



**MANAGEMENT’S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
FOR THE THREE AND NINE-MONTH PERIODS
ENDED SEPTEMBER 30, 2017**

November 8, 2017

The following Management’s Discussion and Analysis (“MD&A”) is intended to assist readers in understanding Medical Facilities Corporation (the “Corporation”), its business environment, strategies, performance, outlook and the risks applicable to the Corporation. It is supplemental to and should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes (the “financial statements”) of the Corporation for the three and nine months ended September 30, 2017, 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, 2016, 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, 2016 (“annual MD&A”).

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

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

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1. CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

Inherent in the forward-looking information are known and unknown risks, uncertainties and other factors that could cause actual results, performance or achievements, or industry results, to differ materially from any results, performance or achievements expressed or implied by such forward-looking information. Those risks, uncertainties and other factors that could cause actual results to differ materially from the forward-looking information include, but are not limited to: 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 (both of which are available on SEDAR at www.sedar.com).

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

3. BUSINESS OVERVIEW

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

The Corporation's operations are based in the United States. Through its wholly-owned U.S.-based subsidiaries, Medical Facilities America, Inc. and Medical Facilities (USA) Holdings, Inc., the Corporation owns controlling interests in, and/or controls by virtue of the power to govern, and derives substantially all of its income from, seven limited liability entities (each a "Facility" and, collectively, the "Facilities"), six of which own either a specialty surgical hospital ("SSH") or an ambulatory surgery center (an "ASC"). The SSHs are located in Arkansas, Indiana, Oklahoma, and South Dakota, and the ASC is located in California. ASCs are specialized surgical centers that only provide outpatient

procedures, whereas SSHs are licensed for both inpatient and outpatient surgeries. The Facilities provide services, 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 orthopedic, neurosurgery, pain management and other non-emergency elective procedures. In addition, two of the SSHs provide primary and urgent care to their communities.

In addition, the Corporation holds a 51% controlling interest in Integrated Medical Delivery, L.L.C. (“IMD”), a diversified healthcare service company located in Oklahoma City, Oklahoma that provides third-party business solutions to healthcare entities such as physician practices, facilities, and insurance companies.

On October 6, 2017, the Corporation and Arkansas Surgical Hospital (“ASH”), a subsidiary of the Corporation, entered into an agreement with a third party to establish an urgent care center in Little Rock, Arkansas. The ASH urgent care center (“ASH UCC”) will be designed to offer one-stop care for people of all ages who have a non-life-threatening illness or injury. As well as a complete medical staff, the center will provide imaging, laboratory and diagnostic services. The ASH UCC is expected to begin operations in December of 2017.

On October 3, 2016, Sioux Falls Specialty Hospital, LLP (“SFSH”), a subsidiary of the Corporation, acquired 100% of Prairie States Surgical Center, L.L.C. (“PSSC”) which owns and operates Prairie States Surgical Center located in Sioux Falls, South Dakota. PSSC was acquired for a purchase price of \$20,281, consisting of \$4,309 consideration in cash and \$15,972 of seller financing, which is required to be paid in equal instalments over a period of five years. PSSC is an 8,000 square foot facility with two operating rooms focused on providing facilities for orthopedic procedures, and has been integrated into the operations of SFSH. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of PSSC are included in the consolidated financial statements through the Corporation’s consolidation of SFSH.

On September 23, 2016, the Corporation acquired an effective 62% controlling interest in Unity Medical and Surgical Hospital (“UMASH”), a medical and surgical hospital located in Mishawaka, Indiana, for a cash purchase price of \$27,750, which was funded by a draw on the Corporation’s credit facility. UMASH is a 44,000 square foot, 29-bed Medicare-certified facility with four surgical and two special procedure suites focused on providing facilities for orthopedic, ophthalmology, podiatry, pain management, and spine surgery procedures. The transaction has been accounted for as a business combination with the Corporation consolidating 100% of the operations as at the acquisition date. The assets and liabilities of UMASH are included in the financial statements with the non-controlling portion reflected in non-controlling interest.

Black Hills Urgent Care, a 100% subsidiary of Black Hills Surgical Hospital, LLP (“BHSH”) a subsidiary of the Corporation, expanded its operations to a third location located in Spearfish, South Dakota, approximately 50 miles from Rapid City. The new urgent care facility opened in September 2016. Total project costs for the land and new building were \$4,325. The lower level of the facility houses urgent care with seven exam rooms, a digital x-ray machine, and lab. The upper level is occupied by various specialists who serve patients in the Spearfish market region, including the Northwestern Black Hills area, Eastern Wyoming and Eastern Montana. On December 23, 2016, the net assets of the Spearfish location were transferred from BHSH to a newly created entity, Mountain Plains Real Estate Holdings, LLC (“MPREH”). The Corporation has significant influence over MPREH, because of its equity position and because it has representation on its board. The Corporation uses the equity method to account for this investment which was valued at \$693 as of September 30, 2017.

On July 13, 2016, RRI Mishawaka Hospital, LP (“RRIMH”) purchased the real estate assets underlying UMASH, consisting of land and building, for \$27,387. RRIMH is a limited partnership in which the Corporation has an 92% interest and the remaining 8% interest in the partnership is held indirectly by Rainier Realty Investments, LP, a third party. The Corporation originally owned an 84% ownership interest in RRIMH, acquiring a further 8% interest on July 27, 2017 for \$245. By virtue of the Corporation having the power to govern this entity, the Corporation consolidates the results of operations and the financial position of this partnership in its financial statements. The purchase of the real estate assets was funded solely by a loan from the Corporation. The Corporation funded the loan from its available cash and a \$20,000 draw on its credit facility.

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 Arkansas Surgical Hospital) 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. The non-controlling interest owners of several Facilities have exercised portions of their exchangeable interests.

Summary of Facility Information as of September 30, 2017

	Arkansas Surgical Hospital ("ASH")	Unity Medical and Surgical Hospital ("UMASH")	Oklahoma Spine Hospital ("OSH")	Black Hills Surgical Hospital ("BHS")	Sioux Falls Specialty Hospital ("SFSH")	The Surgery Center of Newport Coast ("SCNC")
Location	North Little Rock Arkansas	Mishawaka Indiana	Oklahoma City Oklahoma	Rapid City South Dakota	Sioux Falls South Dakota	Newport Beach California
Year Opened	2005	2009	1999	1997	1985	2004
Year Acquired by the Corporation	2012	2016	2005	2004	2004	2008
Ownership Interest	51.0%	62.0%	60.3%	54.2%	51.0%	51.0%
Non-controlling Interest	49.0%	38.0%	39.7%	45.8%	49.0%	49.0%
Exchangeable Interest	5.0%	-	4.7%	10.8%	14.0%	-
Size	126,000 sq ft	44,000 sq ft	61,000 sq ft	75,000 sq ft	76,000 sq ft	7,000 sq ft
Operating Rooms	11	6	7	11	13	2
Overnight Rooms	41 ⁽¹⁾	29	25	26	35	-

⁽¹⁾ Licensed for 49 beds.

4. FINANCIAL AND PERFORMANCE HIGHLIGHTS

Selected Financial Information from Continuing Operations

Unaudited In thousands of U.S. dollars, except per share amounts and as indicated otherwise	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Facility service revenue	88,974	78,806	274,063	231,479
Operating expenses	76,542	64,624	232,118	188,708
Income from operations	12,432	14,182	41,945	42,771
Income (loss) for the period from continuing operations	2,165	(377)	29,028	978
Attributable to:				
Owners of the Corporation ⁽¹⁾	(3,560)	(6,836)	10,092	(18,360)
Non-controlling interest ⁽¹⁾	5,725	6,459	18,936	19,338
Earnings (loss) per share attributable to owners of the Corporation from continuing operations				
Basic	(\$ 0.11)	(\$ 0.22)	\$0.33	(\$ 0.59)
Fully diluted	(\$ 0.11)	(\$ 0.22)	\$0.33	(\$ 0.59)
EBITDA ⁽²⁾	19,348	19,622	62,568	58,441
Cash available for distribution ⁽³⁾	C\$ 12,318	C\$ 10,510	C\$ 34,934	C\$ 32,903
Distributions ⁽³⁾	C\$ 8,713	C\$ 8,732	C\$ 26,176	C\$ 26,197
Cash available for distribution per common share ⁽³⁾	C\$ 0.40	C\$ 0.34	C\$ 1.13	C\$ 1.06
Distributions per common share ⁽³⁾	C\$ 0.28	C\$ 0.28	C\$ 0.84	C\$ 0.84
Payout ratio ⁽³⁾	70.7%	83.1%	74.9%	79.6%

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

⁽²⁾ Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures and for a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under "Reconciliation of income for the period from continuing operations to EBITDA".

⁽³⁾ Non-IFRS financial measure. Please refer to Section 2 under the heading "Non-IFRS Financial Measures" for a discussion of such measures and to Section 7 under the heading "Reconciliation of Non-IFRS Financial Measures" for a reconciliation to the equivalent IFRS measure.

