total revenue and other income from continuing operations compared to $20.5 million or 21.8% of total revenue and other income from continuing operations for the same period last year, due to lower operating expenses stemming mainly from fewer surgical cases which offset the decrease in revenue. Net income for the period from continuing operations was $7.4 million compared to net income of $22.9 million for the same period in

2019, with the decrease mainly attributable to 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"). Net income for the period from discontinued operations, net of tax, was $0.1 million compared to net loss of $26.4 million for the same period in 2019, mainly due to the 2019 impairment charge in the UMASH/RRIMH cash-generating unit.

The Corporation generated cash available for distribution of Cdn$8.2 million, representing an increase of Cdn$3.3 million or 68.8% from Cdn$4.9 million for the same period in the prior year. Distributions per common share decreased between the years by Cdn$0.211 to Cdn$0.070, while the payout ratio was 26.5% for this period compared to 179.0% for the three months ended June 30, 2019. 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 Six Months Ended June 30, 2020 Compared to the Six Months Ended June 30, 2019

For the six months ended June 30, 2020, total revenue and other income from continuing operations was $181.6 million, a decrease of 3.2% from $187.6 million for the same period in 2019. Facility service revenue from continuing operations of $160.4 million decreased by 14.5% from $187.6 million for the same period in 2019, primarily due to a decline in case volume as a result of the COVID-19 pandemic which forced the Facilities to reduce their elective surgeries or temporarily cease operations in the second half of March and the month of April 2020. This was partly offset by the recognition of government stimulus income of $21.1 million. EBITDA was $42.7 million or 23.5% of total revenue and other income from continuing operations compared to $41.2 million or 22.0% of total revenue and other income from continuing operations for the same period last year due to lower operating expenses that offset a decrease in revenue. Excluding the impact of transaction costs on the sale of controlling interest in UMASH, Adjusted EBITDA was $43.2 million or 23.8% of total revenue and other income from continuing operations. Net income for the period from continuing operations was $22.0 million compared to net income of $20.2 million for the same period in 2019, with the increase mainly attributable to higher income from operations and lower income taxes, partly offset by higher finance costs. Net loss for the period from discontinued operations, net of tax, was $1.7 million compared to $29.0 million for the same period in 2019, mainly due to the 2019 impairment charge in the UMASH/RRIMH cash-generating unit.

The Corporation generated cash available for distribution of Cdn$17.1 million, representing an increase of Cdn$7.0 million or 68.4% from Cdn$10.1 million for the same period in the prior year. Distributions per common share decreased between the years by Cdn$0.422 to Cdn$0.140, while the payout ratio was 25.5% for this period compared to 172.4% for the six months ended June 30, 2019. 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

Continuing Operations for the Three Months Ended June 30, 2020

The following table and discussion compare operating and financial results from continuing operations of the Corporation for the three months ended June 30, 2020 to the three months ended June 30, 2019.

Unaudited	**Three Months Ended June 30,**			
In thousands of U.S. dollars, except per share amounts	**2020**	**2019**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	67,659	94,230	(26,571)	(28.2%)
Government stimulus income	21,145	-	21,145	100.0%
	88,804	**94,230**	**(5,426)**	**(5.8%)**
Operating expenses				
Salaries and benefits	26,794	28,396	(1,602)	(5.6%)
Drugs and supplies	22,910	30,613	(7,703)	(25.2%)
General and administrative expenses	14,497	14,695	(198)	(1.3%)
Depreciation of property and equipment	2,469	2,278	191	8.4%
Depreciation of right-of-use assets	2,521	2,749	(228)	(8.3%)
Amortization of other intangibles	2,027	2,730	(703)	(25.8%)
	71,218	**81,461**	**(10,243)**	**(12.6%)**
Income from operations	**17,586**	**12,769**	**4,817**	**37.7%**
Finance costs (income)				
Change in value of convertible debentures	-	554	(554)	(100.0%)
Change in value of exchangeable interest liability	5,549	(21,348)	26,897	126.0%
Interest expense on exchangeable interest liability	686	1,796	(1,110)	(61.8%)
Interest expense, net of interest income	915	2,146	(1,231)	(57.4%)
Impairment gain on loan receivable	(681)	-	(681)	(100.0%)
Gain on foreign currency	(19)	(154)	135	87.7%
	6,450	**(17,006)**	**23,456**	**137.9%**
Share of equity loss in associates	476	102	374	366.7%
Income before income taxes	**10,660**	**29,673**	**(19,013)**	**(64.1%)**
Income tax expense	3,283	6,752	(3,469)	(51.4%)
Net income for the period from continuing operations	**7,377**	**22,921**	**(15,544)**	**(67.8%)**
Attributable to:				
Owners of the Corporation	241	18,555	(18,314)	(98.7%)
Non-controlling interest	7,136	4,366	2,770	63.4%
Basic earnings per share attributable to owners of the Corporation	$0.01	$0.60	(0.59)	(98.3%)
Fully diluted earnings per share attributable to owners of the Corporation	$0.01	$0.14	(0.13)	(92.9%)
Reconciliation of net income for the period from continuing operations to EBITDA [(1)]				
Net income for the period from continuing operations	7,377	22,921	(15,544)	(67.8%)
Income tax expense	3,283	6,752	(3,469)	(51.4%)
Share of equity loss in associates	476	102	374	366.7%
Finance costs (income)	6,450	(17,006)	23,456	137.9%
Depreciation of property and equipment	2,469	2,278	191	8.4%
Depreciation of right-of-use assets	2,521	2,749	(228)	(8.3%)
Amortization of other intangibles	2,027	2,730	(703)	(25.8%)
EBITDA [(1)]	**24,603**	**20,526**	**4,077**	**19.9%**

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

Revenue and Other Income

Unaudited	Three Months Ended June 30,			
In thousands of U.S. dollars	**2020**	**2019**	**$ Change**	**% Change**
ASH	17,974	16,810	1,164	6.9%
OSH	18,372	17,841	531	3.0%
BHSH	18,606	22,441	(3,835)	(17.1%)
SFSH	25,514	26,333	(819)	(3.1%)
SCNC	1,598	2,021	(423)	(20.9%)
MFC Nueterra ASCs	6,740	8,784	(2,044)	(23.3%)
Total revenue and other income	**88,804**	**94,230**	**(5,426)**	**(5.8%)**

For the three months ended June 30, 2020, total revenue and other income decreased from the same period in 2019 by $5.4 million or 5.8%. Facility service revenue decreased by $26.6 million or 28.2%. The decrease was primarily attributable to the decline in case volume ($31.0 million) as a result of the COVID-19 pandemic, stemming from the reduction of elective procedures and in some cases temporary closure of operations or discontinuation of elective cases beginning in the first month of the quarter. This was partly offset by government stimulus income ($21.1 million) and the combined impact of case and payor mix ($4.4 million).

Total surgical cases decreased by 38.0%, as outpatient cases decreased by 42.5%, inpatient cases decreased by 25.2%, and observation cases decreased by 20.1%. MFC Nueterra ASCs, SFSH and BHSH experienced the largest declines. Surgical case volume decline by payor compared to the same period last year came predominantly from Medicare and Blue Cross/Blue Shield, which decreased by 41.4% and 35.2%, respectively. Pain cases were down by 27.0% compared to the same period last year.

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

- ASH's revenue increased mainly due to the recognition of government stimulus income and case mix driven by a higher portion of surgical volume related to orthopedics cases, partly offset by lower case volume from the impact of the COVID-19 pandemic, which had the most impact in the first half of the quarter.

- OSH's revenue increased due to the recognition of government stimulus income, mostly offset by the slowdown in April 2020 as a result of the COVID-19 pandemic and lower average revenue per case because of lower contractual recovery rates on larger surgical cases compared to prior periods.

