

May 11, 2022

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 months ended March 31, 2022, 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, 2021 (“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, 2021 (“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, except per share amounts, 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](http://www.sedar.com).

---

## TABLE OF CONTENTS

1.	Caution Concerning Forward-Looking Statements .....	2
2.	Non-IFRS Financial Measures .....	3
3.	Business Overview .....	4
4.	Financial and Performance Highlights .....	8
5.	Consolidated Operating and Financial Review .....	9
6.	Quarterly Operating and Financial Results .....	15
7.	Reconciliation of Non-IFRS Financial Measures .....	17
8.	Outlook .....	19
9.	Liquidity and Capital Resources .....	21
10.	Share Capital and Dividends .....	24
11.	Financial Instruments .....	25
12.	Related Party Transactions .....	27
13.	Critical Accounting Judgments and Estimates .....	28
14.	Disclosure Controls and Procedures and Internal Controls over Financial Reporting .....	30
15.	Risk Factors .....	31
16.	New and Revised IFRS not yet Adopted .....	31

## 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 SARS-CoV-2 (“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](http://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. They are presented on a uniform basis from period to period, thereby allowing for consistent comparability. Management believes that the non-IFRS financial measures presented in this MD&A (i) are relevant for users of the Corporation's financial statements to assess the Corporation's performance and ability to pay dividends, and (ii) may be used to calculate certain ongoing rights and obligations of the Corporation. 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 Sections 5 and 6 of this MD&A under the heading "Reconciliation of net income for the period to EBITDA" and 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 net cash provided by operating activities, before certain non-cash adjustments, including (i) net changes in non-cash operating working capital, (ii) share-based compensation, (iii) interest expense on exchangeable interest liability, and (iv) the difference between accrual-based amounts and actual cash flows related to interest and taxes, less (v) maintenance capital expenditures, (vi) payment of lease liabilities, (vii) repayments of notes payable by the Facilities (as defined below), and (viii) non-controlling interest in cash flows of the Facilities. 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 per the Bank of Canada. Management believes that cash available for distribution is relevant in understanding the Corporation's ability to earn cash and pay dividends to its shareholders.
- **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 declared.
- **Distributions per common share** is a non-IFRS financial measure calculated as the distributions divided by the weighted average number of common shares outstanding during the period.
- **Earnings before interest, taxes, depreciation and amortization** ("EBITDA") is a non-IFRS financial measure defined as net income for the period before (i) finance costs, (ii) income taxes, (iii) depreciation of property and equipment, (iv) depreciation of right-of-use assets, (v) amortization of other intangibles, and (vi) share of equity loss (income) in associates. Management believes that EBITDA is relevant in understanding the Corporation's ability to service its debt, finance capital expenditures and pay dividends to its shareholders.
- **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. Management monitors the payout ratio to ensure the Corporation can adhere to its dividend policy.

### 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\$0.0805 per common share (refer to Section 10 "Share Capital and Dividends" of this MD&A under the heading "Dividends").

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. ("MFA") and Medical Facilities (USA) Holdings, Inc. ("MFH"), the Corporation owns controlling interests in, and/or controls by virtue of retaining approval rights over certain significant governance matters, and derives substantially all of its income from, 10 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 10 Facilities are comprised of four SSHs located in Arkansas, Oklahoma, and South Dakota, and six ASCs located in California, Michigan, Missouri, Nebraska, Ohio 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, two of the SSHs provide urgent care services.

#### 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 affected by the pandemic as elective cases were restricted, either voluntarily or by U.S. state or local government mandate, including the temporary closure of three of the MFC Nueterra ASCs, which reopened in May 2020. Management expects patient volumes and revenues will continue to be negatively impacted until the effects of the pandemic have fully subsided and the economy stabilizes.

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, changes in professional and general liability exposure, and the efficacy of the COVID-19 vaccines against the virus and its variants, and the overall vaccine acceptance rate. 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") was signed into law on March 27, 2020. The CARES 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"), the Employee Retention Credit ("ERC") and expansion of an existing Centers for Medicare and Medicaid Services ("CMS") 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 and not applied to lost revenues must be returned. The recognition of amounts received is conditioned upon receipt of the funds, the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, and certification that the payment will be used to prevent, prepare for and respond to COVID-19. For the three months ended March 31, 2022, certain Facilities have received \$0.9 million in total funding from the HHS (March 31, 2021: \$2.7 million), and recognized \$1.4 million in revenue as government stimulus income (March 31, 2021: \$2.7 million), which included an amount of \$0.5 million which was recorded as a liability as at December 31, 2021.

The PPP expands the guaranteed lending program under Section 7(a) of the *Small Business Act* administered by the US Small Business Administration (“SBA”). 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 to 24-week period following loan origination. For the three months ended March 31, 2022, the Facilities have not received any funds under the PPP (March 31, 2021: \$0.6 million).

Income was recognized for the loans received under the PPP during prior periods based on reasonable assurance that the Facilities have met the requirements for forgiveness. Of the loans received under the PPP of \$12.2 million during the year ended December 31, 2020, loans of \$1.7 million have been forgiven in full by the SBA, while loans of \$6.4 million are pending additional review. The remaining balance of \$4.1 million, relating to one Facility, was awaiting forgiveness as at March 31, 2022, but the application was denied by the SBA on April 20, 2022. The Facility intends to appeal the decision. It remains to be seen if the SBA will reach a similar decision for the other PPP loans under review. Loans received under the PPP of \$1.5 million during the year ended December 31, 2021 are also pending forgiveness from the SBA. Any loans not forgiven will result in a reversal of income previously recorded and a recording of a liability.

Under the expansion of the Medicare Accelerated and Advance Payment Program most providers and suppliers could request an advance of three to six months of Medicare payments. Certain Facilities received net advances of \$23.2 million for the year ended December 31, 2020. Repayment of these accelerated/advance payments commences one year after issuance, upon which payments will be recouped against Medicare claims at a rate of 25% for eleven months, followed by a rate of 50% for the succeeding six months, after which any remaining balance will need to be repaid in full within one month. The initial 11-month recoupment period ended in March 2022, upon which the succeeding 6-month recoupment period began, such that \$11.4 million has been recouped as at March 31, 2022 (December 31, 2021: \$8.0 million). The remaining \$11.7 million is recorded as a liability under payor advances and government stimulus funds repayable as at March 31, 2022 (December 31, 2021: \$15.2 million).

The ERC is a refundable tax credit against certain employment taxes that can be claimed by eligible employers, whose business has been financially impacted by COVID-19, in their quarterly employment tax returns. For the three months ended March 31, 2022, certain Facilities have had claims approved under the ERC and recorded government stimulus income of \$0.2 million (March 31, 2021: \$nil). Certain Facilities also submitted additional claims under the ERC which are pending approval.

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. For the three months ended March 31, 2021, certain Facilities qualified for the tax credits under the FFCRA and recorded government stimulus income of \$0.1 million.

For the three months ended March 31, 2022, the Facilities have not received any other stimulus funds under state programs (March 31, 2021: \$1.3 million), but recognized \$0.1 million in revenue as government stimulus income (March 31, 2021: \$1.3 million), which was recorded as a liability as at December 31, 2021.