Selected Financial Information from Continuing Operations for the Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

For the three months ended September 30, 2017, revenue was \$89.0 million, an increase of \$10.2 million or 12.9% from \$78.8 million for the same period in 2016, made up of \$9.3 million from the acquisitions of UMASH and PSSC, and the new Urgent Care and Ear Nose Throat (“ENT”) clinics at BSHS, with the rest of the growth coming from same facility operations. EBITDA decreased by \$0.3 million or 1.5% to \$19.3 million, or 21.7% of revenue, compared to \$19.6 million, or 24.9% of revenue, a year earlier. Income from operations decreased by \$1.8 million or 12.3% to \$12.4 million, or 14.0% of revenue, compared to \$14.2 million, or 18.0% of revenue, a year earlier. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of income for the period from continuing operations to EBITDA”.

Income for the period from continuing operations was \$2.2 million compared to a loss of \$0.4 million in prior year quarter, with the increase mainly attributable to changes in the values of exchangeable interest liability and convertible debentures (refer to Section 5 “Consolidated Operating and Financial Review” of this MD&A under headings “Change in Value of Exchangeable Interest Liability” and “Change in Value of Convertible Debentures”), and foreign exchange gains, offset partly by lower income from operations.

The Corporation generated cash available for distribution of Cdn\$12.3 million, representing an increase of 17.1% from Cdn\$10.5 million in the prior year quarter. Distributions per common share remained consistent between the three months at Cdn\$0.281, while the payout ratio was 70.7% compared to 83.1% for the three months ended September 30, 2016. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

Selected Financial Information from Continuing Operations for the Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

For the nine months ended September 30, 2017, revenue was \$274.1 million, an increase of \$42.6 million or 18.4% from the same period in 2016, as UMASH and PSSC and the new Urgent Care and ENT clinics at BSHS generated \$31.7 million of incremental revenue, with the rest of the growth coming from same store operations. EBITDA increased by \$4.1 million or 7.1% to \$62.6 million or 22.8% of revenue compared to \$58.4 million or 25.2% for the same period last year. Income from operations decreased by \$0.8 million or 1.9% to \$41.9 million, or 15.3% of revenue, compared to \$42.8 million, or 18.5% of revenue in 2016, reflecting the impact of increased depreciation and amortization which exceeded EBITDA growth. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of income for the period from continuing operations to EBITDA”.

Income for the period from continuing operations was \$29.0 million compared to \$1.0 million in the same period last year. The increase in income from continuing operations was primarily due to changes in the value of the exchangeable interest liability and the value of convertible debentures (refer to Section 5 “Consolidated Operating and Financial Review” of this MD&A under headings “Change in Value of Exchangeable Interest Liability” and “Change in Value of Convertible Debentures”), offset partially by changes in income tax, higher interest expense, and lower income from operations.

The Corporation generated cash available for distribution of Cdn\$34.9 million, an increase of 6.1% from Cdn\$32.9 million in the prior year. Total distributions per common share remained consistent between the reporting periods at Cdn\$0.84, while the payout ratio was 74.9% compared to 79.6% in the same period of the prior year. For a reconciliation of the foregoing non-IFRS financial measures to the applicable IFRS measures, see Section 7 under the heading “Reconciliation of Non-IFRS Financial Measures”.

5. CONSOLIDATED OPERATING AND FINANCIAL REVIEW

Three Months Ended September 30, 2017

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the three months ended September 30, 2017 to the three months ended September 30, 2016.

<i>Unaudited</i>	Three Months Ended			
	September 30,			
<i>In thousands of U.S. dollars, except per share amounts</i>	2017	2016	\$ Change	% Change
Facility service revenue	88,974	78,806	10,168	12.9%
Operating expenses				
Salaries and benefits	26,418	22,787	3,631	15.9%
Drugs and supplies	26,942	23,250	3,692	15.9%
General and administrative expenses	16,266	13,147	3,119	23.7%
Depreciation of property and equipment	2,816	2,253	563	25.0%
Amortization of other intangibles	4,100	3,187	913	28.6%
	76,542	64,624	11,918	18.4%
Income from operations	12,432	14,182	(1,750)	(12.3%)
Finance costs				
Increase in value of convertible debentures	1,307	2,381	(1,074)	(45.1%)
Increase in value of exchangeable interest liability	8,017	10,856	(2,839)	(26.2%)
Interest expense on exchangeable interest liability	2,121	1,823	298	16.3%
Interest expense, net of interest income	1,612	1,079	533	49.4%
Loss (gain) on foreign currency	(393)	150	(543)	(362.0%)
	12,664	16,289	(3,625)	(22.3%)
Loss before income taxes	(232)	(2,107)	1,875	(89.0%)
Income tax recovery	(2,397)	(1,730)	(667)	38.6%
Income (loss) for the period from continuing operations	2,165	(377)	2,542	(674.3%)
Attributable to:				
Owners of the Corporation	(3,560)	(6,836)	3,276	(47.9%)
Non-controlling interest	5,725	6,459	(734)	(11.4%)
Basic loss per share attributable to owners of the Corporation from continuing operations	(\$ 0.11)	(\$ 0.22)	\$0.11	(50.0%)
Fully diluted loss per share attributable to owners of the Corporation from continuing operations	(\$ 0.11)	(\$ 0.22)	\$0.11	(50.0%)
Reconciliation of income for the period from continuing operations to EBITDA⁽¹⁾				
Income (loss) for the period from continuing operations	2,165	(377)	2,542	(674.3%)
Income tax	(2,397)	(1,730)	(667)	38.6%
Finance costs	12,664	16,289	(3,625)	(22.3%)
Depreciation of property and equipment	2,816	2,253	563	25.0%
Amortization of other intangibles	4,100	3,187	913	28.6%
EBITDA⁽¹⁾	19,348	19,622	(274)	(1.4%)

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

Revenue

<i>Unaudited</i>	Three Months Ended			
	September 30,			
<i>In thousands of U.S. dollars</i>	2017	2016	\$ Change	% Change
ASH	17,383	17,214	169	1.0%
UMASH	8,423	864	7,559	874.9%
OSH	15,182	16,211	(1,029)	(6.3%)
BHSH	20,012	20,031	(19)	(0.1%)
SFSH	25,397	21,488	3,909	18.2%
SCNC	2,116	1,861	255	13.7%
RRIMH	550	527	23	4.4%
IMD	1,000	1,300	(300)	(23.1%)
Intercompany eliminations	(1,089)	(690)	(399)	57.8%
Facility service revenue	88,974	78,806	10,168	12.9%

For the three months ended September 30, 2017, consolidated facility service revenue of \$89.0 million increased by \$10.2 million or 12.9% over the same period in 2016. The acquisitions of UMASH and PSSC (the “acquisitions”) contributed \$7.6 million and \$1.5 million, respectively to the increase in revenues, with the remainder of the increase coming from better case mix and annual price increases (\$5.5 million) and increases from the new Urgent Care and ENT clinics at BHSH (\$0.3 million), partly offset by lower case volume from the pre-existing operations (\$3.1 million) and payor mix (\$1.0 million).

On a combined basis, total surgical cases increased by 418 cases or 5.2%, of which 159 cases were inpatient and 273 cases were outpatient, with 14 less observations. Pain management procedures decreased by 395 procedures or 7.1%, while Urgent Care cases increased 1,350 cases or 12.6%.

Excluding UMASH and PSSC, cases were down by 207. UMASH and PSSC had incremental impacts on surgical cases, adding 423 and 202 respectively to offset the same store decrease.

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

- ASH’s revenue increased mainly due to improved average revenue per surgical case based on a continued increase in inpatient cases, as well as the ongoing shift in outpatient cases to higher net revenue producing procedures.
- UMASH contributed revenue to the overall increase for the three month period as it was acquired on September 23, 2016.
- OSH’s revenue decreased due mainly to fewer pain cases and lower surgical case volume, as well as the impact of the closure of the Urgent Care unit in the prior year, which were partly offset by higher average revenue per surgical case from improved case mix.
- BHSH had lower revenue from lower revenue per surgical case due to payor and case mix, mostly offset by increases from the new Urgent Care and pain revenue.
- SFSH’s revenue increase was due mainly to case mix as orthopedic cases continued to increase relative to other specialties, along with higher case volume from the recently acquired PSSC, partly offset by payor mix.
- SCNC’s revenue increased due to better payor and case mix, mostly from a new GI physician recruited in the year, offset partly by the impact of fewer surgical cases.
- RRIMH’s revenue was fully eliminated.

- IMD’s revenue declined due to lower transaction volume from a significant customer.
- The intercompany revenue elimination relates primarily to IMD’s service revenue from OSH and RRIMH’s rental revenue from UMASH.

Operating Expenses

Consolidated operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses, depreciation of property and equipment, and amortization of other intangibles (“operating expenses”), totaled \$76.5 million, an increase of \$11.9 million or 18.4%. As a percentage of revenue, operating expenses increased to 86.0% from 82.0% in the same period a year earlier.