- BHSH's revenue decreased due to lower case volume as a result of discontinuing elective cases in April 2020 as a result of the COVID-19 pandemic, partly offset by the recognition of government stimulus income and case mix with a higher portion of neurology procedures.

- SFSH's revenue decreased due to lower case volume from discontinuing elective cases in April and the first half of May 2020 as a result of the COVID-19 pandemic. This was partly offset by the recognition of government stimulus income and the impact of payor mix, with a higher portion of commercial cases.

- SCNC's revenue decreased mainly due to the slowdown from the COVID-19 pandemic, partly offset by the recognition of government stimulus income.

- The MFC Nueterra ASCs' revenue decreased mainly due to the volume impact of the COVID-19 pandemic as certain ASCs were mandated to be temporarily closed as part of local state-wide lockdowns, partly offset by the impact of case mix with a higher portion of neurology procedures, and the recognition of government stimulus income.

Operating Expenses

For the three months ended June 30, 2020, 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 $10.2 million or 12.6% from the same period in the prior year to $71.2 million. As a percentage of total revenue and other income, operating expenses decreased to 80.2% from 86.4% in the same period a year earlier.

Unaudited	Three Months Ended June 30,					
In thousands of U.S. dollars	**2020**	**Percentage of Revenue**	**2019**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	11,958	66.5%	13,680	81.4%	(1,722)	(12.6%)
OSH	15,784	85.9%	16,940	94.9%	(1,156)	(6.8%)
BHSH	14,393	77.4%	17,401	77.5%	(3,008)	(17.3%)
SFSH	18,090	70.9%	19,301	73.3%	(1,211)	(6.3%)
SCNC	1,319	82.5%	1,604	79.4%	(285)	(17.8%)
MFC Nueterra ASCs	4,990	74.0%	7,474	85.1%	(2,484)	(33.2%)
Corporate	4,684	n/a	5,061	n/a	(377)	(7.4%)
Operating expenses	**71,218**	**80.2%**	**81,461**	**86.4%**	**(10,243)**	**(12.6%)**

Consolidated salaries and benefits decreased by $1.6 million or 5.6%, primarily due to the separation costs for the former Chief Financial Officer in the prior year ($1.1 million), as well as reduced case volume resulting from the COVID-19 pandemic, partly offset by guaranteed scheduled hours for staff at certain Facilities in order to maintain staffing levels as facilitated by the PPP program ($0.9 million). The decrease was also offset by higher benefit costs resulting from increased utilization ($0.4 million). As a percentage of total revenue and other income, consolidated salaries and benefits increased to 30.2% from 30.1% a year earlier.

Consolidated drugs and supplies decreased by $7.7 million or 25.2%, primarily driven by lower case volume ($7.0 million) and cost reduction initiatives for implant costs at OSH ($0.9 million). As a percentage of total revenue and other income, the consolidated cost of drugs and supplies decreased to 25.8% from 32.5% a year earlier.

Consolidated G&A decreased by $0.2 million or 1.3%. The decrease was mainly attributable to lower costs for contracted services ($0.5 million), marketing and advertising ($0.4 million), professional services ($0.2 million) and repairs and maintenance ($0.2 million), partly offset by higher share-based compensation expenses due to an increase in the Corporation's share price ($0.7 million) and an impairment charge on fixed assets and right-of-use asset recorded upon shutdown of the ASH urgent care operations in Sherwood, Arkansas ($0.4 million). As a percentage of total revenue and other income, consolidated G&A increased to 16.3% from 15.6% a year earlier.

Consolidated depreciation of property and equipment increased by $0.2 million or 8.4%, primarily due to acquisition of fixed assets, partly offset by certain assets being fully depreciated, as well as the impact of the sale of Central Arkansas Surgical Center in December 2019. As a percentage of total revenue and other income, consolidated depreciation of property and equipment increased to 2.8% from 2.4% a year earlier.

Consolidated depreciation of right-of-use assets decreased by $0.2 million or 8.3%, due to termination and modification of certain leases, including the sale of Central Arkansas Surgical Center in December 2019. As a percentage of total revenue and other income, consolidated depreciation of right-of-use assets decreased to 2.8% from 2.9% a year earlier.

Consolidated amortization of other intangibles decreased by $0.7 million or 25.8%, mainly due to certain intangibles being fully amortized, as well as the sale of Central Arkansas Surgical Center in December 2019. As a percentage of total revenue and other income, consolidated amortization of other intangibles decreased to 2.3% from 2.9% a year earlier.

Income from Operations

Consolidated income from operations for the three months ended June 30, 2020 of $17.6 million was $4.8 million or 37.7% higher than consolidated income from operations of $12.8 million, recorded in the same period a year earlier, representing 19.8% of revenue and other income, compared to 13.6% in the same period in 2019. The increase is mainly the result of higher income from operations at most Facilities, in which government stimulus income and lower operating expenses offset the decline in facility service revenue.

Unaudited	Three Months Ended June 30,					
In thousands of U.S. dollars	**2020**	**Percentage of Revenue**	**2019**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	6,016	33.5%	3,130	18.6%	2,886	92.2%
OSH	2,588	14.1%	901	5.1%	1,687	187.2%
BHSH	4,213	22.6%	5,040	22.5%	(827)	(16.4%)
SFSH	7,424	29.1%	7,032	26.7%	392	5.6%
SCNC	279	17.5%	417	20.6%	(138)	(33.1%)
MFC Nueterra ASCs	1,750	26.0%	1,310	14.9%	440	33.6%
Corporate	(4,684)	n/a	(5,061)	n/a	377	7.5%
Income from operations	**17,586**	**19.8%**	**12,769**	**13.6%**	**4,817**	**37.7%**

Finance Costs (Income)

Change in Value of Convertible Debentures

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

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

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

In thousands of U.S. dollars, except as indicated otherwise	**June 30, 2019** *Unaudited*	**March 31, 2019** *Unaudited*	**Change**
Face value of convertible debentures outstanding	C$41,743	C$41,743	C$ -
Closing price of convertible debentures outstanding	C$100.99	C$101.20	(C$0.21)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3093	$1.3350	($0.0257)
Market value of convertible debentures outstanding	**32,198**	**31,643**	**554**

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	**June 30, 2020** *Unaudited*	**March 31, 2020** *Unaudited*	**Change**	**June 30, 2019** *Unaudited*	**March 31, 2019** *Unaudited*	**Change**
Number of common shares to be issued for exchangeable interest liability	6,421,383	6,036,654	384,729	6,002,516	5,953,765	48,751
Closing price of the Corporation's common shares	C$4.34	C$3.49	C$0.85	C$12.39	C$17.63	(C$5.24)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3576	$1.4065	($0.0489)	$1.3093	$1.3350	($0.0257)
Exchangeable interest liability	**20,528**	**14,979**	**5,549**	**56,802**	**78,625**	**(21,823)**
Exercise of exchangeable rights by non-controlling interests			-			475
Change in value of exchangeable interest liability			**5,549**			**(21,348)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $1.1 million, which was primarily driven by the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income, from continuing operations decreased by $1.2 million mainly due to the repayment of the convertible debentures on December 31, 2019, the reduction in interest rates of credit facilities and other debt, and interest income from the loan receivable.

Impairment Gain on Loan Receivable

Impairment gain on loan receivable totalled $0.7 million for the period, as a result of recalculating the impairment loss allowance reserved on the loan receivable from UMASH. Refer to Section 13 under the heading "Allowance for Loan Receivable" for a discussion on the calculation methodology.

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, until their maturity on December 31, 2019, are made in Canadian dollars. Foreign currency gains decreased by $0.1 million compared to the same period in 2019, due to the relative change in foreign exchange rates.