On December 27, 2020, the *Consolidated Appropriations Act, 2021* (the “CA Act”) was signed into law, introducing a \$900 billion stimulus relief package aimed to respond to the economic fallout caused by the COVID-19 pandemic. Among other provisions, the CA Act enhanced and expanded certain provisions of the previous relief package, the CARES Act. This included an additional \$284.5 billion in funding for first and second rounds of more easily forgivable PPP loans, and an extension and expansion of the ERC. The Facilities may be eligible for further funding under the CA Act.

On March 11, 2021, the *American Rescue Plan Act, 2021* (the “ARP Act”) was signed into law, which is a \$1.9 trillion economic stimulus package intended to facilitate recovery in the United States from the economic and health effects of COVID-19. Among its provisions, the ARP Act includes \$7.25 billion in appropriations to the SBA for the PPP, and a further extension of the ERC. The Facilities may be eligible for further funding under the ARP Act.

There is uncertainty regarding the implementation, duration and impact of the CARES Act, the CA Act, the ARP 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 Facilities will receive, that the Facilities will be able to comply with the applicable terms and conditions to retain such assistance, that the Facilities 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.

### **Other Information**

On March 11, 2022, the Corporation sold its 0.4% non-controlling ownership interest in Black Hills Surgical Physicians, LLC (“BHSP”) for proceeds of \$0.3 million. In connection with this transaction, the Corporation recorded a pre-tax loss of a nominal amount in general and administrative expenses.

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 March 31, 2022**

	<b>Arkansas Surgical Hospital ("ASH")</b>	<b>Oklahoma Spine Hospital ("OSH")</b>	<b>Black Hills Surgical Hospital ("BHS")</b>	<b>Sioux Falls Specialty Hospital ("SFSH")</b>	<b>The Surgery Center of Newport Coast ("SCNC")</b>	<b>MFC Nueterra ASCs</b>
Location	North Little Rock Arkansas	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California	Five locations <sup>(3)</sup>
Year Opened	2005	1999	1997	1985	2004	1997-2007
Year Acquired by the Corporation	2012	2005	2004	2004	2008	2018
Ownership Interest	51.0%	64.0%	54.2%	51.0%	51.0%	30-59% <sup>(3)</sup>
Non-controlling Interest	49.0%	36.0%	45.8%	49.0%	49.0%	70-41% <sup>(3)</sup>
Exchangeable Interest	5.0%	1.0%	10.8%	14.0%	-	-
Size	126,000 sq ft	61,000 sq ft	86,000 sq ft	76,000 sq ft	7,000 sq ft	5,000-14,000 sq ft
Operating/Procedure Rooms	13/2	7/2	11 <sup>(2)</sup>	15	2/1	13/7
Overnight Rooms	41 <sup>(1)</sup>	25	26	33	-	-

<sup>(1)</sup> Licensed for 49 beds.

<sup>(2)</sup> Licensed for 12 rooms.

<sup>(3)</sup> Through the MFC Nueterra Partnership, the Corporation owns indirect interests between approximately 30% to 59% in five ASCs, situated in Michigan, Missouri, Nebraska, Ohio, and Pennsylvania.

## 4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

### Selected Financial Information

<i>Unaudited</i>	<b>Three Months Ended March 31,</b>	
<i>In thousands of U.S. dollars, except per share amounts and as indicated otherwise</i>	<b>2022</b>	<b>2021</b>
Facility service revenue	100,788	93,996
Government stimulus income	1,810	4,133
Total revenue and other income	102,598	98,129
Operating expenses	87,918	79,770
Income from operations	14,680	18,359
Net income (loss) for the period	(1,115)	10,307
Attributable to:		
Owners of the Corporation <sup>(1)</sup>	(7,861)	3,472
Non-controlling interest <sup>(1)</sup>	6,746	6,835
Earnings (loss) per share attributable to owners of the Corporation		
Basic	(\$0.26)	\$0.11
Fully diluted	(\$0.26)	\$0.11
EBITDA <sup>(2)</sup>	19,817	25,132
Cash available for distribution <sup>(2)</sup>	C\$ 5,503	C\$ 7,899
Distributions <sup>(2)</sup>	C\$ 2,448	C\$ 2,177
Cash available for distribution per common share <sup>(2)</sup>	C\$ 0.180	C\$ 0.254
Distributions per common share <sup>(2)</sup>	C\$ 0.080	C\$ 0.070
Payout ratio <sup>(2)</sup>	44.4%	27.6%

<sup>(1)</sup> Net income (loss) 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 income taxes. These charges are incurred at corporate level rather than at Facility level. On the other hand, net income (loss) attributable to non-controlling interest represents the interest of the Facilities' non-controlling interest holders in the net income of the Facilities on a stand-alone basis and, therefore, does not vary as significantly between the periods.

<sup>(2)</sup> 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 Sections 5 and 6 under the heading "Reconciliation of net income (loss) for the period to EBITDA."

### Selected Financial Information for the Three Months Ended March 31, 2022 compared to the Three Months Ended March 31, 2021

For the three months ended March 31, 2022, total revenue and other income was \$102.6 million, an increase of 4.6% from \$98.1 million for the same period in 2021. Facility service revenue of \$100.8 million increased by 7.2% from \$94.0 million for the same period in 2021, mainly due to higher surgical case volume, attributable to the Facilities' continued recovery from the negative impacts of the COVID-19 pandemic. EBITDA was \$19.8 million or 19.3% of total revenue and other income compared to \$25.1 million or 25.6% of total revenue and other income for the same period last year, down mainly due to higher operating expenses and a decrease in government stimulus income, the combined impact of which exceeded the increase in facility service revenue. Net loss for the period was \$1.1 million compared to net income of \$10.3 million for the same period in 2021, with the decrease mainly attributable to higher finance costs, driven by the change in value of exchangeable interest liability at corporate level and the impairment loss on the loan receivable from Unity Medical and Surgical Hospital ("UMASH"), along with lower income from operations at the Facilities, partly offset by lower income tax expense.

The Corporation generated cash available for distribution of Cdn\$5.5 million, representing a decrease of Cdn\$2.4 million or 30.3% from Cdn\$7.9 million for the same period in the prior year. Distributions per common share increased between the years by Cdn\$0.010 to Cdn\$0.080, while the payout ratio was 44.4% for this period compared to 27.6% for the three months ended March 31, 2021. 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

### For the Three Months Ended March 31, 2022

The following table and discussion compare operating and financial results of the Corporation for the three months ended March 31, 2022 to the three months ended March 31, 2021:

<i>Unaudited</i>	<b>Three Months Ended</b>			
<i>In thousands of U.S. dollars, except per share amounts</i>	<b>March 31,</b>			
	<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Revenue and other income</b>				
Facility service revenue	100,788	93,996	6,792	7.2%
Government stimulus income	1,810	4,133	(2,323)	(56.2%)
	<b>102,598</b>	<b>98,129</b>	<b>4,469</b>	<b>4.6%</b>
<b>Operating expenses</b>				
Salaries and benefits	29,899	29,053	846	2.9%
Drugs and supplies	33,756	30,093	3,663	12.2%
General and administrative expenses	19,126	13,851	5,275	38.1%
Depreciation of property and equipment	2,345	2,361	(16)	(0.7%)
Depreciation of right-of-use assets	2,635	2,539	96	3.8%
Amortization of other intangibles	157	1,873	(1,716)	(91.6%)
	<b>87,918</b>	<b>79,770</b>	<b>8,148</b>	<b>10.2%</b>
<b>Income from operations</b>	<b>14,680</b>	<b>18,359</b>	<b>(3,679)</b>	<b>(20.0%)</b>
<b>Finance costs</b>				
Change in value of exchangeable interest liability	10,303	1,948	8,355	428.9%
Interest expense on exchangeable interest liability	2,191	2,699	(508)	(18.8%)
Interest expense, net of interest income	1,401	1,542	(141)	(9.1%)
Impairment loss on loan receivable	3,990	-	3,990	100.0%
Loss on foreign currency	10	2	8	400.0%
	<b>17,895</b>	<b>6,191</b>	<b>11,704</b>	<b>189.0%</b>
Share of equity loss (income) in associates	(6)	42	(48)	(114.3%)
<b>Income (loss) before income taxes</b>	<b>(3,209)</b>	<b>12,126</b>	<b>(15,335)</b>	<b>(126.5%)</b>
Income tax expense (recovery)	(2,094)	1,819	(3,913)	(215.1%)
<b>Net income (loss) for the period</b>	<b>(1,115)</b>	<b>10,307</b>	<b>(11,422)</b>	<b>(110.8%)</b>
Attributable to:				
Owners of the Corporation	(7,861)	3,472	(11,333)	(326.4%)
Non-controlling interest	6,746	6,835	(89)	(1.3%)
Basic earnings (loss) per share attributable to owners of the Corporation	(\$0.26)	\$0.11	(0.37)	(336.4%)
Fully diluted earnings (loss) per share attributable to owners of the Corporation	(\$0.26)	\$0.11	(0.37)	(336.4%)
<b>Reconciliation of net income (loss) for the period to EBITDA <sup>(1)</sup></b>				
Net income (loss) for the period	(1,115)	10,307	(11,422)	(110.8%)
Income tax expense (recovery)	(2,094)	1,819	(3,913)	(215.1%)
Share of equity loss (income) in associates	(6)	42	(48)	(114.3%)
Finance costs	17,895	6,191	11,704	189.0%
Depreciation of property and equipment	2,345	2,361	(16)	(0.7%)
Depreciation of right-of-use assets	2,635	2,539	96	3.8%
Amortization of other intangibles	157	1,873	(1,716)	(91.6%)
<b>EBITDA <sup>(1)</sup></b>	<b>19,817</b>	<b>25,132</b>	<b>(5,315)</b>	<b>(21.1%)</b>

<sup>(1)</sup> Non-IFRS financial measures. Please refer to Section 2 under the heading “Non-IFRS Financial Measures” for a discussion of such measures.

## Revenue and Other Income

<i>Unaudited</i>	<b>Three Months Ended March 31,</b>			
<i>In thousands of U.S. dollars</i>	<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
ASH	18,996	15,218	3,778	24.8%
OSH	17,709	17,998	(289)	(1.6%)
BHSH	22,822	26,413	(3,591)	(13.6%)
SFSH	34,173	30,948	3,225	10.4%
SCNC	2,831	2,170	661	30.5%
MFC Nueterra ASCs	6,067	5,382	685	12.7%
<b>Total revenue and other income</b>	<b>102,598</b>	<b>98,129</b>	<b>4,469</b>	<b>4.6%</b>

For the three months ended March 31, 2022, total revenue and other income increased from the same period in 2021 by \$4.5 million or 4.6%, while facility service revenue increased by \$6.8 million or 7.2%. The increase was primarily attributable to the increase in surgical case volume (\$6.1 million) attributable to the Facilities' continued recovery from the negative impacts of the COVID-19 pandemic, along with the impact of ASH moving its anesthesia service and related billing in-house in the current year (\$1.0 million). This was partly offset by a reduction in government stimulus income (\$2.3 million), and the shutdown of one of BHSH's urgent care centres in December 2021 (\$0.4 million).

Total surgical cases increased by 6.1%, as outpatient cases increased by 6.4%, and observation cases increased by 40.5%, while inpatient cases decreased by 7.1%. Surgical case volume was up at all Facilities, except OSH and SCNC, with SFSH experiencing the largest increase. Surgical case volume shifts by payor over the same period last year came predominantly from Medicare, which increased by 14.2%, and Blue Cross/Blue Shield, which increased by 9.7%. Pain cases were up by 28.0% compared to the same period last year, driven mainly by ASH.

The ability to qualify for government stimulus funds under the various programs, and the timing of receipts and recognition of income may differ between individual Facilities.

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

- ASH's revenue increased mainly due to higher surgical case volume, an increase in pain procedures, the impact of case mix with more orthopedic cases, an increase in government stimulus income, and the impact of moving the anesthesia service and related billing in-house in the current year.
- OSH's revenue decreased mainly due to lower surgical case volume, partly offset by the combined impact of case and payor mix, including growth in high acuity spine cases, and an increase in pain procedures.
- BHSH's revenue decreased mainly due to a decrease in government stimulus income, along with the combined impact of case and payor mix, including less orthopedic and spine cases and a higher percentage of government payors, as well as the shutdown of one BHSH's urgent care centres in December 2021. This was partly offset by an increase in revenues from the remaining urgent care centres, and higher surgical case volume.
- SFSH's revenue increased mainly due to an increase in surgical case volume boosted by recent physician recruitments, complemented by payor mix with a higher percentage of commercial payors. This was partly offset by the impact of case mix, along with a decrease in government stimulus income.
- SCNC's revenue increased mainly due to an increase in government stimulus income, complemented by the combined impact of case and payor mix, including increased total joints and a higher percentage of commercial payors.

- MFC Nueterra ASCs' revenue increased mainly due to the combined impact of case and payor mix, along with higher surgical case volume, and an increase in pain procedures.

## Operating Expenses

For the three months ended March 31, 2022, operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses (“G&A”), depreciation of property and equipment, depreciation of right-of-use assets, and amortization of other intangibles (“operating expenses”), increased by \$8.1 million or 10.2% from the same period in the prior year to \$87.9 million, mainly due to increased G&A from higher corporate level costs related to share-based compensation plans due to larger increases in the Corporation’s share price in the current year, and increases in other G&A costs, along with higher drugs and supplies costs due to case mix. As a percentage of total revenue and other income, operating expenses increased to 85.7% from 81.3% in the same period a year earlier.