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	Three Months Ended September 30,					
	2017	Percentage of Revenue	2016	Percentage of Revenue	\$ Change	% Change
ASH	13,635	78.4%	13,534	78.6%	101	0.7%
UMASH	10,054	119.4%	755	87.4%	9,299	1,231.7%
OSH	12,957	85.3%	13,045	80.5%	(88)	(0.7%)
BHSH	15,287	76.4%	14,642	73.1%	645	4.4%
SFSH	16,600	65.4%	15,054	70.1%	1,546	10.3%
SCNC	1,508	71.3%	1,574	84.6%	(66)	(4.2%)
RRIMH	172	31.2%	148	28.1%	24	16.2%
IMD	1,167	116.7%	1,245	95.8%	(78)	(6.3%)
Corporate and intercompany eliminations	5,162	n/a	4,627	n/a	535	11.6%
Operating expenses	76,542	86.0%	64,624	82.0%	11,918	18.4%

Consolidated salaries and benefits increased by \$3.6 million or 15.9%. Salaries and benefits at the Facility level increased primarily due to acquisitions (\$3.3 million), and the incremental impact of annual wage increases and net staffing additions (\$0.3 million). As a percentage of revenue, consolidated salaries and benefits increased to 29.7% from 28.9% a year earlier.

Consolidated drugs and supplies increased by \$3.7 million or 15.9% due mainly to acquisitions (\$3.0 million), and increased implant costs from case mix changes (\$1.4 million), offset partly by lower surgical case volumes (\$0.5 million). As a percentage of revenue, the consolidated cost of drugs and supplies grew to 30.3% from 29.5%.

Consolidated general and administrative expenses (“G&A”) increased by \$3.1 million or 23.7%. The increase in G&A was mainly attributable to acquisitions (\$3.4 million), offset partially by reduced professional fees (\$0.3 million). As a percentage of revenue, consolidated G&A increased to 18.3% from 16.7% a year earlier.

Consolidated depreciation of property and equipment was higher, increasing by \$0.6 million or 25.0% primarily due to acquisitions. As a percentage of revenue, consolidated depreciation of property and equipment increased to 3.2% from 2.9% a year earlier.

Consolidated amortization of other intangibles increased by \$0.9 million or 28.6% due to incremental amortization relating to acquisitions. As a percentage of revenue, consolidated amortization of other intangibles increased to 4.6% from 4.0% a year earlier.

Income from Operations

Consolidated income from operations for the three months ended September 30, 2017 of \$12.4 million was \$1.8 million or 12.3% lower than consolidated income from operations of \$14.2 million recorded a year earlier, representing 14.0% of revenue compared to 18.0% in 2016. The decrease in consolidated income from operations compared to prior period was due mainly to higher depreciation and amortization totaling \$1.5 million from 2016 acquisitions, with the remaining decline due to lower operating income from Facilities, with the exception of SFSH, SCNC, and ASH.

Three Months Ended September 30,						
<i>Unaudited</i>	Percentage		Percentage		\$ Change	% Change
<i>In thousands of U.S. dollars</i>	2017	of Revenue	2016	of Revenue		
ASH	3,749	21.6%	3,680	21.4%	69	1.9%
UMASH	(1,630)	(19.4%)	109	12.6%	(1,739)	(1,595.4%)
OSH	2,225	14.7%	3,165	19.5%	(940)	(29.7%)
BSHH	4,725	23.6%	5,389	26.9%	(664)	(12.3%)
SFSH	8,797	34.6%	6,434	29.9%	2,363	36.7%
SCNC	608	28.7%	287	15.4%	321	111.8%
RRIMH	378	68.7%	379	71.9%	(1)	(0.3%)
IMD	(167)	(16.7%)	55	4.2%	(222)	(403.6%)
Corporate	(6,253)	n/a	(5,316)	n/a	(937)	(17.6%)
Income from operations	12,432	14.0%	14,182	18.0%	(1,750)	(12.3%)

Finance Costs

Change in Value of Convertible Debentures

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

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

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	September 30, 2017 <i>Unaudited</i>	June 30, 2017 <i>Unaudited</i>	Change	September 30, 2016 <i>Unaudited</i>	June 30, 2016 <i>Unaudited</i>	Change
Face value of convertible debentures outstanding	C\$41,743	C\$41,743	-	C\$41,743	C\$41,743	-
Closing price of convertible debentures outstanding	C\$102.00	C\$102.00	C\$0.00	C\$115.00	C\$105.88	C\$9.12
Closing exchange rate of U.S. dollar to Canadian dollar	C\$1.2480	C\$1.2977	(C\$0.0497)	C\$1.3117	C\$1.2917	C\$0.0200
Market value of convertible debentures outstanding	34,117	32,810	1,307	36,598	34,217	2,381

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 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>	Sept. 30, 2017 <i>Unaudited</i>	June 30, 2017 <i>Unaudited</i>	Change	Sept. 30, 2016 <i>Unaudited</i>	June 30, 2016 <i>Unaudited</i>	Change
Number of common shares to be issued for exchangeable interest liability attributable to continuing operations	5,871,731	5,791,113	80,618	5,908,674	5,981,099	(72,425)
Closing price of the Corporation's common shares	C\$15.59	C\$14.64	C\$0.95	C\$21.92	C\$18.98	C\$2.94
Closing exchange rate of U.S. dollar to Canadian dollar	C\$1.2480	C\$1.2977	(C\$0.0497)	C\$1.3117	C\$1.2917	C\$0.0200
Exchangeable interest liability	73,350	65,333	8,017	98,741	87,885	10,856

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability increased by \$0.3 million primarily due to the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income was up \$0.5 million due mainly to the outstanding balance payable on the corporate credit facility representing the funds borrowed to finance new acquisitions and incremental interest expense on debt residing in UMASH.

Foreign Currency Gains

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. Foreign currency gains were \$0.5 million higher mainly due to the relative change in the value of the reporting currency in the three months ending September 30, 2017 when compared with the same period in 2016.

Income Tax

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

<i>Unaudited</i>	Three Months Ended September 30,			
<i>In thousands of U.S. dollars</i>	2017	2016	\$ Change	% Change
Current income tax expense (recovery)	(2,951)	44	(2,995)	(6,806.8%)
Deferred income tax expense (recovery)	554	(1,774)	2,328	131.2%
Income tax recovery	(2,397)	(1,730)	(667)	(38.6%)

The increase in current income tax recovery versus last year was mainly due to the deductibility of previously deferred interest expense in the current quarter. The decrease in deferred income tax recovery versus the prior year was primarily attributable to the tax effect of the change in exchangeable interest liability.

Income from Continuing Operations

A \$2.5 million increase in income from continuing operations was primarily due to changes in the values of the exchangeable interest liability and convertible debentures, and gains in foreign exchange, partially offset by lower income from operations and higher interest expense net of interest income.

Earnings before Interest, Taxes, Depreciation and Amortization

EBITDA of \$19.3 million was down \$0.3 million or 1.4% from \$19.6 million recorded a year earlier, representing 21.7% of revenue compared to 24.9% in the prior year. The decrease was due mainly to lower earnings at all Facilities, except SFSH, SCNC, and ASH which increased over the prior year. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of income for the period from continuing operations to EBITDA”.

Nine Months Ended September 30, 2017

The following table and discussion compare operating and financial results of the Corporation from continuing operations for the nine months ended September 30, 2017 to the nine months ended September 30, 2016.

<i>Unaudited</i>	Nine Months Ended			
	September 30,			
<i>In thousands of U.S. dollars, except per share amounts</i>	2017	2016	\$ Change	% Change
Facility service revenue	274,063	231,479	42,584	18.4%
Operating expenses				
Salaries and benefits	78,776	67,825	10,951	16.1%
Drugs and supplies	82,373	68,013	14,360	21.1%
General and administrative expenses	50,346	37,200	13,146	35.3%
Depreciation of property and equipment	8,490	6,450	2,040	31.6%
Amortization of other intangibles	12,133	9,220	2,913	31.6%
	232,118	188,708	43,410	23.0%
Income from operations	41,945	42,771	(826)	(1.9%)
Finance costs				
Increase in value of convertible debentures	2,015	5,984	(3,969)	(66.3%)
Increase (decrease) in value of exchangeable interest liability	(3,684)	37,060	(40,744)	(109.9%)
Interest expense on exchangeable interest liability	6,724	6,435	289	4.5%
Interest expense, net of interest income	4,680	2,512	2,168	86.3%
Gain on foreign currency	(828)	(620)	(208)	33.5%
	8,907	51,371	(42,464)	(82.7%)
Income (loss) before income taxes	33,038	(8,600)	41,638	484.2%
Income tax expense (recovery)	4,010	(9,578)	13,588	(141.9%)
Income for the period from continuing operations	29,028	978	28,050	2,868.1%
Attributable to:				
Owners of the Corporation	10,092	(18,360)	28,452	155.0%
Non-controlling interest	18,936	19,338	(402)	(2.1%)
Basic earnings (loss) per share attributable to owners of the Corporation from continuing operations	\$ 0.33	(\$ 0.59)	\$0.92	155.9%
Fully diluted earnings (loss) per share attributable to owners of the Corporation from continuing operations	\$ 0.33	(\$ 0.59)	\$0.92	155.9%
Reconciliation of income for the period from continuing operations to EBITDA⁽¹⁾				
Income for the period from continuing operations	29,028	978	28,050	2,868.1%
Income taxes expense (recovery)	4,010	(9,578)	13,588	(141.9%)
Finance costs	8,907	51,371	(42,464)	(82.7%)
Depreciation of property and equipment	8,490	6,450	2,040	31.6%
Amortization of other intangibles	12,133	9,220	2,913	31.6%
EBITDA⁽¹⁾	62,568	58,441	4,127	7.1%