Share of Equity Loss in Associates

The Corporation's share of loss in associates accounted for using the equity method increased by $0.4 million compared to the same period in 2019. The increase is mainly due to the Corporation's pick-up of the net loss from UMASH.

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 June 30,			
In thousands of U.S. dollars	**2020**	**2019**	**$ Change**	**% Change**
Current income tax expense	2,978	2,094	884	42.2%
Deferred income tax expense	305	4,658	(4,353)	(93.5%)
Income tax expense	**3,283**	**6,752**	**(3,469)**	**(51.4%)**

The increase in current income tax expense versus last year was primarily due to higher U.S. current taxes stemming from increased Facility income. The decrease in deferred income tax expense versus prior year was mainly due to the impact of the change in exchangeable interest liability.

Net Income from Continuing Operations

The $15.5 million decrease in net income for the period from continuing operations was mainly attributable to higher finance costs, including the change in the value of exchangeable interest liability versus the prior year (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability"), partly offset by higher income from operations and lower income tax expense.

EBITDA

EBITDA of $24.6 million increased by $4.1 million from $20.5 million recorded a year earlier, representing 27.7% of revenue and other income compared to 21.8% a year earlier, mainly driven by higher EBITDA at most Facilities including ASH, OSH, SFSH and MFC Nueterra ASCs, as the government stimulus income and lower operating expenses offset the reduction in facility service revenue as a result of the COVID-19 pandemic. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the period from continuing operations to EBITDA and Adjusted EBITDA."

Continuing Operations for the Six Months Ended June 30, 2020

The following table and discussion compare operating and financial results from continuing operations of the Corporation for the six months ended June 30, 2020 to the six months ended June 30, 2019.

Unaudited	Six Months Ended June 30,			
In thousands of U.S. dollars, except per share amounts	**2020**	**2019**	**$ Change**	**% Change**
Revenue and other income				
Facility service revenue	160,421	187,613	(27,192)	(14.5%)
Government stimulus income	21,145	-	21,145	100.0%
	181,566	**187,613**	**(6,047)**	**(3.2%)**
Operating expenses				
Salaries and benefits	55,381	56,484	(1,103)	(2.0%)
Drugs and supplies	53,325	60,754	(7,429)	(12.2%)
General and administrative expenses	30,149	29,132	1,017	3.5%
Depreciation of property and equipment	4,952	5,411	(459)	(8.5%)
Depreciation of right-of-use assets	5,090	4,647	443	9.5%
Amortization of other intangibles	4,048	5,577	(1,529)	(27.4%)
	152,945	**162,005**	**(9,060)**	**(5.6%)**
Income from operations	**28,621**	**25,608**	**3,013**	**11.8%**
Finance costs				
Change in value of convertible debentures	-	1,566	(1,566)	(100.0%)
Change in value of exchangeable interest liability	(1,478)	(8,555)	7,077	82.7%
Interest expense on exchangeable interest liability	2,593	3,736	(1,143)	(30.6%)
Interest expense, net of interest income	2,351	4,095	(1,744)	(42.6%)
Impairment gain on loan receivable	(681)	-	(681)	(100.0%)
Loss (gain) on foreign currency	15	(388)	403	103.9%
	2,800	**454**	**2,346**	**516.7%**
Share of equity loss in associates	934	101	833	824.8%
Income before income taxes	**24,887**	**25,053**	**(166)**	**(0.7%)**
Income tax expense	2,903	4,807	(1,904)	(39.6%)
Net income for the period from continuing operations	**21,984**	**20,246**	**1,738**	**8.6%**
Attributable to:				
Owners of the Corporation	9,664	10,348	(684)	(6.6%)
Non-controlling interest	12,320	9,898	2,422	24.5%
Basic earnings per share attributable to owners of the Corporation	$0.31	$0.33	(0.02)	(6.1%)
Fully diluted earnings per share attributable to owners of the Corporation	$0.30	$0.20	0.10	50.0%
Reconciliation of net income for the period from continuing operations to EBITDA and Adjusted EBITDA [(1)]				
Net income for the period from continuing operations	21,984	20,246	1,738	8.6%
Income tax expense	2,903	4,807	(1,904)	(39.6%)
Share of equity loss in associates	934	101	833	824.8%
Finance costs	2,800	454	2,346	516.7%
Depreciation of property and equipment	4,952	5,411	(459)	(8.5%)
Depreciation of right-of-use assets	5,090	4,647	443	9.5%
Amortization of other intangibles	4,048	5,577	(1,529)	(27.4%)
EBITDA [(1)]	**42,711**	**41,243**	**1,468**	**3.6%**
Transaction costs on sale of UMASH	450	-	450	100.0%
Adjusted EBITDA [(1)]	**43,161**	**41,243**	**1,918**	**4.7%**

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

Revenue and Other Income

Unaudited	Six Months Ended June 30,			
In thousands of U.S. dollars	2020	2019	$ Change	% Change
ASH	35,473	33,404	2,069	6.2%
OSH	36,382	34,224	2,158	6.3%
BHSH	41,115	45,723	(4,608)	(10.1%)
SFSH	53,000	53,685	(685)	(1.3%)
SCNC	3,030	3,703	(673)	(18.2%)
MFC Nueterra ASCs	12,566	16,874	(4,308)	(25.5%)
Total revenue and other income	**181,566**	**187,613**	**(6,047)**	**(3.2%)**

For the six months ended June 30, 2020, total revenue and other income decreased from the same period in 2019 by $6.0 million or 3.2%. Facility service revenue decreased by $27.2 million or 14.5%. The decrease was primarily attributable to the decline in case volume as a result of the COVID-19 pandemic, stemming from the reduction or discontinuation of elective procedures and in some cases temporary closure of operations from the second half of March to the first half of May 2020 ($34.4 million). This was partly offset by the government stimulus income ($21.1 million), the combined impact of case and payor mix ($6.0 million), an increase in the annual payor withholdings rebate at ASH ($0.8 million), and higher imaging revenue at BHSH ($0.3 million).

Total surgical cases decreased by 23.4%, as outpatient cases decreased by 26.9%, inpatient cases decreased by 13.0%, and observation cases decreased by 12.0%. MFC Nueterra ASCs, SFSH, and BHSH experienced the largest declines. Surgical case volume decline by payor over the same period last year came predominantly from Blue Cross/Blue Shield and Medicare, which decreased by 25.3% and 24.2%, respectively. Pain cases were down by 15.7% compared to the same period last year.

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

- ASH's revenue increased mainly due to government stimulus income, an increase in the annual withholdings rebate from a payor, and the combined impact of payor and case mix, partly offset by lower case volume as a result of the COVID-19 pandemic.

- OSH's revenue increased due to government stimulus income, partly offset by the slowdown as a result of the COVID-19 pandemic and lower average revenue per case on larger surgical cases.

- BHSH's revenue decreased due to lower case volume as a result of discontinuing elective cases from the second half of March 2020 to April 2020 as a result of the COVID-19 pandemic, as well as the impact of payor mix and increased bad debt expense, which was partly offset by government stimulus income, case mix and higher imaging revenue.

- SFSH's revenue declined due to a decrease in case volume from discontinuing elective cases in April 2020 and the first half of May 2020 as a result of the COVID-19 pandemic. This was partly offset by government stimulus income, payor mix with a higher percentage of commercial payor cases, and case mix with a higher portion of podiatry and neurology procedures.

- SCNC's revenue decreased mainly due to lower case volume as a result of the COVID-19 pandemic, partly offset by government stimulus income.