<i>Unaudited</i>	<b>Three Months Ended March 31,</b>					
<i>In thousands of U.S. dollars</i>	<b>2022</b>	<b>Percentage of Revenue</b>	<b>2021</b>	<b>Percentage of Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
ASH	15,905	83.7%	12,670	83.3%	3,235	25.5%
OSH	16,250	91.8%	17,095	95.0%	(845)	(4.9%)
BHSH	19,618	86.0%	17,998	68.1%	1,620	9.0%
SFSH	23,299	68.2%	20,722	67.0%	2,577	12.4%
SCNC	2,092	73.9%	2,059	94.9%	33	1.6%
MFC Nueterra ASCs	5,849	96.4%	4,879	90.7%	970	19.9%
Corporate	4,905	n/a	4,347	n/a	558	12.8%
<b>Operating expenses</b>	<b>87,918</b>	<b>85.7%</b>	<b>79,770</b>	<b>81.3%</b>	<b>8,148</b>	<b>10.2%</b>

Consolidated salaries and benefits increased by \$0.8 million or 2.9%, primarily due to increases in both clinical and non-clinical salaries and wages (\$1.2 million) as a result of annual increases and staff retention premiums due to the shortage of nurses. This was partly offset by lower benefit costs from decreased health plan utilization (\$0.2 million), and the shutdown of one of BHSH’s urgent care centres in December 2021 (\$0.2 million). As a percentage of total revenue and other income, consolidated salaries and benefits decreased to 29.1% from 29.6% a year earlier.

Consolidated drugs and supplies increased by \$3.7 million or 12.2%, primarily driven by case mix (\$3.3 million), which included increased orthopedic and higher acuity spine cases, and the impact of higher surgical case volume (\$1.0 million). This was partly offset by the reclassification of costs pertaining to SFSH’s accountable care organization (“ACO”) to G&A in the current year (\$0.6 million). As a percentage of total revenue and other income, the consolidated cost of drugs and supplies increased to 32.9% from 30.7% a year earlier.

Consolidated G&A increased by \$5.3 million or 38.1%. The increase in G&A was mainly attributable to higher corporate level costs related to share-based compensation plans driven by larger increases in the Corporation’s share price in the current year (\$1.5 million), the impact of ASH moving its anesthesia service and related billing in-house in the current year (\$1.2 million), costs pertaining to SFSH’s ACO in the current year (\$0.8 million), along with increases in various administrative and facility related expenses (\$0.8 million), higher professional and billing fees (\$0.7 million), and an increase in marketing costs (\$0.2 million). As a percentage of total revenue and other income, consolidated G&A increased to 18.6% from 14.1% a year earlier.

Consolidated depreciation of property and equipment remained consistent year over year, as the impact of the acquisition of fixed assets was offset by certain assets being fully depreciated. As a percentage of total revenue and other income, consolidated depreciation of property and equipment decreased to 2.3% from 2.4% a year earlier.

Consolidated depreciation of right-of-use assets increased by \$0.1 million or 3.8%, mainly due to the addition of new leases, partly offset by the expiration and termination of certain leases. As a percentage of total revenue and other income, consolidated depreciation of right-of-use assets remained consistent at 2.6% year over year.

Consolidated amortization of other intangibles decreased by \$1.7 million or 91.6%, mainly due to most other intangibles being fully amortized. As a percentage of total revenue and other income, consolidated amortization of other intangibles decreased to 0.2% from 1.9% a year earlier.

## Income from Operations

Consolidated income from operations for the three months ended March 31, 2022 of \$14.7 million was \$3.7 million or 20.0% lower than consolidated income from operations of \$18.4 million, recorded in the same period a year earlier, representing 14.3% of revenue and other income, compared to 18.7% in the same period in 2021. The decrease is mainly the result of lower income from operations at the Facilities, driven by BHSH, inclusive of the decline in government stimulus income.

<i>Unaudited</i>	<b>Three Months Ended March 31,</b>					
<i>In thousands of U.S. dollars</i>	<b>2022</b>	<b>Percentage of Revenue</b>	<b>2021</b>	<b>Percentage of Revenue</b>	<b>\$ Change</b>	<b>% Change</b>
ASH	3,091	16.3%	2,548	16.7%	543	21.3%
OSH	1,459	8.2%	903	5.0%	556	61.6%
BHSH	3,204	14.0%	8,415	31.9%	(5,211)	(61.9%)
SFSH	10,874	31.8%	10,226	33.0%	648	6.3%
SCNC	739	26.1%	111	5.1%	628	565.8%
MFC Nueterra ASCs	218	3.6%	503	9.3%	(285)	(56.7%)
Corporate	(4,905)	n/a	(4,347)	n/a	(558)	(12.8%)
<b>Income from operations</b>	<b>14,680</b>	<b>14.3%</b>	<b>18,359</b>	<b>18.7%</b>	<b>(3,679)</b>	<b>(20.0%)</b>

## Finance Costs

### *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 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 change in value of exchangeable interest liability increased by \$8.4 million, primarily driven by the increase in the price of the Corporation's common shares in the current year.

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

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	<b>March 31, 2022</b> <i>Unaudited</i>	<b>December 31, 2021</b>	<b>Change</b>	<b>March 31, 2021</b> <i>Unaudited</i>	<b>December 31, 2020</b>	<b>Change</b>
Number of common shares to be issued for exchangeable interest liability	6,174,070	6,161,517	12,553	6,210,780	6,157,396	53,384
Closing price of the Corporation's common shares ( <i>unaudited</i> )	C\$11.32	C\$9.35	C\$1.97	C\$7.28	C\$7.04	C\$0.24
Closing exchange rate of U.S. dollar to Canadian dollar ( <i>unaudited</i> )	\$1.2507	\$1.2640	(\$0.0133)	\$1.2564	\$1.2735	(\$0.0171)
<b>Exchangeable interest liability</b>	<b>55,881</b>	<b>45,578</b>	<b>10,303</b>	<b>35,987</b>	<b>34,039</b>	<b>1,948</b>

### ***Interest on Exchangeable Interest Liability***

Interest expense on the exchangeable interest liability decreased by \$0.5 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, decreased by \$0.1 million mainly due to lower interest expense on lease liabilities, lower credit facility interest expense at corporate level due to the lower outstanding balance and interest rate, and lower interest expense at the Facilities' level.

### ***Impairment Loss on Loan Receivable***

Impairment loss on loan receivable increased by \$4.0 million, as a result of re-evaluating 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 are made in Canadian dollars. Foreign currency loss increased marginally due to the relative change in foreign exchange rates.

### **Share of Equity Loss (Income) in Associates**

The Corporation's share of equity loss in associates accounted for using the equity method decreased marginally due to the Corporation's share of net loss in the prior year from St. Luke's Surgery Center of Chesterfield, LLC, whose investment balance was written down to nil at the start of the prior year.

## Income Tax

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

<i>Unaudited</i>	<b>Three Months Ended March 31,</b>			
<i>In thousands of U.S. dollars</i>	<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
Current income tax expense	462	1,228	(766)	(62.4%)
Deferred income tax expense (recovery)	(2,556)	591	(3,147)	(532.5%)
<b>Income tax expense (recovery)</b>	<b>(2,094)</b>	<b>1,819</b>	<b>(3,913)</b>	<b>(215.1%)</b>

The decrease in current income tax expense versus last year was primarily due to the tax impact of the \$4.0 million impairment loss on loan receivable in the current year. 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 (Loss)

The \$11.4 million decrease in net income (loss) for the period 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”) and the impairment loss on the loan receivable from UMASH, along with lower income from operations at the Facilities, partly offset by lower income tax expense.

## EBITDA

EBITDA of \$19.8 million decreased by \$5.3 million from \$25.1 million recorded a year earlier, representing 19.3% of revenue and other income compared to 25.6% a year earlier, mainly driven by a significant decrease at BSHS, as the combined impact across the Facilities of higher operating expenses and a decrease in government stimulus income, exceeded the increase in facility service revenue. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of net income (loss) for the period to EBITDA.”