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

Revenue

<i>Unaudited</i>	Nine Months Ended September 30,			
<i>In thousands of U.S. dollars</i>	2017	2016	\$ Change	% Change
ASH	52,308	50,183	2,125	4.2%
UMASH	26,030	864	25,166	2,912.7%
OSH	46,377	45,056	1,321	2.9%
BHSH	63,040	60,364	2,676	4.4%
SFSH	78,505	66,775	11,730	17.6%
SCNC	6,086	5,647	439	7.8%
RRIMH	1,650	527	1,123	213.1%
IMD	3,997	4,438	(441)	(10.0%)
Intercompany eliminations	(3,930)	(2,375)	(1,555)	(65.5%)
Facility service revenue	274,063	231,479	42,584	18.4%

For the nine months ended September 30, 2017, consolidated revenue of \$274.1 million increased by \$42.6 million or 18.4% over the same period in the prior year, primarily due to new revenues from acquisitions consisting of incremental revenues from UMASH (\$25.2 million), PSSC (\$5.2 million), and increases from the new Urgent Care and ENT clinics at BHSH (\$1.3 million), the net impact of case mix and annual price increases (\$16.5 million), increased same facility urgent care visits (\$1.3 million) and higher surgical case volume (\$1.2 million), partly offset by payor mix (\$7.6 million).

Total surgical cases increased by 2,374 cases or 10.0%, with inpatient and outpatient cases going up by 463 and 1860, respectively, while observations went up by 51. Pain management procedures increased by 36 or 0.2%.

Excluding the incremental impact of acquisitions, surgical case volume was up 364 or 3.5%, while UMASH and PSSC contributed a further 1,236 and 774 to the case growth.

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

- ASH's revenue increased mainly due to case mix, as the relative proportion of its inpatient cases in its mix went up, and outpatient cases shifted towards higher revenue producing specialties, which were partly offset by lower case volumes.
- UMASH contributed revenue to the overall increase for the nine month period as it was acquired on September 23, 2016.
- OSH's revenue increased based on higher combined case and payor mix, which was partly offset by lower revenue from fewer pain management cases and the closure of its Urgent Care clinic in the second half of 2016.
- BHSH had higher revenue from the new Urgent Care and ENT clinics, higher case volume, and increases from pain management cases, which were offset partly by payor and case mix.
- SFSH's revenue increase was due to case mix based on the relative increase of orthopedic cases in its mix and higher case volumes from both the recently acquired PSSC and pre-existing operations, which were offset partially by increased contractual adjustments due to payor mix.
- SCNC's revenue increased due to better payor mix based on higher private commercial cases that are not contracted, the case mix impact of a new GI physician, and increased case volume.
- RRIMH's revenue was fully eliminated.
- IMD's revenue declined due to lower transaction volume from a significant customer.

- The intercompany revenue elimination relates primarily to IMD’s service revenue from OSH and RRIMH’s rental revenue from UMASH.

Operating Expenses

Consolidated operating expenses, including salaries and benefits, drugs and supplies, general and administrative expenses, depreciation of property and equipment, and amortization of other intangibles, (“operating expenses”) totaled \$232.1 million, an increase of \$43.4 million or 23.0%. As a percentage of revenue, operating expenses increased to 84.7% from 81.5% in the same period a year earlier.

Nine Months Ended September 30,						
<i>Unaudited</i>		Percentage		Percentage		
<i>In thousands of U.S. dollars</i>	2017	of Revenue	2016	of Revenue	\$ Change	% Change
ASH	40,782	78.0%	39,741	79.2%	1,041	2.6%
UMASH	28,946	111.2%	755	87.4%	28,191	3,733.9%
OSH	39,985	86.2%	39,155	86.9%	830	2.1%
BHSH	46,359	73.5%	42,886	71.0%	3,473	8.1%
SFSH	51,525	65.6%	45,275	67.8%	6,250	13.8%
SCNC	4,657	76.5%	4,708	83.4%	(51)	(1.1%)
RRIMH	502	30.4%	148	28.1%	354	239.2%
IMD	3,561	89.1%	3,846	86.7%	(285)	(7.4%)
Corporate and intercompany eliminations	15,801	n/a	12,194	n/a	3,607	29.6%
Operating expenses	232,118	84.7%	188,708	81.5%	43,410	23.0%

Consolidated salaries and benefits increased by \$11.0 million or 16.1%. Salaries and benefits at the Facility level increased primarily due to acquisitions (\$9.8 million), and the new Urgent Care and ENT clinics at BHSH (\$0.8 million), while expenses were higher at the corporate level due primarily to the increased staffing complement compared to the prior year. As a percentage of revenue, consolidated salaries and benefits decreased to 28.7% from 29.3% a year earlier.

Consolidated drugs and supplies increased by \$14.4 million or 21.1% due mainly to the impact of acquisitions (\$7.8 million), increased implant costs from case mix changes (\$4.7 million), and case volume related increases (\$1.4 million). As a percentage of revenue, the consolidated cost of drugs and supplies grew to 30.1% from 29.4%.

Consolidated G&A increased by \$13.1 million or 35.3%. The increase in G&A was mainly attributable to acquisitions (\$9.7 million), the transition charge for the Corporation’s former CEO (\$2.0 million), rent (\$0.3 million), repairs and maintenance (\$0.3 million), and purchased contracted services (\$0.3 million). As a percentage of revenue, consolidated G&A increased to 18.4% from 16.1% a year earlier.

Consolidated depreciation of property and equipment was higher, increasing by \$2.0 million or 31.6% due to incremental depreciation from acquisitions. As a percentage of revenue, consolidated depreciation of property and equipment increased to 3.1% from 2.8% a year earlier.

Consolidated amortization of other intangibles increased by \$2.9 million or 31.6% due to incremental amortization from acquisitions. As a percentage of revenue, consolidated amortization of other intangibles increased to 4.4% from 4.0% a year earlier.

Income from Operations

Consolidated income from operations for the nine months ended September 30, 2017 of \$41.9 million was \$0.8 million or 1.9% lower than consolidated income from operations of \$42.8 million recorded a year earlier, representing 15.3% of revenue compared to 18.5%. The decrease in consolidated income from operations compared to prior year was mainly due to higher depreciation and amortization totaling

\$5.0 million from 2016 acquisitions, lower operating income from UMASH, BSHS and IMD, and the CEO transition charge booked at the corporate level, partly offset by higher operating income from SFSH, ASH, OSH, and SCNC.

Nine Months Ended September 30,						
<i>Unaudited</i>	Percentage		Percentage		\$ Change	% Change
<i>In thousands of U.S. dollars</i>	2017	of Revenue	2016	of Revenue		
ASH	11,526	22.0%	10,442	20.8%	1,084	10.4%
UMASH	(2,917)	(11.2%)	144	16.7%	(3,061)	(2,125.7%)
OSH	6,393	13.8%	5,902	13.1%	491	8.3%
BSHS	16,682	26.5%	17,478	29.0%	(796)	(4.6%)
SFSH	26,980	34.4%	21,500	32.2%	5,480	25.5%
SCNC	1,429	23.5%	938	16.6%	491	52.3%
RRIMH	1,148	69.6%	379	71.9%	769	202.9%
IMD	434	10.9%	591	13.3%	(157)	(26.6%)
Corporate	(19,730)	n/a	(14,603)	n/a	(5,127)	(35.1%)
Income from operations	41,945	15.3%	42,771	18.5%	(826)	(1.9%)

Finance Costs

Change in Value of Convertible Debentures

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

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

<i>In thousands of U.S. dollars, except as indicated otherwise</i>	Sept. 30, 2017	Dec. 31, 2016	Change	Sept. 30, 2016	Dec. 31, 2015	Change
	<i>Unaudited</i>			<i>Unaudited</i>		
Face value of convertible debentures outstanding	C\$41,743	C\$41,743	-	C\$41,743	C\$41,743	-
Closing price of convertible debentures outstanding	C\$102.00	C\$103.26	(C\$1.26)	C\$115.00	C\$101.50	C\$13.50
Closing exchange rate of U.S. dollar to Canadian dollar	C\$1.2480	C\$1.3427	(C\$0.0947)	C\$1.3117	C\$1.384	(C\$0.0723)
Market value of convertible debentures outstanding	34,117	32,102	2,015	36,597	30,613	5,984

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 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>	Sept. 30, 2017	Dec. 31, 2016	Change	Sept. 30, 2016	Dec. 31, 2015	Change
	<i>Unaudited</i>			<i>Unaudited</i>		
Number of common shares to be issued for exchangeable interest liability attributable to continuing operations	5,871,731	5,886,925	(15,194)	5,908,674	5,932,340	(23,666)
Closing price of the Corporation's common shares	C\$15.59	C\$17.57	(C\$1.98)	C\$21.92	C\$14.39	C\$7.53
Closing exchange rate of U.S. dollar to Canadian dollar	C\$1.2480	C\$1.3427	(C\$0.0947)	C\$1.3117	C\$1.3840	(C\$0.0723)
Exchangeable interest liability	73,350	77,034	(3,684)	98,741	61,681	37,060

Interest on Exchangeable Interest Liability

Interest expense on the exchangeable interest liability was \$0.3 million higher compared to the prior year based primarily on the variation in distributions from the Facilities between the reporting periods.