- The MFC Nueterra ASCs' revenue decreased mainly due to the volume impact of the COVID-19 pandemic, as three ASCs located in Pennsylvania, Nebraska, and Ohio were mandated to be closed starting in the second half of March 2020 until the end of April 2020 as part of the local state lockdowns. This decrease was partly offset by case mix with a higher portion of neurology cases, and government stimulus income.

Operating Expenses

For the six months ended June 30, 2020, operating expenses decreased by $9.1 million or 5.6% from the same period in the prior year to $152.9 million. As a percentage of total revenue and other income, operating expenses decreased to 84.2% from 86.4% in the same period a year earlier.

Unaudited	Six Months Ended June 30,					
In thousands of U.S. dollars	**2020**	**Percentage of Revenue**	**2019**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	25,584	72.1%	27,129	81.2%	(1,545)	(5.7%)
OSH	33,664	92.5%	32,892	96.1%	772	2.3%
BHSH	32,559	79.2%	35,260	77.1%	(2,701)	(7.7%)
SFSH	37,901	71.5%	37,895	70.6%	6	0.0%
SCNC	2,866	94.6%	3,308	89.3%	(442)	(13.4%)
MFC Nueterra ASCs	11,080	88.2%	14,686	87.0%	(3,606)	(24.6%)
Corporate	9,291	n/a	10,835	n/a	(1,544)	(14.3%)
Operating expenses	**152,945**	**84.2%**	**162,005**	**86.4%**	**(9,060)**	**(5.6%)**

Consolidated salaries and benefits decreased by $1.1 million or 2.0%, primarily due to lower case volume from the impact of COVID-19 ($2.3 million) and the separation costs for the former Chief Financial Officer in the prior year ($1.1 million), partly offset by annual increases and staff hour guarantees (facilitated by the PPP program) for both clinical and non-clinical wages and salaries ($1.7 million) and higher benefit costs from increased utilization ($1.1 million). As a percentage of total revenue and other income, consolidated salaries and benefits increased to 30.5% from 30.1% a year earlier.

Consolidated drugs and supplies decreased by $7.4 million or 12.2%, primarily driven by lower case volume ($8.1 million), partly offset by case mix with a greater portion of neurology and orthopedics cases at certain Facilities ($0.6 million). As a percentage of total revenue and other income, the consolidated cost of drugs and supplies decreased to 29.4% from 32.4% a year earlier.

Consolidated G&A increased by $1.0 million or 3.5%. The increase in G&A was mainly attributable to a gain from a legal settlement at SFSH in prior year ($0.9 million), transaction costs incurred on the sale of the controlling interest in UMASH ($0.5 million) and an impairment charge on fixed assets and right-of-use asset recorded upon shutdown of the ASH urgent care operations in Sherwood, Arkansas ($0.4 million), partly offset by a decrease in contracted services ($0.6 million). As a percentage of total revenue and other income, consolidated G&A increased to 16.6% from 15.5% a year earlier.

Consolidated depreciation of property and equipment decreased by $0.5 million or 8.5%, primarily due to certain assets being fully depreciated, as well as the sale of Central Arkansas Surgical Center in December 2019, partly offset by the acquisition of fixed assets. As a percentage of total revenue and other income, consolidated depreciation of property and equipment decreased to 2.7% from 2.9% a year earlier.

Consolidated depreciation of right-of-use assets increased by $0.4 million or 9.5%, due to the addition of new lease agreements, partly offset by termination and modification of certain leases, including the sale of Central Arkansas Surgical Center in December 2019. As a percentage of total revenue and other income, consolidated depreciation of right-of-use assets increased to 2.8% from 2.5% a year earlier.

Consolidated amortization of other intangibles decreased by $1.5 million or 27.4%, mainly due to certain intangibles being fully amortized, as well as the sale of Central Arkansas Surgical Center in December 2019. As a percentage of total revenue and other income, consolidated amortization of other intangibles decreased to 2.2% from 3.0% a year earlier.

Income from Operations

Consolidated income from operations for the six months ended June 30, 2020 of $28.6 million was $3.0 million or 11.8% higher than consolidated income from operations of $25.6 million, recorded in the same period a year earlier, representing 15.8% of revenue and other income, compared to 13.6% in the same period in 2019. The increase is mainly the result of higher income from operations at ASH and OSH, inclusive of the negative impact of the COVID-19 pandemic and the favourable impact of the government stimulus income, as well as the prior year separation costs for the former Chief Financial Officer at corporate level.

Unaudited	Six Months Ended June 30,					
In thousands of U.S. dollars	**2020**	**Percentage of Revenue**	**2019**	**Percentage of Revenue**	**$ Change**	**% Change**
ASH	9,889	27.9%	6,275	18.8%	3,614	57.6%
OSH	2,718	7.5%	1,332	3.9%	1,386	104.1%
BHSH	8,556	20.8%	10,463	22.9%	(1,907)	(18.2%)
SFSH	15,099	28.5%	15,790	29.4%	(691)	(4.4%)
SCNC	164	5.4%	395	10.7%	(231)	(58.5%)
MFC Nueterra ASCs	1,486	11.8%	2,188	13.0%	(702)	(32.1%)
Corporate	(9,291)	n/a	(10,835)	n/a	1,544	14.3%
Income from operations	**28,621**	**15.8%**	**25,608**	**13.6%**	**3,013**	**11.8%**

Finance Costs

Change in Value of Convertible Debentures

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

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

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

In thousands of U.S. dollars, except as indicated otherwise	**June 30, 2019** *Unaudited*	**December 31, 2018**	**Change**
Face value of convertible debentures outstanding	C$41,743	C$41,743	C$ -
Closing price of convertible debentures outstanding	C$100.99	C$100.10	C$0.89
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3093	$1.3641	($0.0548)
Market value of convertible debentures outstanding	**32,198**	**30,632**	**1,566**

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	**June 30, 2020** *Unaudited*	**December 31, 2019**	**Change**	**June 30, 2019** *Unaudited*	**December 31, 2018**	**Change**
Number of common shares to be issued for exchangeable interest liability	6,421,383	5,955,277	466,106	6,002,516	5,970,862	31,654
Closing price of the Corporation's common shares	C$4.34	C$4.80	(C$0.46)	C$12.39	C$15.04	(C$2.65)
Closing exchange rate of U.S. dollar to Canadian dollar	$1.3576	$1.2990	$0.0586	$1.3093	$1.3641	($0.0548)
Exchangeable interest liability	**20,528**	**22,006**	**(1,478)**	**56,802**	**65,832**	**(9,030)**
Exercise of exchangeable rights by non-controlling interests			-			475
Change in value of exchangeable interest liability			**(1,478)**			**(8,555)**

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability decreased by $1.1 million compared to the same period in prior year, which was primarily driven by the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income, from continuing operations decreased by $1.7 million mainly due to the repayment of the convertible debentures on December 31, 2019, the reduction in interest rates of credit facilities and other debt, and interest income from loan receivable.

Impairment Gain on Loan Receivable

Impairment gain on loan receivable totalled $0.7 million for the period, as a result of revaluating the impairment loss allowance reserved on the loan receivable from UMASH. Refer to Section 13 under the heading "Allowance for Loan Receivable" for a discussion on the calculation methodology.

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, until their maturity on December 31, 2019, are made in Canadian dollars. Foreign currency loss increased by $0.4 million compared to the same period in 2019, due to the relative change in foreign exchange rates.

Share of Equity Loss in Associates

The Corporation's share of loss in associates accounted for using the equity method increased by $0.8 million compared to the same period in 2019. The increase is mainly due to the Corporation's pick-up of the net loss from UMASH for the period subsequent to the Corporation's sale of its controlling interest in February 2020.