## 6. QUARTERLY OPERATING AND FINANCIAL RESULTS

### Summary of Quarterly Operating and Financial Results from Continuing Operations

<i>Unaudited</i>	2022		2021			2020		
<i>In thousands of U.S. dollars, except per share amounts</i>	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Revenue and other income</b>								
Facility service revenue	100,788	110,677	96,388	97,572	93,996	107,111	96,322	67,659
Government stimulus income	1,810	5,742	2,652	572	4,133	2,372	2,491	21,145
	<b>102,598</b>	<b>116,419</b>	<b>99,040</b>	<b>98,144</b>	<b>98,129</b>	<b>109,483</b>	<b>98,813</b>	<b>88,804</b>
<b>Operating expenses</b>								
Salaries and benefits	29,899	31,804	29,978	29,066	29,053	30,359	28,795	26,794
Drugs and supplies	33,756	37,316	31,057	31,561	30,093	34,895	32,696	22,910
General and administrative expenses	19,126	15,346	14,661	13,819	13,851	15,808	12,772	14,497
Depreciation of property and equipment	2,345	2,356	2,325	2,324	2,361	2,404	2,445	2,469
Depreciation of right-of-use assets	2,635	2,545	2,549	2,539	2,539	2,549	2,483	2,521
Amortization of other intangibles	157	1,550	1,915	1,893	1,873	1,867	2,050	2,027
	<b>87,918</b>	<b>90,917</b>	<b>82,485</b>	<b>81,202</b>	<b>79,770</b>	<b>87,882</b>	<b>81,241</b>	<b>71,218</b>
<b>Income from operations</b>	<b>14,680</b>	<b>25,502</b>	<b>16,555</b>	<b>16,942</b>	<b>18,359</b>	<b>21,601</b>	<b>17,572</b>	<b>17,586</b>
<b>Finance costs</b>								
Change in value of exchangeable interest liability	10,303	(635)	12,559	(2,333)	1,948	13,534	(23)	5,549
Interest expense on exchangeable interest liability	2,191	2,152	1,711	2,145	2,699	2,062	2,061	686
Interest expense, net of interest income	1,401	1,439	1,468	1,615	1,542	1,491	2,216	915
Impairment loss (gain) on loan receivable	3,990	-	-	-	-	-	-	(681)
Loss (gain) on foreign currency	10	47	(11)	(4)	2	(2)	38	(19)
	<b>17,895</b>	<b>3,003</b>	<b>15,727</b>	<b>1,423</b>	<b>6,191</b>	<b>17,085</b>	<b>4,292</b>	<b>6,450</b>
Share of equity loss (income) in associates	(6)	(12)	(5)	100	42	231	672	476
<b>Income (loss) before income taxes</b>	<b>(3,209)</b>	<b>22,511</b>	<b>833</b>	<b>15,419</b>	<b>12,126</b>	<b>4,285</b>	<b>12,608</b>	<b>10,660</b>
Income tax expense (recovery)	(2,094)	1,608	(2,594)	3,563	1,819	(1,331)	2,786	3,283
<b>Net income (loss) for the period from continuing operations</b>	<b>(1,115)</b>	<b>20,903</b>	<b>3,427</b>	<b>11,856</b>	<b>10,307</b>	<b>5,616</b>	<b>9,822</b>	<b>7,377</b>
Attributable to:								
Owners of the Corporation	(7,861)	10,252	(3,545)	5,321	3,472	(3,071)	2,998	241
Non-controlling interest	6,746	10,651	6,972	6,535	6,835	8,687	6,824	7,136
Earnings (loss) per share attributable to owners of the Corporation:								
Basic	(\$0.26)	\$0.33	(\$0.11)	\$0.17	\$0.11	(\$0.10)	\$0.10	\$0.01
Fully diluted	(\$0.26)	\$0.32	(\$0.11)	\$0.15	\$0.11	(\$0.10)	\$0.10	\$0.01
<b>Reconciliation of net income (loss) for the period from continuing operations to EBITDA <sup>(1)</sup></b>								
Net income (loss) for the period from continuing operations	(1,115)	20,903	3,427	11,856	10,307	5,616	9,822	7,377
Income tax expense (recovery)	(2,094)	1,608	(2,594)	3,563	1,819	(1,331)	2,786	3,283
Share of equity loss (income) in associates	(6)	(12)	(5)	100	42	231	672	476
Finance costs	17,895	3,003	15,727	1,423	6,191	17,085	4,292	6,450
Depreciation of property and equipment	2,345	2,356	2,325	2,324	2,361	2,404	2,445	2,469
Depreciation of right-of-use assets	2,635	2,545	2,549	2,539	2,539	2,549	2,483	2,521
Amortization of other intangibles	157	1,550	1,915	1,893	1,873	1,867	2,050	2,027
<b>EBITDA <sup>(1)</sup></b>	<b>19,817</b>	<b>31,953</b>	<b>23,344</b>	<b>23,698</b>	<b>25,132</b>	<b>28,421</b>	<b>24,550</b>	<b>24,603</b>

<sup>(1)</sup> Non-IFRS financial measures. 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 U.S. state or local government mandate. Both such restrictions were lifted by mid-May 2020, but the pandemic continues to impact case volume across the Facilities, and there is no certainty that similar restrictions will not be re-instated.
- As part of the CARES Act and other stimulus legislation in response to the COVID-19 pandemic, the Facilities received financial assistance and recorded some of the funds as government stimulus income during 2020 and 2021. There is no certainty that such programs will be extended or replaced if the pandemic continues.
- The changes in operating expenses are generally consistent with fluctuations in case volumes and case mix. Operating expenses have also been impacted by costs related to an ACO previously established by SFSH, as well as a management agreement for the orthopedic service line that SFSH entered into. The existing ACO ended December 31, 2021, and SFSH established a new ACO starting January 1, 2022, to replace it (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 2020 and 2021. In September 2020, the Corporation sold all of its controlling ownership interest in TRSC and recorded a gain on the sale.
- 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.
- In December 2021, the operations of an urgent care centre affiliated with BSHS, located in Spearfish, South Dakota, were shut down. The Corporation recorded a gain on termination of the urgent care's premises lease as a result of its closure.
- 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 2020, 2021 and 2022, 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, taxable (deductible) foreign exchange gains (losses), and temporary beneficial tax provisions under the CARES Act, which may not be extended for future periods. 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, and the impact of measures introduced by the CARES Act.