Interest Expense

Interest expense, net of interest income was up \$2.2 million due mainly to the outstanding balance payable on the corporate credit facility representing the funds borrowed to finance new acquisitions and incremental interest expense on debt residing in UMASH.

Foreign Currency Gains

The Corporation's reporting currency is U.S. dollars; however, certain public company expenses and payments to holders of common shares and convertible debentures are made in Canadian dollars. Foreign currency gains were \$0.2 million higher due mainly to the higher relative decrease in the value of the reporting currency in the nine months ending September 30, 2017 when compared with the same period in 2016.

Income Tax

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

<i>Unaudited</i>	Nine Months Ended September 30,			
<i>In thousands of U.S. dollars</i>	2017	2016	\$ Change	% Change
Current income tax recovery	(3,361)	(324)	(3,037)	937.3%
Deferred income tax expense (recovery)	7,371	(9,254)	16,625	(179.7%)
Income tax expense (recovery)	4,010	(9,578)	13,588	(141.9%)

The increase in current income tax recovery versus last year was mainly due to the deductibility of previously deferred interest expense in the current year. The increase in deferred income tax expense versus the prior year recovery was primarily attributable to the tax effect of the change in exchangeable interest liability.

Income from Continuing Operations

A \$28.1 million increase in income from continuing operations was primarily due to changes in the values of the exchangeable interest liability and convertible debentures, partially offset by higher income taxes and interest expense net of interest income, along with lower income from operations.

Earnings before Interest, Taxes, Depreciation and Amortization

EBITDA of \$62.6 million was up \$4.1 million or 7.1% over \$58.4 million recorded a year earlier, representing 22.8% of revenue compared to 25.2%. The increase was due mainly to higher earnings from most Facilities, offset partially by higher corporate expenses, due in part to the CEO transition charge booked in the current year. For a reconciliation of EBITDA to an applicable IFRS measure, see Section 5 under “Reconciliation of income for the period from continuing operations to EBITDA”.

6. QUARTERLY OPERATING AND FINANCIAL RESULTS

Summary of Quarterly Operating and Financial Results from Continuing Operations

Unaudited	2017			2016				2015
In thousands of U.S. dollars, except per share amounts	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Facility service revenue	88,974	96,085	89,004	107,994	78,806	76,728	75,945	89,760
Operating expenses								
Salaries and benefits	26,418	26,174	26,184	27,949	22,787	22,961	22,076	22,145
Drugs and supplies	26,942	28,850	26,581	31,619	23,250	22,538	22,225	24,138
General and administrative expenses	16,266	17,944	16,136	16,162	13,147	12,305	11,748	9,768
Depreciation of property and equipment	2,816	2,868	2,806	2,805	2,253	2,048	2,150	2,119
Amortization of other intangibles	4,100	4,056	3,977	4,156	3,187	3,111	2,922	3,796
	76,542	79,892	75,684	82,691	64,624	62,963	61,121	61,966
Income from operations	12,432	16,193	13,320	25,303	14,182	13,765	14,824	27,794
Finance costs								
Increase (decrease) in value of convertible debentures	1,307	(618)	1,326	(4,495)	2,381	(166)	3,768	(2,077)
Increase (decrease) in value of exchangeable interest liability	8,017	(15,324)	3,623	(21,707)	10,856	15,560	10,644	(8,249)
Interest expense on exchangeable interest liability	2,121	2,155	2,446	2,181	1,823	2,024	2,590	2,263
Interest expense, net of interest income	1,612	1,483	1,586	1,745	1,079	696	737	753
Loss (gain) on foreign currency	(393)	(318)	(116)	284	150	12	(782)	293
	12,664	(12,622)	8,865	(21,992)	16,289	18,126	16,957	(7,017)
Income (loss) before income taxes	(232)	28,815	4,455	47,295	(2,107)	(4,361)	(2,133)	34,811
Income tax expense (recovery)	(2,397)	6,691	(284)	8,584	(1,730)	(4,986)	(2,863)	9,500
Income (loss) for the period from continuing operations	2,165	22,124	4,739	38,711	(377)	625	730	25,311
Attributable to:								
Owners of the Corporation	(3,560)	14,168	(516)	28,111	(6,836)	(5,718)	(5,805)	13,343
Non-controlling interest	5,725	7,956	5,255	10,600	6,459	6,343	6,535	11,968
Earnings (loss) per share attributable to owners of the Corporation from continuing operations:								
Basic	(\$ 0.11)	\$ 0.46	(\$ 0.02)	\$0.91	(\$ 0.22)	(\$ 0.18)	(\$ 0.19)	\$ 0.43
Fully diluted	(\$ 0.11)	\$ 0.18	(\$ 0.02)	\$0.31	(\$ 0.22)	(\$ 0.18)	(\$ 0.19)	\$ 0.22
Reconciliation of income for the period from continuing operations to EBITDA⁽¹⁾								
Income (loss) for the period from continuing operations	2,165	22,124	4,739	38,711	(377)	625	730	25,311
Income taxes	(2,397)	6,691	(284)	8,584	(1,730)	(4,986)	(2,863)	9,500
Finance costs	12,664	(12,622)	8,865	(21,992)	16,289	18,126	16,957	(7,017)
Depreciation of property and equipment	2,816	2,868	2,806	2,805	2,253	2,048	2,150	2,119
Amortization of other intangibles	4,100	4,056	3,977	4,156	3,187	3,111	2,922	3,796
EBITDA⁽¹⁾	19,348	23,117	20,103	32,264	19,622	18,924	19,896	33,709

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

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

- Revenue varies directly in relation to the number of cases performed as well as to the type of cases performed and the payor. For example, revenue for orthopedic cases will typically be higher than ear, nose and throat cases and cases funded by Medicare or Medicaid will be lower than those paid for by

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

- The changes in operating expenses are consistent with fluctuations in case volumes and case mix as well as development costs related to the Corporation's strategic move into urgent and primary care. In addition, operating expenses have been impacted by costs related to the establishment of an accountable care organization by SFSH as well as the entering by SFSH into a management agreement for the orthopedic service line (refer to Section 12 of this MD&A under heading "Related Party Transactions")
- Revenue and operating expenses have been impacted by acquisitions during the nine month period (refer to Section 3 of this MD&A under the heading "Business Overview").
- The changes in the recorded value of the convertible debentures have been driven by the changes in the market price of the Corporation's convertible debentures and fluctuations in the value of the Canadian dollar against the U.S. dollar.
- The changes in the recorded value of the exchangeable interest liability have been driven by (i) the changes in the number of common shares issuable for the exchangeable interest liability, which are in turn driven by the distributions to the non-controlling interest during the twelve-month period ending on the reporting date, (ii) the changes in the market price of the Corporation's common shares, and (iii) the fluctuations of the value of the Canadian dollar against the U.S. dollar.
- The fluctuations in interest expense on the exchangeable interest liability are due to the variation in distributions from the Facilities between the reporting periods.
- The fluctuations in loss (gain) on foreign currency have been driven by the movements of exchange rate of the Canadian dollar in relation to U.S. dollar.
- Fluctuations in current income taxes have been driven by the changes in operating performance of the Facilities, the deductibility of corporate expenses, intercompany interest expense deductions and taxable (deductible) foreign exchange gains (losses). Fluctuations in deferred income taxes have been driven primarily by the changes in the exchangeable interest liability and Canadian cumulative tax operating loss carryforwards.

7. RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

<i>Unaudited</i>		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
<i>In thousands of U.S. dollars, except as indicated otherwise</i>		2017	2016	2017	2016
CASH PROVIDED BY OPERATING ACTIVITIES	USD	16,387	24,541	59,405	58,199
Non-controlling interest in cash flows of the Facilities ⁽¹⁾		(8,820)	(9,051)	(29,304)	(27,497)
Interest expense on exchangeable interest liability ⁽²⁾		2,121	1,822	6,724	6,435
Difference between straight-line rent expense and actual payments made ⁽³⁾		258	184	774	552
Maintenance capital expenditures ⁽⁴⁾		(1,254)	(661)	(2,989)	(1,530)
Difference between accrual based amounts and actual cash flows related to interest and taxes ⁽⁵⁾		2,541	(332)	3,472	1,066
Share based Compensation		(65)	(92)	(268)	(92)
Change in non-cash operating working capital items ⁽⁶⁾		(316)	(7,478)	(8,171)	(9,462)
Repayment of non-revolving debt ⁽⁸⁾		(1,020)	(916)	(2,923)	(2,779)
CASH AVAILABLE FOR DISTRIBUTION	USD	9,832	8,017	26,720	24,892
	CDN	12,318	10,510	34,934	32,903
DISTRIBUTIONS	CDN	8,713	8,732	26,176	26,197
CASH AVAILABLE FOR DISTRIBUTION PER COMMON SHARE⁽⁹⁾	CDN	\$ 0.40	\$ 0.34	\$ 1.13	\$ 1.06
TOTAL DISTRIBUTIONS PER COMMON SHARE⁽⁹⁾	CDN	\$ 0.28	\$ 0.28	\$ 0.84	\$ 0.84
PAYOUT RATIO		70.7%	83.1%	74.9%	79.6%
Average exchange rate of Cdn\$ to US\$ for the period		1.2528	1.3109	1.3074	1.3218
Weighted average number of common shares outstanding		30,974,315	31,045,945	31,020,707	31,051,474

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

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

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

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

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

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

⁽⁷⁾ Realized losses (gains) on foreign exchange forward contracts which matured in the current period are adjusted in the determination of cash available for distribution while they are excluded from cash provided by operating activities.