Income Tax

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

Unaudited *In thousands of U.S. dollars*	Six Months Ended June 30, 2020	 2019	 $ Change	 % Change
Current income tax expense (recovery)	(1,470)	2,831	(4,301)	(151.9%)
Deferred income tax expense	4,373	1,976	2,397	121.3%
Income tax expense	**2,903**	**4,807**	**(1,904)**	**(39.6%)**

The decrease in current income tax expense versus last year was primarily due to refundable U.S. current taxes stemming from measures introduced as part of the CARES Act of $2.7 million, as described below, offset partly by the impact of higher Facility income. The increase in deferred income tax expense versus prior year was mainly due to a combination of the impact of the change in exchangeable interest liability and increased deductibility of interest expense previously deferred stemming from the CARES Act.

The CARES Act provides tax relief with a number of measures. It includes a temporary change to Section 172 of the U.S. Internal Revenue Code of 1986, as amended, (the "Code") such that net operating losses ("NOL") can be carried back five years. Based on the expected application of NOL carry backs generated in the 2019 and 2020 tax years, the Corporation has recorded refunds of approximately $2.7 million as a result of the change due to the CARES Act.

The anticipated NOL for 2019 and 2020 stems primarily from temporary changes under the CARES Act to two other provisions under the Code. The business interest deduction limit under Section 163(j) of the Code is increased from 30% to 50% of a taxpayer's adjusted taxable income for tax years beginning in 2019 and 2020. As a result, the Corporation expects to realize additional interest expense deductions with a current tax impact of approximately $3.2 million. The other significant change is that the CARES Act clarifies that Qualified Improvement Property ("QIP") is eligible for bonus depreciation (i.e., 100% expensing) under Section 168(k) of the Code, for which the Corporation estimates current tax savings of approximately $1.1 million.

Net Income from Continuing Operations

The $1.8 million increase in net income for the period from continuing operations was mainly attributable to higher income from operations and lower income taxes, partly offset by higher finance costs, including the change in the value of exchangeable interest liability (refer to Section 5 "Consolidated Operating and Financial Review" of this MD&A under the heading "Change in Value of Exchangeable Interest Liability") versus the prior year.

EBITDA

EBITDA of $42.7 million increased by $1.5 million from $41.2 million recorded a year earlier, representing 23.5% of revenue and other income compared to 22.0% a year earlier, mainly driven by higher EBITDA at ASH and OSH, in spite of the negative impact of COVID-19, which was offset by the government stimulus income and lower operating costs. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the period from continuing operations to EBITDA and Adjusted EBITDA."

Adjusted EBITDA

Adjusted EBITDA of $43.2 million for the six months ended June 30, 2020 increased from $41.2 million in the same period a year earlier, representing 23.8% of revenue and other income, versus 22.0% prior year. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of net income for the period from continuing operations to EBITDA and Adjusted EBITDA."

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results from Continuing Operations

Unaudited	2020		2019				2018	
In thousands of U.S. dollars, except per share amounts	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue and other income								
Facility service revenue	67,659	92,762	113,954	96,536	94,230	93,383	111,953	93,617
Government stimulus income	21,145	-	-	-	-	-	-	-
	88,804	**92,762**	**113,954**	**96,536**	**94,230**	**93,383**	**111,953**	**93,617**
Operating expenses								
Salaries and benefits	26,794	28,587	29,791	27,800	28,396	28,088	28,702	26,700
Drugs and supplies	22,910	30,415	36,188	31,503	30,613	30,141	35,856	30,212
General and administrative expenses	14,497	15,652	15,277	14,827	14,695	14,437	17,298	16,190
Impairment of goodwill	-	-	-	22,000	-	-	-	-
Depreciation of property and equipment	2,469	2,483	2,558	2,461	2,278	3,133	3,208	2,438
Depreciation of right-of-use assets	2,521	2,569	2,584	2,211	2,749	1,898	-	-
Amortization of other intangibles	2,027	2,021	1,670	2,673	2,730	2,847	3,113	2,502
	71,218	**81,727**	**88,068**	**103,475**	**81,461**	**80,544**	**88,177**	**78,042**
Income (loss) from operations	**17,586**	**11,035**	**25,886**	**(6,939)**	**12,769**	**12,839**	**23,776**	**15,575**
Finance costs (income)								
Change in value of convertible debentures	-	-	612	(675)	554	1,012	(1,974)	428
Change in value of exchangeable interest liability	5,549	(7,027)	(14,583)	(20,212)	(21,348)	12,793	280	2,316
Interest expense on exchangeable interest liability	686	1,907	2,165	1,515	1,796	1,940	2,012	1,922
Interest expense, net of interest income	915	1,436	1,894	1,914	2,146	1,949	1,023	1,057
Impairment gain on loan receivable	(681)	-	-	-	-	-	-	-
Loss (gain) on foreign currency	(19)	34	(475)	141	(154)	(234)	566	(210)
	6,450	**(3,650)**	**(10,387)**	**(17,317)**	**(17,006)**	**17,460**	**1,907**	**5,513**
Share of equity loss (income) in associates	476	458	(2)	-	102	(1)	(29)	(39)
Income (loss) before income taxes	**10,660**	**14,227**	**36,275**	**10,378**	**29,673**	**(4,620)**	**21,898**	**10,101**
Income tax expense (recovery)	3,283	(380)	5,496	1,727	6,752	(1,945)	2,236	2,203
Net income (loss) for the period from continuing operations	**7,377**	**14,607**	**30,779**	**8,651**	**22,921**	**(2,675)**	**19,662**	**7,898**
Attributable to:								
Owners of the Corporation	241	9,423	22,436	4,862	18,555	(8,207)	8,048	2,078
Non-controlling interest	7,136	5,184	8,343	3,789	4,366	5,532	11,614	5,820
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	$0.01	$0.30	$0.72	$0.15	$0.60	($0.26)	$0.26	$0.07
Fully diluted	$0.01	$0.29	$0.36	($0.02)	$0.14	($0.26)	$0.19	$0.07
Reconciliation of net income (loss) for the period from continuing operations to EBITDA and Adjusted EBITDA [(1)]								
Net income (loss) for the period from continuing operations	7,377	14,607	30,779	8,651	22,921	(2,675)	19,662	7,898
Income tax expense (recovery)	3,283	(380)	5,496	1,727	6,752	(1,945)	2,236	2,203
Share of equity loss (income) in associates	476	458	(2)	-	102	(1)	(29)	(39)
Finance costs (income)	6,450	(3,650)	(10,387)	(17,317)	(17,006)	17,460	1,907	5,513
Depreciation of property and equipment	2,469	2,483	2,558	2,461	2,278	3,133	3,208	2,438
Depreciation of right-of-use assets	2,521	2,569	2,584	2,211	2,749	1,898	-	-
Amortization of other intangibles	2,027	2,021	1,670	2,673	2,730	2,847	3,113	2,502
EBITDA [(1)]	**24,603**	**18,108**	**32,698**	**406**	**20,526**	**20,717**	**30,097**	**20,515**
Impairment of goodwill	-	-	-	22,000	-	-	-	-
Transaction costs on sale of UMASH	-	450	-	-	-	-	-	-
Adjusted EBITDA [(1)]	**24,603**	**18,558**	**32,698**	**22,406**	**20,526**	**20,717**	**30,097**	**20,515**

[(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:

- Facility service 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, facility service 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 COVID-19 outbreak began to impact the Corporation's and Facilities' operations in the latter half of March 2020, with impacts of varying severity within the communities and states that the Facilities serve. All Facilities were impacted by the pandemic as elective cases were restricted, either voluntarily or by government mandate. Such restrictions were lifted by mid-May 2020.
- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix. In addition, operating expenses have been impacted by costs related to the establishment of an accountable care organization by SFSH as well as the entering by SFSH into a management agreement for the orthopedic service line (refer to Section 12 of this MD&A under heading "Related Party Transactions").
- In addition, revenue and operating expenses have been impacted by sales of assets and controlling interests in 2019 and 2020.
- In June 2020, the ASH urgent care site located in Sherwood, Arkansas shut down its operations. The Corporation recorded an impairment of property and equipment as well as the right-of-use asset as a result of this shutdown.
- Due to the 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 were 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.
- 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 and 2020, changes in the market price of the Corporation's common shares 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 recent U.S. federal tax law changes.