## 7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

The following table presents the 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 March 31,		
	2022 \$	2021 <sup>(1)</sup> \$	
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>USD</b>	<b>11,438</b>	<b>20,250</b>
Non-controlling interest in cash flows of the Facilities <sup>(2)</sup>		(8,860)	(9,524)
Interest expense on exchangeable interest liability <sup>(3)</sup>		2,191	2,699
Payment of lease liabilities <sup>(4)</sup>		(2,934)	(3,024)
Maintenance capital expenditures <sup>(5)</sup>		(737)	(929)
Difference between accrual-based amounts and actual cash flows related to interest and taxes <sup>(6)</sup>		(483)	(1,263)
Net changes in non-cash operating working capital <sup>(1)(7)</sup>		5,503	1,500
Share-based compensation <sup>(8)</sup>		(54)	(80)
Repayments of notes payable by the Facilities <sup>(9)</sup>		(1,718)	(3,390)
<b>CASH AVAILABLE FOR DISTRIBUTION</b>	<b>USD</b>	<b>4,346</b>	<b>6,239</b>
	<b>CDN</b>	<b>5,503</b>	<b>7,899</b>
<b>DISTRIBUTIONS</b>	<b>CDN</b>	<b>2,448</b>	<b>2,177</b>
<b>CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE <sup>(10)</sup></b>	<b>CDN</b>	<b>\$0.180</b>	<b>\$0.254</b>
<b>TOTAL DISTRIBUTIONS PER COMMON SHARE <sup>(10)</sup></b>	<b>CDN</b>	<b>\$0.080</b>	<b>\$0.070</b>
<b>PAYOUT RATIO</b>		<b>44.4%</b>	<b>27.6%</b>
Average exchange rate of Cdn\$ to US\$ for the period		1.2662	1.2660
Weighted average number of common shares outstanding		30,525,026	31,106,259

<sup>(1)</sup> For the comparative period, management has reclassified the cash flows from payor advances and government stimulus funds repayable from financing activities to operating activities, and included these in the change in non-cash operating working capital items, as these are a result of the Corporation's operational activities.

<sup>(2)</sup> 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. This is calculated by multiplying the distributable cash flows from each Facility with the respective ownership share of the non-controlling interest holders.

<sup>(3)</sup> Interest expense on exchangeable interest liability represents a notional amount of interest expense deducted in the determination of net 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. It is included in the Corporation's consolidated statements of income and comprehensive income.

<sup>(4)</sup> 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 cash flows from financing activities in the Corporation's interim condensed consolidated statements of cash flows.

<sup>(5)</sup> 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. Maintenance capital expenditures, together with major capital expenditures, comprise the purchase of property and equipment, which is included in cash flows from investing activities in the Corporation's interim condensed consolidated statements of cash flows.

<sup>(6)</sup> Cash flows from operating activities, as presented in the Corporation's interim condensed 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, and income and withholding taxes is included in the table above.

<sup>(7)</sup> While changes in non-cash operating working capital are included in the calculation of net cash provided by operating activities in the Corporation's interim condensed consolidated statements of cash flows, 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.

<sup>(8)</sup> 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. It is included in the Corporation's interim condensed consolidated statements of changes in equity.

<sup>(9)</sup> Repayments of notes payable by the Facilities, comprising of interest and principal repayments on non-revolving debt obligations, reflects contractual obligations of the Facilities and is deducted in the calculation of cash available for distribution. It is included in cash flows from financing activities in the Corporation's interim condensed consolidated statements of cash flows.

<sup>(10)</sup> Calculated based on the weighted average number of common shares outstanding.

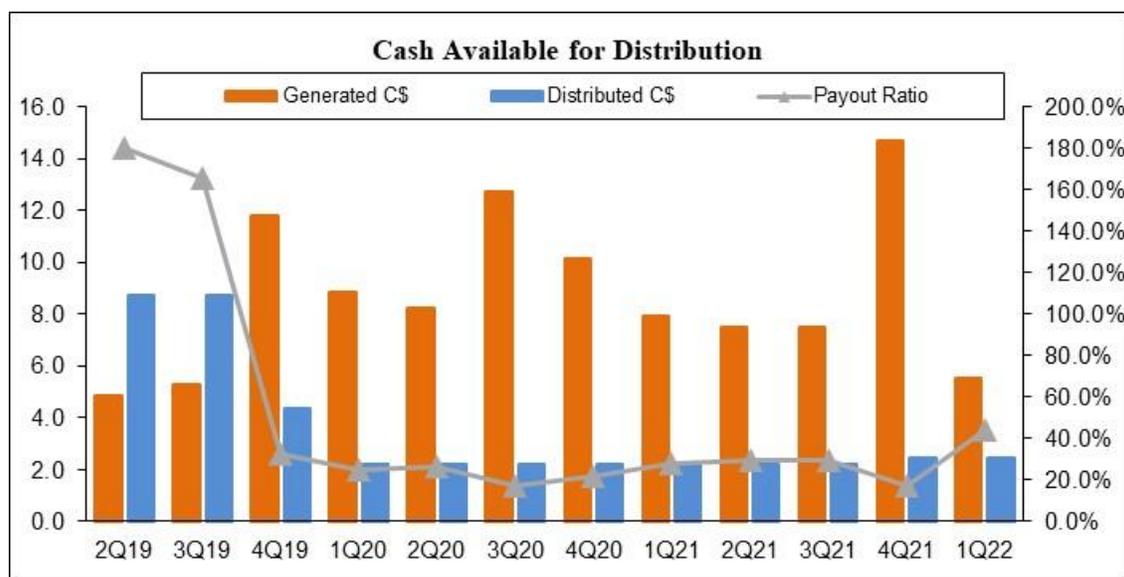
Cash available for distribution in the three months ended March 31, 2022 (Cdn\$5.5 million) decreased by Cdn\$2.4 million compared to the cash available for distribution the same period last year (Cdn\$7.9 million). On a per common share basis, cash available for distribution of Cdn\$0.180 decreased by Cdn\$0.074, or 29.1% from the same period last year of Cdn\$0.254. The distributions per common share of Cdn\$0.080 increased by Cdn\$0.010, or 14.3%, from the same period last year of Cdn\$0.070, resulting in a payout ratio of 44.4% as compared to a payout ratio of 27.6% in the same period in 2021.

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:

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	<b>Three Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from the Facilities:</b>		
Income before interest expense, depreciation and amortization	24,462	27,545
Debt service costs:		
Interest	(474)	(548)
Repayment of non-revolving debt	(1,718)	(3,390)
Maintenance capital expenditures	(737)	(929)
Payment of lease liabilities	(2,884)	(2,973)
Non-cash loss (gain)	(5)	4
Cash available for distribution at Facility level	18,644	19,709
Non-controlling interest in cash available for distribution at Facility level	(8,860)	(9,524)
<b>Corporation's share of the cash available for distribution at Facility level</b>	<b>9,784</b>	<b>10,185</b>
Corporate expenses	(4,879)	(2,497)
Share of equity income (loss) in associates	6	(42)
Interest on corporate credit facility	(103)	(179)
Recoveries of (provision for) current income taxes	(462)	(1,228)
<b>Cash available for distribution</b>	<b>4,346</b>	<b>6,239</b>

Compared to the three months ended March 31, 2021, the cash available for distribution in U.S. dollars for the same period this year decreased by 30.3%, mainly due to lower income from Facilities, and higher corporate expenses driven by costs related to share-based compensation plans, partly offset by lower debt service costs and maintenance capital expenditures at the Facilities, and lower current 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 ongoing 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 the 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 working toward a return to their normal operations, the overall vaccine acceptance rate among patients, physicians, and staff, and the efficacy of the COVID-19 vaccines against the virus and its variants, could greatly influence the progress to return to normal operations.