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

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

Cash available for distribution for the three months ended September 30, 2017 (Cdn\$12.3 million) exceeded the total amount of distributions (Cdn\$8.7 million) by Cdn\$3.6 million. On a per common share basis, cash available for distribution of Cdn\$0.40 was Cdn\$0.12, or 42.9% higher than distributions of Cdn\$0.28, resulting in a payout ratio of 70.7% as compared to a payout ratio of 83.1% in 2016.

Cash available for distribution for the nine months ended September 30, 2017 (Cdn\$34.9 million) exceeded the total amount of distributions (Cdn\$26.2 million) by Cdn\$8.7 million. On a per common

share basis, cash available for distribution of Cdn\$1.13 was Cdn\$0.29, or 34.5% higher than distributions of Cdn\$0.84, resulting in a payout ratio of 74.9% as compared to a payout ratio of 79.6% in 2016.

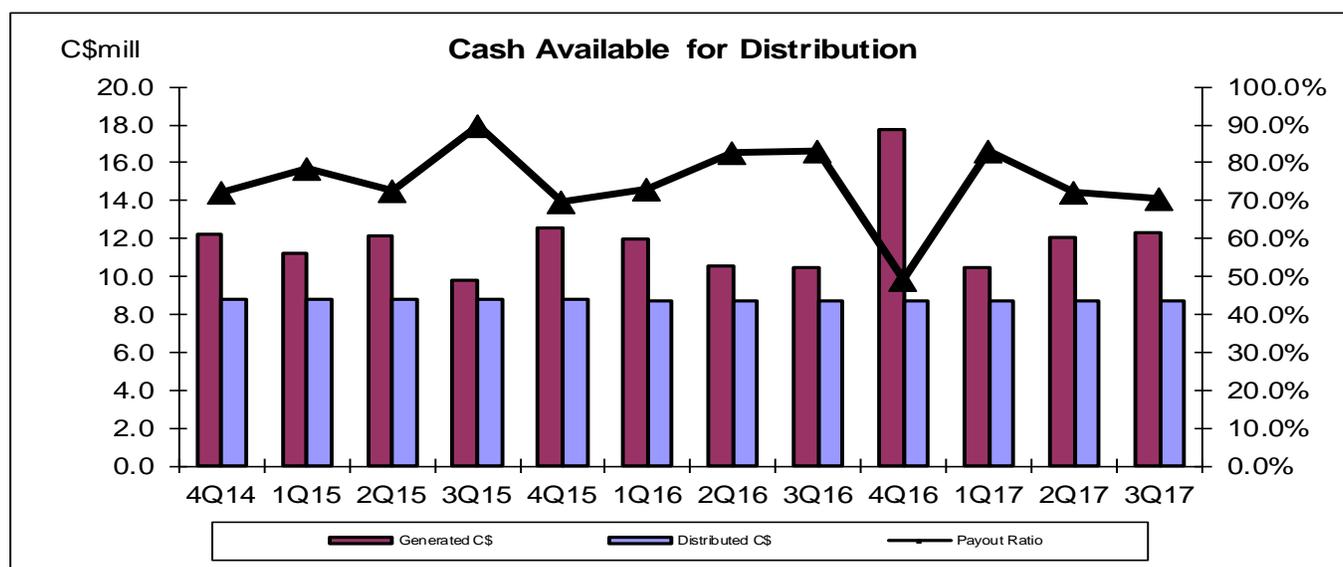
The Corporation's cash available for distribution comes solely from the Facilities. The following table provides a reconciliation of cash generated at the Facility level to the Corporation's cash available for distribution:

<i>Unaudited</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
<i>In thousands of U.S. dollars</i>	2017	2016	2017	2016
Cash flows from the Facilities:				
Income before interest expense, depreciation and amortization	21,551	21,766	70,239	63,676
Debt service costs:				
Interest	(1,156)	(815)	(3,465)	(1,364)
Repayment of non-revolving debt	(1,020)	(916)	(2,923)	(2,779)
Maintenance capital expenditures	(1,254)	(661)	(2,989)	(1,530)
Difference between straight-line rent expense and actual payments made	258	184	774	552
Cash available for distribution at Facility level	18,379	19,558	61,636	58,555
Non-controlling interest in cash available for distribution at Facility level	(8,820)	(9,052)	(29,304)	(27,499)
Corporation's share of the cash available for distribution at Facility level	9,559	10,506	32,332	31,056
Corporate expenses	(1,582)	(1,971)	(5,859)	(5,117)
Interest expense on convertible debentures	(494)	(474)	(1,407)	(1,369)
Interest on corporate credit facility	(602)	-	(1,707)	-
Provision for current income taxes	2,951	(44)	3,361	322
Cash available for distribution	9,832	8,017	26,720	24,892

Compared to the three months ended September 30, 2016, the cash available for distribution was up \$1.8 million or 22.6%, as lower current income taxes and corporate expenses were only partly offset by decreased cash from the Facilities and higher interest on the corporate credit facility.

Compared to the nine months ended September 30, 2016, the cash available for distribution was up \$1.8 million or 7.3%, as lower current income taxes and higher cash flows from the Facilities were partially offset by higher interest on the corporate credit facility and increased corporate expenses.

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



8. OUTLOOK

As noted in the cautionary language concerning forward-looking disclosures in Section 1 of this MD&A under the heading “Caution Concerning Forward-Looking Statements”, this section contains forward-looking statements including with respect to the overall impact of the U.S. and local economies, ongoing changes in the healthcare industry and management strategies of the Corporation. 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 economy, the healthcare industry and the management strategies of the Corporation.

The Economy

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

Healthcare Industry

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

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

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

Management Strategies

Management is committed to increasing shareholder value, primarily through continued organic growth at its current Facilities, along with the acquisitions of accretive facilities that are complementary to our core business, specifically in the surgical hospital and ambulatory surgery center (ASC) space. In addition to accretive core acquisitions, we 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, we 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 centers and urgent care facilities); and
- sharing and implementing best practices and cost reduction strategies, with emphasis on supply chain and implant costs.

Management has a robust acquisition pipeline and will continue to investigate accretive acquisitive targets that meet our core attributes to include facilities with:

- high quality service lines;
- physician alignment and/or affiliations; and
- strong earnings and growth potential.

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.

9. LIQUIDITY AND CAPITAL RESOURCES

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

Cash Balances

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

<i>In thousands of U.S. dollars</i>	September 30, 2017	December 31, 2016
Cash and cash equivalents at Facility level	11,361	13,928
Cash and cash equivalents at corporate level	40,726	37,086
Cash and cash equivalents	52,087	51,014
Restricted Cash	-	6,437
	52,087	57,451
Short-term investments	11,035	8,569
Long-term Investments	-	1,613
Cash and cash equivalents, including short-term investments and long-term investments	63,122	67,633

Cash Flow Activity

Cash Flow

<i>Unaudited</i>	Nine Months Ended September 30,			
<i>In thousands of U.S. dollars</i>	2017	2016	\$ Change	% Change
Cash provided by operating activities	59,405	58,199	1,206	2.1%
Cash used in investing activities	(9,283)	(64,594)	55,311	85.6%
Cash used in (provided by) financing activities	(56,314)	8,313	(64,627)	(777.4%)
Increase (decrease) in cash and cash equivalents	(6,192)	1,918	(8,110)	(422.8%)
Effect of exchange rate fluctuations on cash balances held	828	620	208	33.6%
Cash and cash equivalents, beginning of the period	57,451	57,969	(518)	(1.0%)
Cash and cash equivalents, end of the period	52,087	60,507	(8,420)	(13.9%)

The Corporation expects to fund operations with cash derived from operating activities. Deficiencies arising from short-term working capital requirements and capital expenditures may be financed on a short-term basis with bank indebtedness as all Facilities have lines of credit available to them or on a permanent basis with offerings of securities. 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 for the nine months ended September 30, 2017 increased by \$1.2 million compared to 2016, primarily due to increased income from the Facilities, partially offset by changes in non-cash working capital.

As at September 30, 2017, the Corporation had consolidated net working capital of \$75.4 million compared to \$74.0 million as at December 31, 2016. The increase was due mainly to accumulated proceeds from operations, offset partly by the repayment of long-term debt by UMASH using the restricted cash on its books as at December 31, 2016. The level of working capital, including financing required to cover any deficiencies, is dependent on operating performance of the Corporation and fluctuates from period to period.

As at September 30, 2017, accounts receivable were \$49.1 million (December 31, 2016: \$61.1 million), accounts payable and accrued liabilities totaled \$37.3 million (December 31, 2016: \$42.2 million), total assets were \$460.4 million (December 31, 2016: \$492.5 million) and total long-term liabilities, excluding the exchangeable interest liability, were \$135.7 million (December 31, 2016: \$135.9 million).