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

Unaudited *In thousands of U.S. dollars, except as indicated otherwise*		**Three Months Ended June 30, 2020 $**	**Three Months Ended June 30, 2019 $**	**Six Months Ended June 30, 2020 $**	**Six Months Ended June 30, 2019 $**
CASH PROVIDED BY OPERATING ACTIVITIES	**USD**	**23,757**	**19,084**	**39,471**	**39,711**
Non-controlling interest in cash flows of the Facilities (1)		(10,320)	(6,481)	(16,521)	(13,379)
Interest expense on exchangeable interest liability (2)		686	1,796	2,593	3,736
Payment of lease liabilities (3)		(2,927)	(2,917)	(6,069)	(5,778)
Maintenance capital expenditures (4)		(1,119)	(927)	(1,758)	(1,385)
Difference between accrual-based amounts and actual cash flows related to interest and taxes (5)		(2,101)	(1,272)	2,697	(3,489)
Change in non-cash operating working capital items (6)		(600)	(3,680)	(3,992)	(8,477)
Share-based compensation (7)		(64)	(96)	(149)	(190)
Repayment of non-revolving debt (8)		(1,375)	(1,865)	(3,778)	(3,155)
CASH AVAILABLE FOR DISTRIBUTION	**USD**	**5,937**	**3,642**	**12,494**	**7,594**
	CDN	**8,225**	**4,872**	**17,056**	**10,127**
DISTRIBUTIONS	**CDN**	**2,178**	**8,739**	**4,355**	**17,473**
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE (9)	**CDN**	**$0.264**	**$0.157**	**$0.548**	**$0.326**
TOTAL DISTRIBUTIONS PER COMMON SHARE (9)	**CDN**	**$0.070**	**$0.281**	**$0.140**	**$0.562**
PAYOUT RATIO		**26.5%**	**179.0%**	**25.5%**	**172.4%**
Average exchange rate of Cdn$ to US$ for the period		1.3853	1.3377	1.3651	1.3336
Weighted average number of common shares outstanding		31,106,259	31,071,779	31,106,259	31,063,187

(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 and is deducted in determining cash available for distribution as this is a cash item included in financing activities on cash flow statements.*

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

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

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

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

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

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

Cash available for distribution in the three months ended June 30, 2020 (Cdn$8.2 million) increased by Cdn$3.3 million compared to the cash available for distribution the same period last year (Cdn$4.9 million). On a per common share basis, cash available for distribution of Cdn$0.26 increased by Cdn$0.10, or 62.5% from the same period last year of Cdn$0.16. The distributions per common share of Cdn$0.07 decreased by Cdn$0.21, or 75.0% from the same period last year of Cdn$0.28 resulting in a payout ratio of 26.5% as compared to a payout ratio of 179.0% in the same period in 2019.

Cash available for distribution in the six months ended June 30, 2020 (Cdn$17.1 million) increased by Cdn$7.0 million compared to the cash available for distribution the same period last year (Cdn$10.1 million). On a per common share basis, cash available for distribution of Cdn$0.55 increased by Cdn$0.22, or 66.7% from the same period last year of Cdn$0.33. The distributions per common share of Cdn$0.14 decreased by Cdn$0.42, or 75.0% from the same period last year of Cdn$0.56 resulting in a payout ratio of 25.5% as compared to a payout ratio of 172.4% in the same period in 2019.

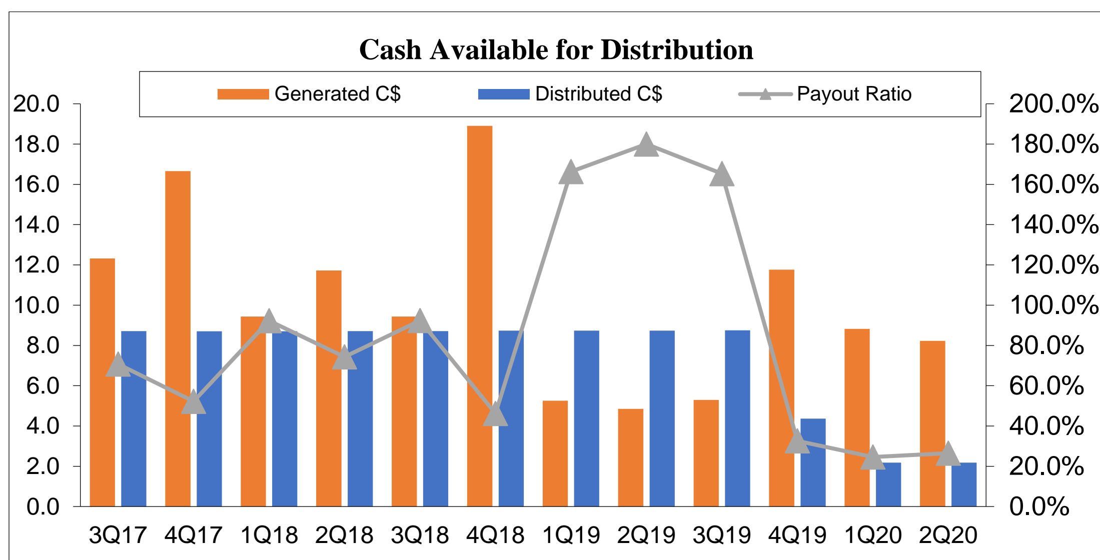
The Corporation's cash available for distribution comes solely from the Facilities. The following table provides a reconciliation of cash generated at the Facility level to the Corporation's cash available for distribution:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
Unaudited	**2020**	**2019**	**2020**	**2019**
In thousands of U.S. dollars	**$**	**$**	**$**	**$**
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization	27,807	22,104	47,076	44,214
Debt service costs:				
Interest	(870)	(1,640)	(2,268)	(3,009)
Repayment of non-revolving debt	(1,375)	(1,865)	(3,778)	(3,155)
Maintenance capital expenditures	(1,119)	(927)	(1,758)	(1,385)
Payment of lease liabilities	(2,742)	(2,857)	(5,837)	(5,658)
Non-cash loss (gain)	(588)	181	(350)	(834)
Cash available for distribution at Facility level	21,113	14,996	33,085	30,173
Non-controlling interest in cash available for distribution at Facility level	(10,320)	(6,481)	(16,521)	(13,379)
Corporation's share of the cash available for distribution at Facility level	**10,793**	**8,515**	**16,564**	**16,794**
Corporate expenses	(1,044)	(1,923)	(3,862)	(4,792)
Share of equity loss in associates	(476)	(102)	(934)	(101)
Interest expense on convertible debentures	-	(458)	-	(913)
Interest on corporate credit facility	(514)	(776)	(1,273)	(1,566)
Recoveries of (provision for) current income taxes	(2,822)	(1,614)	1,999	(1,828)
Cash available for distribution	**5,937**	**3,642**	**12,494**	**7,594**

Compared to the three months ended June 30, 2019, the cash available for distribution in U.S. dollars for the same period this year increased by $2.3 million or 63.0% mainly due to higher income from Facilities as a result of government stimulus income, lower corporate expenses and lower corporate interest payments, partly offset by higher taxes.

Compared to the six months ended June 30, 2019, the cash available for distribution in U.S. dollars for the same period this year increased by $4.9 million or 64.5% mainly due to lower corporate interest payments, corporate expenses, and taxes.