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 U.S. 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, including the impact on the supply chain, with reported delays and increased lead times in acquiring supplies since the onset of the 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 U.S. 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.

Changes in the U.S. federal government's political priorities could have potential implications on the healthcare industry, including but not limited to the government response to COVID-19 and potential modifications to the PPACA, which could result in changes to healthcare coverage including case volume and reimbursement rates. The likelihood of a repeal of the PPACA has diminished with the new U.S. administration.

Hospitals throughout the U.S. continue to face a shortage of nurses and other healthcare workers, compounded by the COVID-19 pandemic. The pandemic has also caused an exodus of experienced nurses from the industry, as well as turnover among early-career nurses, impacting the ability of hospitals to operate at full capacity. The shortage has led hospitals, including MFC Facilities, to accelerate their hiring processes and offer enhanced salary and benefit packages to attract and retain staff. Further, the vaccine mandate implemented by the CMS, detailed below, could potentially aggravate the shortage. The full duration and impact of this shortage is indeterminable at this time.

On November 4, 2021, CMS announced COVID-19 vaccination requirements for eligible staff at health care facilities participating in Medicare and Medicaid programs. CMS issued updated Memorandums on December 28, 2021, and January 14, 2022, each providing compliance timelines for specific states, respectively. Under the guidance, eligible facilities are mandated to develop processes and plans for:

- vaccinating all eligible staff;
- providing exemptions and accommodations for those who are exempt; and
- tracking and documenting staff vaccinations.

These requirements apply to all eligible staff working in the facility, regardless of their clinical responsibility or patient contact. However, the regulation also allows exemptions centered on medical conditions or religious beliefs, observances, or practices. Accommodations for exempt employees include but are not limited to testing, physical distancing and source control.

In order to meet the COVID-19 vaccine guidelines, facilities had to create a policy to determine if all eligible staff have received the first dose of a two-dose COVID-19 vaccine or a single-dose COVID-19 vaccine, prior to providing care, treatment, or other health care services, by January 28, 2022 / February 14, 2022 (differed by state). All eligible staff must have received the necessary doses (one single-dose vaccine or the completion of a two-dose vaccine) to be fully vaccinated by February 28, 2022 / March 16, 2022 (differed by state).

CMS will ensure compliance with these requirements through established survey and enforcement processes. Facilities out of compliance will be cited and provided an opportunity to return to compliance before enforcement remedies such as civil monetary penalties, denial of payment, and termination from the Medicare and Medicaid program are employed.

MFC Facilities have successfully developed and implemented relevant policies and procedures to ensure compliance with the requirements of this federal vaccine mandate.

## **Management Strategies**

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Facilities, including the leveraging of its existing network to create de novo ASCs, along with the acquisitions and development of new, accretive ASCs that are complementary to the Corporation's core business. 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 and de novo pipeline and to investigate accretive acquisition targets that meet the Corporation's acquisition criteria to include facilities with:

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

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

## **U.S. Tax Reform**

Management expects that it will be able to utilize carryforwards of disallowed current year interest expense deductions to future years. Pursuant to the *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 this year (2021), versus earnings before interest and taxes thereafter (2022 and beyond). One of the tax relief measures under the CARES Act increased 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 the impact of COVID-19, 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 Facilities' 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 and Facilities' liquidity, ability to meet debt covenants, and ability to repay outstanding debts 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 and Facilities may obtain any additional funding.

### Cash Balances

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

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	March 31, 2022	December 31, 2021
Cash and cash equivalents at Facility level	29,681	38,360
Cash and cash equivalents at corporate level	20,574	22,684
<b>Cash and cash equivalents</b>	<b>50,255</b>	<b>61,044</b>

### Cash Flow Activity

#### Cash Flow

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	Three Months Ended March 31,			
	2022	2021 <sup>(1)</sup>	\$ Change	% Change
Cash provided by operating activities <sup>(1)</sup>	11,438	20,250	(8,812)	(43.5%)
Cash used in investing activities	(395)	(1,152)	757	65.7%
Cash used in financing activities <sup>(1)</sup>	(21,822)	(27,272)	5,450	20.0%
<b>Decrease in cash and cash equivalents</b>	<b>(10,779)</b>	<b>(8,174)</b>	<b>(2,605)</b>	<b>(31.9%)</b>
Effect of exchange rate fluctuations on cash balances held	(10)	(2)	(8)	(400.0%)
Cash and cash equivalents, beginning of the period	61,044	66,182	(5,138)	(7.8%)
<b>Cash and cash equivalents, end of the period</b>	<b>50,255</b>	<b>58,006</b>	<b>(7,751)</b>	<b>(13.4%)</b>

<sup>(1)</sup> For the comparative period, management has reclassified the cash flows from payor advances and government stimulus funds repayable from financing activities to operating activities, as these are a result of the Corporation's operational activities.

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 three months ended March 31, 2022 decreased by \$8.8 million compared to the same period in 2021, primarily due to lower income from the Facilities' operations, and the decrease in payor advances and government stimulus funds received.

As at March 31, 2022, the Corporation had consolidated net working capital of \$61.4 million compared to \$67.4 million as at December 31, 2021. The change was mainly due to a decrease in cash and cash equivalents, and a

decrease in accounts receivable, partly offset by decreases in payor advances and government stimulus funds repayable, accounts payable, and accrued liabilities. 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 March 31, 2022, accounts receivable were \$58.7 million (December 31, 2021: \$61.4 million), accounts payable and accrued liabilities totaled \$44.2 million (December 31, 2021: \$48.9 million), total assets were \$423.8 million (December 31, 2021: \$447.0 million) and total long-term liabilities, excluding exchangeable interest liability, were \$128.7 million (December 31, 2021: \$140.2 million).

### ***Investing Activities***

The \$0.8 million decrease in cash used in investing activities for the three months ended March 31, 2022 compared to the same period in 2021 was due to a decrease in purchases of property and equipment (\$0.4 million), and the current year proceeds from the sale of non-controlling ownership interest in BHSP (\$0.3 million).

### ***Financing Activities***

The \$5.5 million decrease in cash used in financing activities for the three months ended March 31, 2022 was mainly due to lower net repayments of credit facilities and other borrowings at both Facility and corporate level (\$6.6 million), lower Facility distributions to non-controlling interest (\$1.9 million), partly offset by purchase of common shares under the terms of a normal course issuer bid in the current year (\$3.0 million).