Investing Activities

The \$55.3 million decrease in cash used in investing activities for the nine months ended September 30, 2017 compared to 2016 was due mainly to outflows in the prior year for the investments in UMASH (\$27.8 million) and IMD (\$1.7 million), and the purchase of UMASH's underlying real estate through RRIMH (\$27.4 million), offset partly by lower net proceeds from the sale of bank investments (\$3.4 million).

Financing Activities

The \$64.6 million increase in cash used in financing activities for the nine months ended September 30, 2017 was due mainly to higher proceeds from the corporate credit facility in the prior year which were used to fund investing activities (\$47.8 million), lower net proceeds from revolving credit facilities at the other Facilities (\$8.3 million), and a partial note repayment by UMASH (\$6.4 million).

The Facilities have available credit facilities in place, excluding capital leases, in the aggregate amount of \$34.9 million, of which \$13.2 million was drawn as at September 30, 2017. The balances available under the credit facilities, combined with cash and cash equivalents as at September 30, 2017, are available to manage the Corporation's accounts receivable, supply inventory and other short-term cash requirements. The Corporation's access to available financing resources, including those with fixed interest rates, is sufficient to manage its exposure to changes in interest rates on the Facilities' revolving credit facilities, which are on a floating basis. As at September 30, 2017, the Facilities were all in compliance with the terms of their debt covenants.

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

The Corporation has in place a Cdn\$100.0 million line of credit with a Canadian chartered bank which matures on December 31, 2018 ("credit facility"). The credit facility can be used for general corporate purposes, including working capital and capital expenditures, finance of acquisitions, repayment of convertible debentures, and/or repurchase of the Corporation's common shares. During the third quarter of 2016, \$47.8 million was drawn under the credit facility in relation to the acquisition of UMASH and its underlying property through RRIMH, and remained outstanding as at September 30, 2017. As at September 30, 2017, the Corporation was in compliance with all of its debt covenants.

The Corporation's convertible debentures are denominated in Canadian dollars and are reflected in the financial statements in U.S. dollars at fair value at the rate of exchange in effect at the balance sheet date. As at September 30, 2017, the Corporation had Cdn\$41.7 million aggregate principal amount of convertible debentures outstanding while the market value of the convertible debentures was \$34.1 million. The convertible debentures pay interest semi-annually in arrears on June 30 and December 31 of each year. The convertible debentures mature on December 31, 2019 ("Maturity Date") and are convertible into 52.3286 common shares per Cdn\$1,000 principal amount of convertible debentures, at any time, at the option of the holder, representing a conversion price of Cdn\$19.11 per common share ("Conversion Price"). If the holders of the convertible debentures do not exercise the right to convert their holdings into the Corporation's common shares prior to the Maturity Date, the principal amount is due and payable in full. The convertible debentures are subordinate to all other existing and future senior unsecured indebtedness of the Corporation.

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

Prior to December 31, 2017, the convertible debentures may be redeemed by the Corporation, in whole or in part from time to time, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date, provided that the volume weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given is at least 125% of the Conversion Price. On or after December 31, 2017 but prior to the Maturity Date, the convertible debentures may be redeemed in whole or in part from time to time at the option of the Corporation, at a redemption price equal to the principal amount plus accrued and unpaid interest up to but excluding the redemption date.

Contractual Obligations

The mandatory repayments under the credit facilities and other contractual obligations and commitments including expected interest payments, on a non-discounted basis, as of September 30, 2017, are as follows:

<i>Unaudited</i> <i>In thousands of U.S. dollars</i>	Carrying values at September 30, 2017	Future payments (including principal and interest)				
		Total	Less than 1 year	1-3 years	4-5 years	Thereafter
Interest payable	494	494	494	-	-	-
Dividends payable	2,328	2,328	2,328	-	-	-
Accounts payable	18,979	18,979	18,979	-	-	-
Accrued liabilities	18,297	18,297	18,297	-	-	-
Revolving credit facilities	13,195	13,744	1,839	11,697	208	-
Corporate credit facility	47,750	50,287	2,029	48,258	-	-
Notes payable and term loans	51,071	53,826	12,571	28,585	11,693	977
Finance lease obligations	2,255	2,333	1,011	915	407	-
Convertible debentures	34,117	38,646	2,013	36,633	-	-
Operating leases and other commitments (not recorded in the financial statements)	-	65,123	6,687	10,914	8,854	38,668
Total contractual obligations	188,486	264,057	66,248	137,002	21,162	39,645

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.

As of May 1, 2016, the Corporation granted stock options to acquire 1,000,000 common shares of the Corporation to its Chief Executive Officer, exercisable at C\$17.24 per share. As a result of the CEO transition, 223,562 of the options had vested, and 776,438 were forfeited. On September 18, 2016, the

Corporation granted stock options to acquire 350,000 common shares of the Corporation to its Chief Development Officer, exercisable at C\$21.15 per share. On November 21, 2016 the Corporation granted stock options to acquire 425,000 common shares of the Corporation to its Executive Vice President Finance, who was appointed to the position of Chief Financial Officer on January 1, 2017, exercisable at C\$17.98 per share. The stock option grants to the Chief Financial Officer were approved by shareholders at the Corporation's annual and special meeting held on May 11, 2017. On May 5, 2017, stock options to acquire 350,000 common shares of the Corporation were granted to its Chief Operating Officer, exercisable at C\$16.47 per share. Outstanding options will vest after five years of employment, subject to the Corporation's maintenance of a dividend rate not less than the rate in effect at the time of the grant date.

As at September 30, 2017, and as at the date of this document, the Corporation had 30,950,345 common shares outstanding. In the event that all Cdn\$41.7 million aggregate principal amount of convertible debentures outstanding were converted into the common shares of the Corporation prior to their Maturity Date, the total number of additional common shares issuable would be 2,184,353.

Normal Course Issuer Bids

The Corporation's normal course issuer bid allowing the Corporation to repurchase up to 620,918 of its common shares is in effect from May 16, 2017 to May 15, 2018. During the three month period ended September 30, 2017, the Corporation purchased 35,600 of its common shares for \$424. During the nine month period ended September 30, 2017, the Corporation purchased 95,600 of its common shares for \$1,094.

During the nine month period ended September 30, 2016, the Corporation purchased 67,500 of its common shares for \$644 under a previous normal course issuer bid, with none of the purchases taking place in the three month period ended September 30, 2016.

All common shares acquired under the bids were cancelled.

Dividends

Dividend declarations are determined based on monthly reviews of the Corporation's earnings, capital expenditures and related cash flows by a sub-committee of the board of directors. Such declarations take into account that the cash generated in the period is to be distributed to the maximum extent considered prudent after (i) debt service obligations, (ii) other expense and tax obligations, and (iii) reasonable reserves for working capital, and capital expenditures. The Corporation has maintained a consistent level of monthly distributions since its formation (in aggregate Cdn\$1.10 per common share annually) until September 2012, when the monthly distribution was increased to Cdn\$0.09375 per common share (or Cdn\$1.125 per common share annually). The Corporation expects, subject to its monthly performance reviews as explained above and the judgment of the board of directors, to maintain the current level of dividends on its common shares. Cash distributions declared in the period from January 1, 2017 to September 30, 2017 totaled Cdn\$0.8438 per common share.

Dividend Reinvestment and Share Purchase Plan

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

11. FINANCIAL INSTRUMENTS

Financial instruments held in the normal course of business included in the consolidated balance sheet as at September 30, 2017 consist of cash and cash equivalents, short-term, accounts receivable, interest payable, dividends payable, accounts payable, accrued liabilities, borrowings (including long-term debt, corporate credit facility and convertible debentures) and exchangeable interest liability.

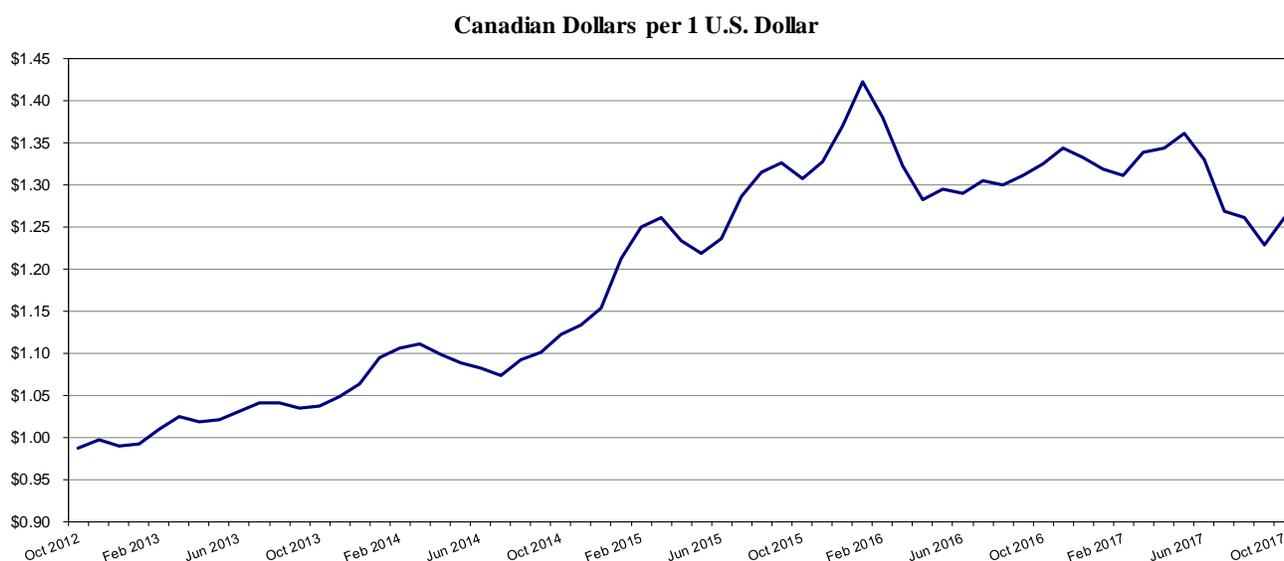
The fair values of convertible debentures and exchangeable interest liability are determined based on the closing trading price of the securities at each reporting period. The fair values of long-term debt (notes payable and term loans) are not significantly different than their carrying values, as these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