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 COVID-19 pandemic, 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 the annual 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 recent COVID-19 pandemic, the economy, the healthcare industry, management strategies of the Corporation, and U.S. tax reform.

COVID-19

Since the outbreak of the COVID-19 pandemic, the landscape for healthcare industry has changed significantly. While the restrictions on elective procedures have been lifted in most of the states where the Facilities operate, it is uncertain whether the local state authorities will impose such restrictions again in the future. As the Facilities continue to work through case backlogs, screening and testing procedures for COVID-19 impact the progress.

Management expects that the COVID-19 pandemic will continue to impact the Facilities' operations and financial results. The duration and impact of the COVID-19 pandemic remains unknown, as is the efficacy of the government interventions, the Corporation's business continuity plan and other mitigating measures. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results of the Corporation and Facilities in future periods.

The Economy

Management's expectations could be impacted by the general state of the U.S. economy, which is experiencing the influence of the ongoing COVID-19 pandemic. 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; 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.

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 *Tax Cuts and Jobs Act*, 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). One of the tax relief measures under the CARES Act increases the limit from 30% to 50% of a taxpayer's adjusted taxable income for tax years beginning in 2019 and 2020. 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 the annual 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.

COVID-19

Broad economic factors resulting from the COVID-19 pandemic, including higher unemployment rates and reduced consumer spending, are impacting the Corporation's case mix, payor mix and patient volumes. Business closings and layoffs in the areas where Facilities operate may lead to increases in the uninsured and underinsured populations and adversely affect demand for Facilities' services, as well as the ability of patients to pay for services as rendered. Any deterioration in the collectability of patient accounts receivable will adversely affect cash flows and results of operations.

If general economic conditions continue to decline or remain uncertain for an extended period of time, the Corporation's liquidity, ability to meet debt covenants, and ability to repay its outstanding debt may be impacted. Moreover, the current COVID-19 pandemic may cause disruption in the financial markets. These factors may affect the availability, terms or timing with which the Corporation may obtain any additional funding.

Cash Balances

The Corporation's cash and cash equivalents balances are as follows:

Unaudited *In thousands of U.S. dollars*	June 30, 2020	December 31, 2019
Cash and cash equivalents at Facility level	61,433	10,397
Cash and cash equivalents at corporate level	18,409	21,589
Cash and cash equivalents	**79,842**	**31,986**

Cash Flow Activity

Cash Flow

Unaudited	Six Months Ended June 30,			
In thousands of U.S. dollars	2020	2019	$ Change	% Change
Cash provided by operating activities	39,471	39,711	(240)	(0.6%)
Cash used in investing activities	(3,000)	(1,642)	(1,358)	(82.7%)
Cash provided by (used in) financing activities	11,400	(36,190)	47,590	131.5%
Increase in cash and cash equivalents	**47,871**	**1,879**	**45,992**	**2,447.7%**
Effect of exchange rate fluctuations on cash balances held	(15)	388	(403)	(103.9%)
Cash and cash equivalents, beginning of the period	31,986	36,686	(4,700)	(12.8%)
Cash and cash equivalents, end of the period	**79,842**	**38,953**	**40,889**	**105.0%**

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, funds available from the corporate credit facility, as well as lines of credit at the Facilities level, 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 six months ended June 30, 2020 decreased by $0.2 million compared to the same period in 2019, primarily due to changes in non-cash working capital, mostly offset by higher income from the Facilities.

As at June 30, 2020, the Corporation had consolidated net working capital of $74.3 million compared to $71.5 million as at December 31, 2019. The change was due mainly to the receipt by the Facilities of government stimulus funds and proceeds receivable from the sale of real estate assets for UMASH in June 2020, partly offset by the decrease in assets held for sale and liabilities associated with assets held for sale, as a result of the sale of controlling interest in UMASH in February 2020 and of real estate assets in June 2020, as well as the payor advances and government stimulus funds repayable recognized in current liabilities. The change was also driven by a decrease in accounts receivable and an increase in current portion of long-term debt, partially offset by a decrease in accounts payable from timing differences. The level of working capital, including financing required to cover any deficiencies, is dependent on the operating performance of the Facilities and fluctuates from period to period.

As at June 30, 2020, accounts receivable were $53.2 million (December 31, 2019: $66.5 million), accounts payable and accrued liabilities totaled $35.3 million (December 31, 2019: $41.4 million), total assets were $495.6 million (December 31, 2019: $470.5 million) and total long-term liabilities, excluding exchangeable interest liability, were $192.6 million (December 31, 2019: $189.9 million).

Investing Activities

The $1.4 million increase in cash used in investing activities for the six months ended June 30, 2020 compared to the same period in 2019 was mostly due to the prior year proceeds from the sale of ownership interest in City Place Surgery Center to non-controlling interest ($4.5 million), partly offset by a decrease in purchases of property and equipment ($2.0 million), and the current year proceeds received from the sale of the controlling interest in UMASH ($1.1 million).

Financing Activities

The $47.6 million increase in cash provided by financing activities for the six months ended June 30, 2020 was mainly due to the payor advances and government stimulus funds received in the current year ($26.2 million), a reduction in dividend distributions by the Corporation ($10.4 million), net increases in Facility borrowings less repayments of debt ($5.9 million) and lower Facility distributions to non-controlling interest ($5.5 million).

The Facilities have available credit facilities in place in the aggregate amount of $39.7 million, of which $14.8 million was drawn as at June 30, 2020. The balances available under the credit facilities, combined with cash and cash equivalents as at June 30, 2020, are available to manage the Facilities' accounts receivable, supply inventory and other short-term cash requirements.

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, and/or repurchase of the Corporation's common shares. As at June 30, 2020, $84.8 million was drawn and remained outstanding for the credit facility. The proceeds drawn from the credit facility were primarily used for the acquisition of UMASH and its underlying property through RRIMH in 2016 ($48.8 million), the acquisition of the MFC Nueterra ASCs in 2018 ($20.0 million), and the repayment of the convertible debentures upon maturity in 2019 ($16.0 million). As at June 30, 2020, the Corporation was in compliance with all of its debt covenants.

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 June 30, 2020, are as follows:

Unaudited *In thousands of U.S. dollars* **Contractual Obligations**	**Carrying values at June 30, 2020 $**	**Future payments (including principal and interest)** Total $	Less than 1 year $	1-3 years $	4-5 years $	After 5 years $
Dividends payable	1,604	1,604	1,604	-	-	-
Accounts payable	18,380	18,380	18,380	-	-	-
Accrued liabilities	16,955	16,955	16,955	-	-	-
Income tax payable	545	545	545	-	-	-
Payor advances and government stimulus funds repayable	26,172	26,172	26,172	-	-	-
Corporate credit facility	84,800	96,078	521	8,705	86,852	-
Facilities' revolving credit facilities	14,782	14,936	14,936	-	-	-
Notes payable	54,423	61,012	13,868	14,526	11,637	20,981
Lease liabilities	66,762	83,416	11,958	20,961	16,954	33,543
Total contractual obligations	**284,423**	**319,098**	**104,939**	**44,192**	**115,443**	**54,524**

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 the annual 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 June 30, 2020:

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$21.15	September 19, 2016
Chief Operating Officer	50,000	C$ 2.64	March 19, 2020
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	**1,944,906**		

Outstanding options (the "Options") vest after five years of employment. The Options must be exercised by the tenth anniversary of the respective grant dates, subject to blackout exceptions. As of June 30, 2020, 444,906 of the Options relating to Former Chief Executive Officer and Former Chief Financial Officer are vested.