The Facilities have available credit facilities in place in the aggregate amount of \$29.5 million, of which \$3.8 million was drawn as at March 31, 2022. The balances available under the credit facilities, combined with cash and cash equivalents as at March 31, 2022, 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 March 31, 2022, \$21.0 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 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). The Corporation repaid \$46.8 million of its outstanding balance during the year ended December 31, 2020, \$12.0 million during the year ended December 31, 2021, and \$5.0 million during the three months ended March 31, 2022. As at March 31, 2022, 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 March 31, 2022, are as follows:

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	Future payments (including principal and interest)					
	Carrying values at March 31, 2022	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Obligations	\$	\$	\$	\$	\$	\$
Dividends payable	1,957	1,957	1,957	-	-	-
Accounts payable	21,099	21,099	21,099	-	-	-
Accrued liabilities	23,129	23,129	23,129	-	-	-
Payor advances and government stimulus funds repayable	11,740	11,740	11,740	-	-	-
Corporate credit facility	21,000	21,468	330	21,138	-	-
Facilities' revolving credit facilities	3,789	3,881	521	3,360	-	-
Notes payable	48,350	55,606	7,128	13,889	16,111	18,478
Lease liabilities	58,984	70,616	11,864	20,232	14,775	23,745
<b>Total contractual obligations</b>	<b>190,048</b>	<b>209,496</b>	<b>77,768</b>	<b>58,619</b>	<b>30,886</b>	<b>42,223</b>

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 March 31, 2022:

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
<b>Total number of outstanding options</b>	<b>1,944,906</b>		

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 March 31, 2022, 794,906 of the Options relating to the Chief Development Officer, the Former Chief Executive Officer and the Former Chief Financial Officer are vested.

As at March 31, 2022, the Corporation had 30,405,159 common shares outstanding.

## **Normal Course Issuer Bid**

The Corporation has a normal course issuer bid in effect from December 1, 2021 to November 30, 2022. Under the normal course issuer bid, the Corporation may purchase up to 3,101,774 of its common shares (increased from 1,555,312, effective April 7, 2022), subject to certain purchase restrictions and in compliance with the rules of the Toronto Stock Exchange. During the three months ended March 31, 2022, the Corporation purchased 391,100 of its common shares for a total consideration of \$3.0 million from the open market. During the three months ended March 31, 2021, the Corporation did not purchase 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. Cash distributions declared in the period from January 1, 2022 to March 31, 2022 totaled Cdn\$0.0805 per common share.

## **Dividend Reinvestment and Share Purchase Plan**

The Corporation has a Dividend Reinvestment and Share Purchase Plan which allows shareholders resident in Canada to automatically re-invest, in a cost-effective manner, the 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 March 31, 2022 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.

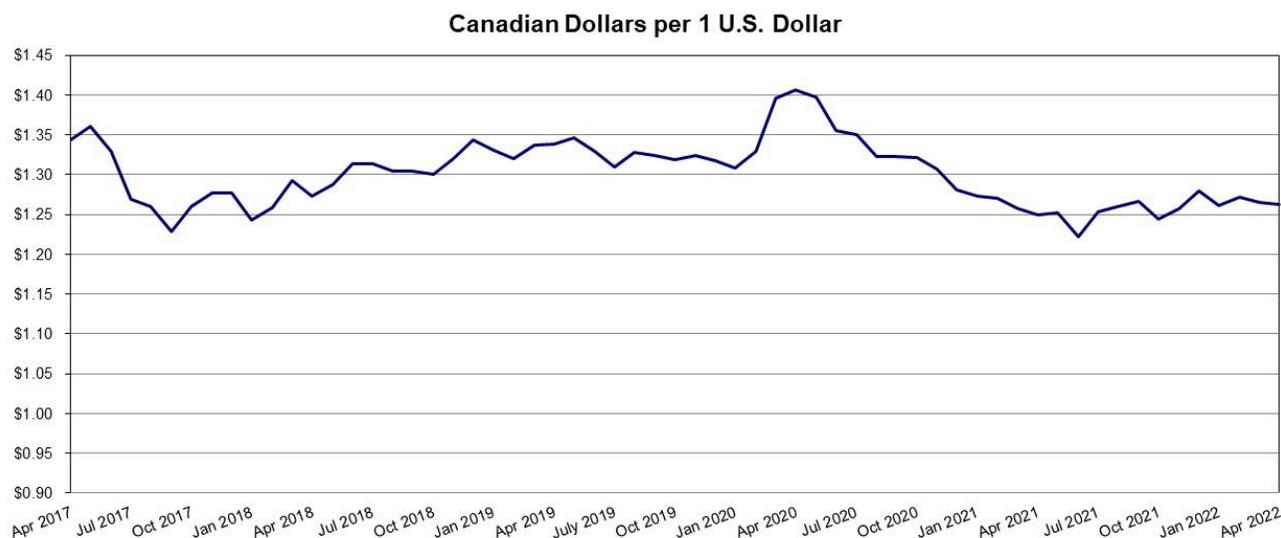
The gross carrying value of the loan receivable on initial recognition is revaluated and adjusted using the loss allowance reserved on the loan. The loss allowance is determined based on the lifetime expected credit loss model at each reporting date. The fair value of exchangeable interest liability 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 approximate their carrying values due to the short-term nature of these instruments.

## **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 April 2017:



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 March 31, 2022, the Corporation did not hold any foreign exchange forward contracts.

### **Credit Risk**

The substantial portion of the Corporation’s accounts receivable balance is with U.S. 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. 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 as prices change. Share price risk includes the impact of foreign exchange because common shares are quoted in Canadian dollars. 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 three months ended March 31, 2022 of \$1.1 million (March 31, 2021: \$1.1 million).

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facility space and equipment. These parties are considered related as the Facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. For the three months ended March 31, 2021, BSHS paid Mountain Plains Real Estate Holdings, LLC a nominal amount for the use of a facility.

SFSH had a wholly owned subsidiary designed to function as an 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 existing ACO ended December 31, 2021. It has been replaced by a new ACO starting January 1, 2022, in which SFSH is a 50% owner through a wholly owned subsidiary that also provides management services to the new ACO.

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

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>		<b>Three Months Ended March 31,</b>	
<b>Entity</b>	<b>Nature of services or goods received</b>	<b>2022</b>	<b>2021</b>
		<b>\$</b>	<b>\$</b>
ASH	Lease of facility building and anesthesia equipment lease.	1,111	1,088
OSH	Lease of hospital building, and lease of office space.	636	392
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	377	242
SFSH	Provision of management services in relation to orthopedic service line, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, laundry services, facility and related equipment, shared services, and lease of urgent care building.	2,569	2,670
MFC Nueterra ASCs	Provision of management services, physician professional services, and lease of ASC building.	432	670
<b>Total</b>		<b>5,125</b>	<b>5,062</b>

### 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 significant 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

Significant management judgment is involved in application of portfolio approach to major payor classes to estimate the explicit and implicit price concessions. Estimates of explicit price concessions are based on contractual agreements, discount policies and historical experience. Estimates of implicit price concessions are based on historical collection experience.

#### 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. Estimation of allowance for non-collectible receivable balances involves uncertainty about future collections which could differ from the original estimates. 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 (“loan receivable”), 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 March 31, 2022, management recorded an impairment loss of \$4.0 million on the loan receivable.

### **Impairment of Non-Financial Assets**

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

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. 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 amount 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 the reporting date based on (i) the market capitalization of the outstanding common shares, and (ii) the Corporation's portion of the Facilities' long-term debt and lease liabilities, less (iii) cash on hand.

Management performed an assessment of impairment indicators mentioned above as at March 31, 2022, and determined that there has been no impairment of non-financial assets, including goodwill and other intangibles.

## **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 (“COSO”) framework to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes in the Corporation’s ICFR during the period beginning on January 1, 2022 and ending on March 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR.

## **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](http://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 31, 2022). 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, including the impacts from supply chain issues, the shortage of nurses, and the vaccine mandate implemented by the CMS, 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.