Foreign Exchange Risk

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

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

The graph below shows the movement of the monthly average exchange rates between Canadian and U.S. dollars since October 2012:



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 September 30, 2017, the Corporation did not hold any foreign exchange forward contracts.

Credit Risk

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

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

Interest Rate Risk

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

Share Price Risk

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

Liquidity Risk

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

12. RELATED PARTY TRANSACTIONS

A member of the Corporation's Board of Directors is a minority owner of a Facility of the Corporation and a member of an ownership group that owns and leases hospital real estate to the Facility, for which the Facility paid rent for the three and nine months ended September 30, 2017 of \$1,125 and \$3,376, respectively. As well, the director is a member of another ownership group that owns and leases imaging equipment to the same Facility, for which the Facility paid equipment rental expense for the three and nine months ended September 30, 2017 of \$148 and \$445, respectively.

Certain Facilities routinely enter into transactions with related parties for provision of services relating to the use of facilities and equipment. These parties are considered related as the facilities have significant influence over these parties. Such transactions are in the normal course of operations and are measured at

the exchange amount, which is the amount of consideration established and agreed by the related parties. For the three month and nine month periods ended September 30, 2017, SFSH paid the South Dakota Interventional Pain Institute LLC (“SDIPI”) \$165 and \$495, respectively, for the use of a facility and related equipment (September 30, 2016: \$165 and \$495). As of September 30, 2017, SFSH had a balance payable to SDIPI of \$52 (December 31, 2016: \$39). For the three and nine month periods ended September 30, 2017, BSHH paid MPREH \$45 and \$135, respectively, for the use of a facility (2016: \$nil).

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

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

<i>In thousands of U.S. dollars</i>		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
Entity	Nature of services or goods received	2017	2016	2017	2016
		\$	\$	\$	\$
ASH	Lease of facility building, anesthesia equipment lease, and sub-lease of MRI equipment.	1,306	1,307	3,922	3,921
UMASH	Provision of physician professional services and billing services.	1,052	64	3,028	64
OSH	Provision of office and management services, lease of hospital building, and lease of office space.	392	392	1,175	1,175
BHSH	Provision of physical therapy services, physician professional services, intraoperative monitoring services, and provision of parking space.	180	111	659	312
SFSH	Provision of management services in relation to orthopedic service line at SFSH, physician professional fees, anesthesia services, physical and occupational therapy services, medical products and implants, lithotripter services, facility and related equipment, and shared services.	1,543	1,942	5,419	5,647
Total		4,473	3,816	14,203	11,119

13. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The Corporation estimates certain amounts reflected in its consolidated 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 26 to the consolidated financial statements of the Corporation for the year ended December 31, 2016 detail critical accounting judgments and estimates used in the preparation of the Corporation’s financial statements. There have been no changes in the nature of these judgments and estimates since December 31, 2016.

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

Revenue

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

Allowance for Non-Collectible Receivable Balances

The Corporation maintains an allowance for non-collectible receivable balances for estimated losses resulting from the inability to collect on its accounts receivable. To arrive at allowance for non-collectible receivable balances, management uses estimates that are based on the age of the outstanding accounts receivable and on historical collection and loss experience. Future collections of accounts receivable that differ from current estimates would affect the results of operations in future periods. The allowance for non-collectible receivable balances is subject to change as general economic, industry and customer specific conditions change.

Impairment of Non-Financial Assets

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

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

Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and indefinite life intangible assets are tested for impairment. Each Facility represents a separate CGU for the purposes of testing impairment of non-financial assets. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

Factors considered by management in determining a triggering event include: deterioration in market and economic conditions, volatility in the financial markets causing declines in the Corporation’s share price, increases in the Corporation’s weighted-average cost of capital, changes in valuation multiples, changes to healthcare legislation in the United States both federally and in the jurisdictions in which the Facilities operate, changes to the physician complement at the Facilities, decreases in expected future

reimbursement rates, declining patient referrals, physical conditions of facilities and equipment, and increased costs of inputs, such as drugs, supplies, and labour.

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

Management calculates the recoverable amount of each CGU using the 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 ensure reasonableness of recoverable amounts, management reconciles the recoverable amounts of its CGUs to the enterprise value of the Corporation as at December 31 based on (i) the market capitalization of the outstanding common shares, taking into account a 20% equity control premium attributable to the common shares, (ii) the fair value of convertible debentures outstanding, and (iii) the Corporation's portion of the Facilities' long-term debt, less (iv) cash on hand. For a reconciliation of EBITDA to an applicable IFRS measure, see section 5 under "Reconciliation of income for the period from continuing operations to EBITDA".

Management performed its annual impairment tests for goodwill and other intangibles with indefinite lives as at December 31, 2016 and concluded that the recoverable amount of the CGUs exceeded their carrying amount and, therefore, there was no impairment.

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 nine month period. 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 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.

By their nature, controls, no matter how well conceived or operated, provide reasonable assurance, but not absolute assurance, that the objectives of the control systems will be met.

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

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

There have been no changes in the Corporation’s ICFR during the period beginning on July 1, 2017 and ended on September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Corporation’s ICFR.

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

15. RISK FACTORS

The Corporation’s annual MD&A contains a summary of risk factors pertaining to the Corporation, which should be read in conjunction with the detailed information on risk factors appearing in the Corporation’s most recently filed annual information form available on SEDAR at www.sedar.com. There have been no changes in the nature or the number of risk factors pertaining to the Corporation since the date of the most recently filed annual information form (March 31, 2017). The disclosures in this MD&A are subject to the risk factors outlined in those materials.

16. NEW AND REVISED IFRS ADOPTED

The Corporation has applied the following new and revised IFRS which are effective for year beginning January 1, 2017, without any significant impact:

IAS 7 *Statement of Cash Flows* (“IAS 7”)

As part of their disclosure initiative, the International Accounting Standards Board (“IASB”) issued amendments to IAS 7 requiring a reconciliation of liabilities arising from financing activities to enable

users of the financial statements to evaluate both cash flow and non-cash changes in the net debt of a Company.

IAS 12 *Income Taxes* (“IAS 12”)

In January 2016, the IASB issued amendments to IAS 12 to provide clarification on the requirements relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value.

17. NEW AND REVISED IFRS NOT YET ADOPTED

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

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

In September 2016, the IASB issued amendments to IFRS 2. The amendments provide clarification on how to account for certain types of share-based payment transactions. The Corporation intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning January 1, 2018.

IFRS 9 *Financial Instruments* (“IFRS 9”)

The IASB has issued the complete IFRS 9 in 2014, replacing the multiple rules in IAS 39 *Financial Instruments – Recognition and Measurement*. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The Corporation intends to adopt IFRS 9 for the annual period beginning on January 1, 2018. The Corporation is currently reviewing the impact of this standard and continues to evaluate the key differences if any. At this time, the extent of impact is not yet determined.

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

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 11 *Construction Contracts*, IAS 18 *Revenue*, and the related Interpretations when it becomes effective. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Corporation intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2018. Based on its preliminary evaluation of the new standard, the Corporation expects its impact to be minimal.

IFRS 16 *Leases* (“IFRS 16”)

In January 2016, the IASB issued IFRS 16 which provides guidance for leases whereby lessees will recognize a liability for the present value of future lease liabilities and record a corresponding right of use asset on the balance sheet. There are minimal changes to lessor accounting. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided IFRS 15 has been adopted. The Corporation intends to adopt IFRS 16 for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

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

In June 2017, the IASB issued IFRIC 23 in response to diversity in practice for various issues in circumstances in which there is uncertainty in the application of the tax law. While IAS 12 provides requirements on the recognition and measurement of current and deferred tax liabilities and assets, there

is diversity in the accounting for income tax treatments that have yet to be accepted by tax authorities. IFRIC 23 is applicable for annual periods beginning on or after January 1, 2019 and may be applied on a fully retrospective basis, if this is possible without the use of hindsight, or on a modified retrospective basis, with an adjustment to equity on initial application. Earlier application is permitted. The Corporation intends to adopt IFRIC 23 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.