As at June 30, 2020, 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 was in effect from May 16, 2019 to May 15, 2020. During the six months ended June 30, 2020 and six months ended June 30, 2019, 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, 2020 to June 30, 2020 totaled Cdn$0.140 per common share. 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 was paid on April 15, 2020.

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 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 interim condensed consolidated balance sheet as at June 30, 2020 consist of cash and cash equivalents, accounts receivable, loan receivable, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt and corporate credit facility) and exchangeable interest liability.

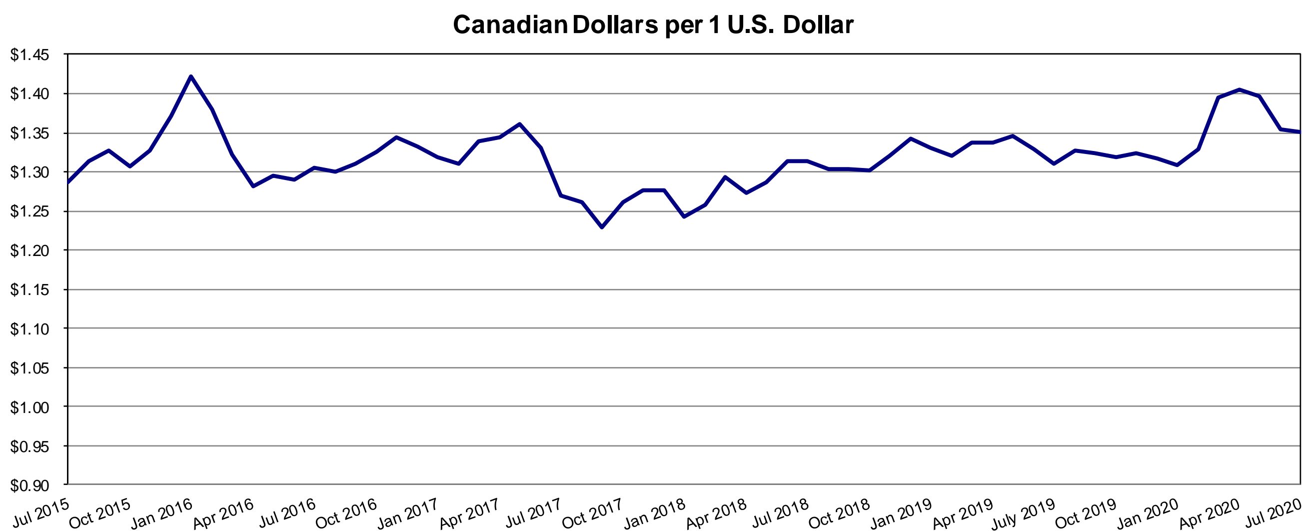
The gross carrying value of the loan receivable on initial recognition is revaluated and adjusted using the loss allowance reserved on the loan. The loss allowance is determined based on the lifetime expected credit loss model at each reporting date. The fair value of exchangeable interest liability 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 July 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 June 30, 2020, 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 exchangeable interest liability is measured on quoted market prices of its 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 six months ended June 30, 2020 of $2.3 million (June 30, 2019: $2.3 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. As of June 30, 2020, SFSH had a balance payable to South Dakota Interventional Pain Institute, LLC of $0.9 million (December 31, 2019: $1.0 million). For the six months ended June 30, 2020, BHSH paid Mountain Plains Real Estate Holdings, LLC $0.1 million for the use of a facility (June 30, 2019: $0.1 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:

Unaudited *In thousands of U.S. dollars*		**Three Months Ended June 30,**		**Six Months Ended June 30,**	
Entity	**Nature of services or goods received**	**2020 $**	**2019 $**	**2020 $**	**2019 $**
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	1,143	1,138	2,277	2,276
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	392	392	784	783
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	162	187	343	456
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.	2,453	2,436	4,651	4,904
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	232	645	714	1,536
Total		**4,382**	**4,798**	**8,769**	**9,955**

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

Facility service 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.

Despite recognizing the PPP income in the period based on reasonable assurance that facilities have met the requirements for forgiveness, some uncertainty remains over the final outcome as applications for forgiveness of the PPP loans must still be formally submitted and approved subsequent to June 30, 2020.

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.

Allowance for Loan Receivable

At each balance sheet date, management assesses and calculates any changes in the loss allowance for the loan receivable from UMASH, which was recognized as credit-impaired on initial recognition, using the lifetime expected credit loss ("ECL") model. Based on the effective interest rate that incorporated lifetime ECLs at initial recognition, management calculates the impairment loss allowance for the loan receivable at each balance sheet date, using probability-weighted scenarios of cash flows from the loan receivable. The difference between the computed loan balance net of the loss allowance and the carrying value of the loan as at the reporting date is recorded as an impairment gain or loss.

Management is required to use judgment in determining the scenarios and their probabilities, which is reassessed at each balance sheet date. Factors related to UMASH that are considered in assessing the probability-weighted scenarios include: cash and liquidity position; historical and projected operating results and free cash flows; compliance with financial covenants as stipulated by the loan agreement; ability to make timely principal and interest payments; and ability to obtain alternative financing at maturity.

Based on the assessment as at June 30, 2020, management recorded an impairment gain on the loan receivable of $0.7 million for the three months and six months ended June 30, 2020.

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 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 cash-generating unit ("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 six CGUs for which impairment testing is performed. The MFC Nueterra ASCs, which are managed as a network, collectively represent one CGU. The remaining Facilities represent subsidiary operations which are independent of each other, and are therefore identified as separate CGUs. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

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

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

Management calculates the recoverable amount of each CGU using EBITDA specific to each CGU by a multiple determined using market data, such as EBITDA to market capitalization ratios of comparable publicly traded companies and recent prices for capital transactions within the industry. Management has estimated cost to dispose to be 1% of the fair value of the CGUs, based on recent market data. To assess reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 based on (i) the market capitalization of the outstanding common shares, taking into account a 20% equity control premium attributable to the common shares and (ii) the Corporation's portion of the Facilities' long-term debt, less (iii) cash on hand.

Management performed an assessment of impairment indicators mentioned above as at June 30, 2020, and noted the COVID-19 pandemic has significantly impacted the case volumes at the Facilities, indicating a potential impairment. As a result of an impairment testing performed as at June 30, 2020, management concluded that there was no impairment of the Corporation's non-financial assets.

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 quarterly filings fairly present in all material respects the financial condition, results of operations and cash flows and have also certified regarding controls as described below.

Under the supervision of, and with the participation of the CEO and the CFO, management has designed disclosure controls and procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Corporation, including its consolidated subsidiaries, is made known to the CEO and the CFO by others within those entities for the period in which the annual and interim filings of the Corporation are being prepared, and (ii) information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

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

During the period beginning on April 1, 2020 and ending on June 30, 2020, the Corporation has added procedures around the government stimulus income to its ICFR to ensure its compliance with the conditions and requirements mandated by each government assistance program.

There have been no other changes in the Corporation's ICFR during the period beginning on April 1, 2020 and ending on June 30, 2020, 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 Corporation's annual MD&A contains a summary of risk factors pertaining to the Corporation, which should be read in conjunction with the detailed information on risk factors appearing in the Corporation's most recently filed annual information form available on SEDAR at www.sedar.com. There have been no changes in the nature or the number of risk factors pertaining to the Corporation since the date of the most recently filed annual information form (March 30, 2020). The disclosures in this MD&A are subject to the risk factors outlined in those materials. Furthermore, continued disruptions to its business as a result of the COVID-19 pandemic could heighten those risk factors, any of which could have a material adverse effect on the Corporation's results of operations and financial position. For additional discussions on the risk factors related to the COVID-19 pandemic, refer to Section 3 "Business Overview" of this MD&A under the heading "COVID-19."

16. 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.